Roll No. ....

Total No. of Questions—6] [Total No. of Printed Pages—10

Time Allowed—3 Hours Maximum Marks—100

BJD

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions should be made by the candidates.

Marks

1. (a) Following is the information of two companies for the year ended 31st March, 2009 : 10

Particulars	Aikya Ltd. Rs.	Bakya Ltd. Rs.
Equity shares of Rs. 10 each	8,00,000	10,00,000
10 per cent Preference share of Rs. 10 each	6,00,000	4,00,000
Profit after tax	3,00,000	3,00,000

Assume that the market expectation is 18 percent and 80 percent of the profits are distributed as dividends.

(i) What is the rate you would pay to the equity shares,

(a) if you are buying a small lot ?

(b) if you are buying a controlling interest in shares ?

(ii) If you plan to invest only in Preference share, which company's preference share would you choose ?

Marks

(b) From the following particulars of three companies, ascertain the value of goodwill. Terms and conditions are as follows : 6

(i) Assets are to be revalued.

(ii) Goodwill is to be valued at four years' purchase of average super profits for three years. Such average is to be calculated after adjustment of depreciation at ten per cent on the amount of increase/decrease on revaluation of fixed assets. Income tax is to be ignored.

(iii) Normal profit on capital employed is to be taken at 10 per cent, capital employed being considered on the basis of net revaluation amounts of tangible assets.

The summarised Balance Sheets and relevant information are given below :

(Rs. in Lakhs)

Liabilities	P Ltd.	Q Ltd.	R Ltd.	Assets	P Ltd.	Q Ltd.	R Ltd.
Equity share of Rs. 10 each	12.00	14.00	6.00	Goodwill	—	1.00	—
Reserves	2.00	1.00	2.00	Net tangible block	16.00	12.00	10.00
10 percent debentures	4.00	—	2.00	Current assets	6.00	5.00	2.00
Trade and Expenses creditors	4.00	3.00	2.00				
	22.00	18.00	12.00		22.00	18.00	12.00

	P Ltd. Rs.	Q Ltd. Rs.	R Ltd. Rs.
Revaluation of tangible block	20,00,000	10,00,000	12,00,000
Revaluation of Current assets	7,00,000	2,80,000	1,60,000
Average annual profit for three years before charging Debenture interest	3,60,000	2,88,000	1,56,000

Marks

2. Agni Ltd. and Bayu Ltd. both engaged in similar merchanting activities since 2006, decide to amalgamate their businesses. A holding company, Chandrama Ltd. would be formed on 1st January, 2008 to acquire the entire shares in both the companies. 16

From the information given below you are required to prepare :

(a) A statement of purchase consideration, supported by requisite working notes,

(b) Balance Sheet of Chandrama Ltd. after the transactions have been completed.

(i) The terms of the offer were :

- Rs. 100, 15 per cent debentures for every Rs. 100 of net assets owned by each company on 31st December, 2007.
- Rs. 100 equity shares based on two years purchase of profit before taxation. The profit is to be determined by taking weighted average profits of 2006 and 2007, weights being 1 and 2 respectively.

(ii) It was agreed that the accounts of Bayu Ltd. for the two years ended 31st December, 2007 be adjusted, where necessary, to conform to the accounting policies followed by Agni Ltd.

(iii) The Pre-tax profits, including investment income, of the two companies were as follows :

	2006	2007
	Rs.	Rs.
Agni Ltd.	16,38,000	18,36,000
Bayu Ltd.	17,88,300	25,74,000

(iv) Agni Ltd. values its stock on FIFO basis while Bayu Ltd. used a different basis. To bring Bayu Ltd.'s values in line with those of Agni Ltd, value of its stock will require to be reduced by Rs. 36,000 at the end of 2006 and Rs. 1,02,000 at the end of 2007.

(v) Both the companies use straight line method of depreciation.

(vi) Bayu Ltd. deducts 1 per cent from trade debtors as a general provision against doubtful debts.

Marks

(vii) Prepaid expenses in Bayu Ltd. include advertisement expenditure carried forward of Rs. 1,80,000 in 2006 and Rs. 90,000 in 2007, being part of initial advertising in 2006, which is being written off over three years. Similar expenditure in Agni Ltd. has been fully written off in 2006.

(viii) To bring Director's remuneration on to a comparative basis, the profits of Bayu Ltd. are to be reduced by Rs. 1,20,000 in 2006 and Rs. 1,80,000 in 2007 and the net assets are also to be adjusted accordingly.

Balance Sheets as at 31st December, 2006 and 2007 were as follows :

Agni Ltd.

Liabilities	2006 Rs.	2007 Rs.	Assets	2006 Rs.	2007 Rs.
Share capital issued and subscribed :			Fixed assets :		
12,000 shares of Rs. 100 each fully paid	12,00,000	12,00,000	Furniture and fixtures : at cost	6,90,000	6,90,000
Reserves and Surplus			Less depreciation	(69,000)	(1,38,000)
Capital reserve	—	2,10,000			
Revenue reserve	7,98,300	16,74,000	Investments : (Quoted investments at market value)	—	7,80,000
Current Liabilities and provisions :					
Sundry creditors	15,02,700	18,21,000			
Provision for taxation	8,40,000	9,60,000			
			Current assets :		
			Stock at cost	18,30,000	21,75,000
			Sundry debtors	18,00,000	22,20,000
			Prepaid expenses	30,000	42,000
			Cash at bank	60,000	96,000
	43,41,000	58,65,000		43,41,000	58,65,000

Marks

Bayu Ltd.

Liabilities	2006 Rs.	2007 Rs.	Assets	2006 Rs.	2007 Rs.
Share capital :			Fixed assets :		
issued and subscribed			Furniture		
15,000 equity shares of			and fixture		
Rs. 100 each fully paid	15,00,000	15,00,000	at cost	9,60,000	9,60,000
Reserves and surplus :			Less depreciation	(1,44,000)	(2,88,000)
Revenue reserve	8,58,000	21,42,000	Investments :		
Current liabilities			(Quoted		
and provisions :			investments		
Sundry creditors	14,70,000	14,82,000	(market value		
Bank overdraft	—	5,10,000	Rs. 14,70,000)	—	12,00,000
Provision for taxation	9,30,000	12,90,000	Current assets :		
			Stock at cost	17,91,000	22,26,000
			Sundry debtors		
			Less provision	17,82,000	26,73,000
			Prepaid expenses	2,16,000	1,44,000
			Cash at bank	1,53,000	9,000
	47,58,000	69,24,000		47,58,000	69,24,000

3. (a) Parikshit Ltd. holds Rs. 1,00,000 of loans yielding 18 per cent interest per annum for their estimated lives of 9 years. The fair value of these loans, after considering the interest yield, is estimated at Rs. 1,10,000. 6

The company securitises the principal component of the loan plus the right to receive interest at 14% to Susovana Corporation, a special purpose vehicle, for Rs. 1,00,000.

Out of the balance interest of 4 percent, it is stipulated that half of such balance interest, namely 2 per cent, will be due to Parikshit Ltd. as fees for continuing to service the loans. The fair value of the servicing asset so created is estimated at Rs. 3,500. The remaining half of the interest is due to Parikshit Ltd. as an interest strip receivable, the fair value of which is estimated at Rs. 6,500.

Marks

Give the accounting treatment of the above transactions in the form of journal entries in the books of originator.

(b) The Annuity fund of Patiala University accepts an annuity—based gift from an alumnus who specifies that he receives a monthly payment of Rs. 25,000 for the remainder of his life. The gift consists of cash of Rs. 20 lakh and securities having a market value of Rs. 15 lakh at the time of the gift. The investment income of annuity fund for a particular month comes to Rs. 38,500. 5

Draft journal entries in the University's books.

(c) From the following information taken from the books of Sunagarik Ltd. relating to staff and community benefits, you are required to prepare a statement classifying the various items under the appropriate heads, required under corporate social reporting : 5

Particulars	Rs. in lakhs
Environmental improvements	36.18
Medical facilities	9.00
Training programmes	18.45
Generation of job opportunities	109.35
Municipal taxes	19.26
Increase in cost of living in the vicinity due to company's operations	29.79
Concessional transport, water-supply etc.	20.25
Generation of business	45.00
Leave encashment and leave travel benefits	93.60
Education facilities for children of staff members	38.88
Subsidised canteen facilities	25.92
Extra work put in by staff and officers for drought relief	33.30

Marks

4. (a) The borrowings profile of Santra Pharmaceuticals Ltd. set up for the manufacture of antibiotics at Navi Mumbai is as under : 10

Date	Nature of borrowings	Amount borrowed Rs.	Purpose of borrowings	Incidental expenses
1st January, 2008	15% demand loan	60 lakhs	Acquisition of fixed assets	8.33%
1st July, 2008	14.5% Term loan	40 lakhs	Acquisition of plant & machinery	5%
1st October, 2008	14% bonds	50 lakhs	Acquisition of Fixed assets	8%

The incidental expenses consist of commission and service charges for arranging the loans and are paid after rounding off to the nearest lakh.

Fixed assets considered as qualifying assets are as under :

	Rs.
Sterile Manufacturing shed	10,00,000
Plant and machinery (total)	90,00,000
Other fixed assets	10,00,000

The Project is completed on 1st January, 2009 and is ready for commercial production. Show the capitalization of the borrowing costs.

(b) A company is engaged in the business of ship building and ship repair. On completion of the repair work, a work completion certificate is prepared and countersigned by ship owner (customer). Subsequently, invoice is prepared based on the work completion certificate describing the nature of work done together with the rate and the amount. Customer scruitinises the invoice and any variation is informed to the company. Negotiations take place between the company and the customer. The negotiations may result in a deduction being allowed from the invoiced amount either as a lumpsum or as a percentage of the invoiced amount. The accounting treatment followed by the company is as follows : 6

(i) When the invoice is raised, the customer's account is debited and ship repair income account is credited with the invoiced amount.

(ii) Deduction, if any, arrived after negotiation is treated as trade discount by debiting the ship repair Income account.

Marks

(iii) At the close of the year, negotiation in respect of certain invoices had not been completed. In such cases, based on past experience, a provision for anticipated loss is created by debiting the Profit and Loss account. The provision is disclosed in Balance Sheet.

Following two aspects are settled in the negotiations :

(i) Errors in billing arising on account of variation between the quantities as per work completion certificate and invoice and other clerical errors in preparing the invoice.

(ii) Disagreement between the company and customer about the rate/cost on which prior agreement has not been reached between them.

Comment :

(i) Whether the accounting treatment of deduction as trade discount is correct ? If not, state the correct accounting treatment.

(ii) Whether the disclosure of the provision for anticipated loss in Balance Sheet is correct; if not, state the correct accounting treatment.

5. (a) Santhosh Ltd. granted 500 options to each of its 2,500 employees in 2003 at an exercise price of Rs. 50 when the market price was the same. The contractual life (vesting and exercise period) of the options granted is 6 years with the vesting period and exercise period being 3 years each. The expected life is 5 years and the expected annual forfeitures are estimated at 3 per cent. The fair value per option is arrived at Rs. 15. Actual forfeitures in 2003 were 5 per cent. However at the end of 2003 the management of Santhosh Ltd. still expects that the actual forfeitures would average only 3 per cent over the entire vesting period. During 2004 the management revises its estimated forfeiture rate to 10 per cent per annum. Of the 2,500 employees 1,900 employees have completed the 3 year vesting period. 1,000 employees exercise their right to obtain shares vested in them in pursuance of ESOP at the end of 2007 and 500 employees exercise their right at the end of 2008. The rights of the remaining employees expire unexercised at the end of 2008. The face value per share is Rs. 10. Show the necessary journal entries with suitable narrations. Workings should form part of the answer. 10

Marks

(b) On 1st February, 2008, an Indian Company sold goods to an American Company at an invoice price of US $ 20,000 when the spot market rate was Rs. 48.10 to a U.S. dollar. Payment was to be made in three months time, namely, by 1st May, 2008. 10

To avoid the risk of foreign exchange fluctuations the Indian exporter acquired a forward contract to sell U.S. $ 20,000 at Rs. 47.90 per U.S. dollar on 1st May, 2008.

The Indian company's accounting year ended on 31st March, 2008 and the spot rate on this date was Rs. 47.20 per U.S. dollar. The spot rate on 1st May, 2008, the date by which the money was due from the American buyer, was Rs. 50 per dollar.

Show what accounting entries will have to be made in the books of the Indian exporter at the relevant period of time.

6. (a) Pilot Ltd. supplies the following information using which you are required to calculate the economic value added. 6

• Financial Leverage			1.4 times
• Capital (equity and debt)	Equity shares of Rs. 1,000	34,000	
	Accumulated profit (Lakh Rs.)	260	
	10 percent Debentures of Rs. 10 each	80 lakhs nos.	
• Dividend expectations of equity shareholders			17.50%
• Prevailing Corporate Tax rate			30%

(b) Amigo Mutual Fund Ltd. is a SEBI Registered mutual fund. The Company follows the practice of valuing its investments on "mark to market basis". For the financial year ended March, 2009 the investments which were acquired at a cost of Rs. 109 crores were reflected in the Balance Sheet at Rs. 89 crore. The company insists that the depreciation in value of the investments need not be disclosed separately in its financial statements since its investment valuation policy is disclosed as part of its accounting policies. Discuss the validity of this argument. 4

Marks

(c) Good Drugs and Pharmaceuticals Ltd. acquired at sachet filling machine on 1st April, 2007 for Rs. 60 lakhs. The machine was expected to have a productive life of 6 years. At the end of financial year 2007-08 the carrying amount was Rs. 41 lakhs. A short circuit occurred in this financial year but luckily the machine did not get badly damaged and was still in working order at the close of the financial year. The machine was expected to fetch Rs. 36 lakhs, if sold in the market. The machine by itself is not capable of generating cash flows. However the smallest group of assets comprising of this machine also, is capable of generating cash flows of Rs. 54 crore per annum and has a carrying amount of Rs. 3.46 crore. All such machines put together could fetch a sum of Rs. 4.44 crore if disposed. Discuss the applicability of Impairment loss. 3

(d) EXOX Ltd. is in the process of finalising its accounts for the year ended 31st March, 2008. The company seeks your advice on the following : 3

(i) The Company's sales tax assessment for assessment year 2005-06 has been completed on 14th February, 2008 with a demand of Rs. 2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the Appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of 2.10 crore.

(ii) The Company has entered into a wage agreement in May, 2008 whereby the labour union has accepted a revision in wage from June, 2007. The agreement provided that the hike till May, 2008 will not be paid to the employees but settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September, 2008.