

Roll No.

Total No. of Questions—6]

[Total No. of Printed Pages—10

Time Allowed—3 Hours

Maximum Marks—100

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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 may be made by the candidates.

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1. The Balance Sheets of Aqua Ltd. and Baqa Ltd. as on the dates of last closing of 20
Accounts are as under :-

Liabilities	Aqua	Baqa
	As on 31.03.2009	As on 31.12.2008
	Rs.	Rs.
Share capital (equity shares of Rs. 10 each)	11,00,000	5,00,000
Accumulated Profits & Reserves	4,50,000	2,05,000
15% Rs. 100 non-convertible debentures	—	3,00,000
Accounts Payable	4,80,000	2,80,000
Other liabilities	1,00,000	40,000
Tax Provision	1,50,000	2,50,000
Total	22,80,000	15,75,000

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Assets	Aqua	Baqa
	As on 31.03.2009	As on 31.12.2008
	Rs.	Rs.
Fixed Assets at Cost	8,45,000	5,25,500
Less Depn.	<u>1,95,000</u>	<u>1,21,500</u>
	6,50,000	4,05,000
<u>Investments :</u>		
40,000 share in Baqa Ltd.	8,00,000	—
1,000 debentures in Baqa Ltd.	1,50,000	—
<u>Current Assets :</u>		
Inventories	2,00,000	3,50,000
Accounts Receivable	2,50,000	4,65,000
Cash & Bank	2,30,000	3,55,000
Total	<u>22,80,000</u>	<u>15,75,000</u>

The following information is also available :

1. On 8th February, 2009 there was a fire at the factory of Baqa Ltd. resulting in inventory worth Rs. 20,000 being destroyed. Baqa received 75 per cent of the loss as insurance.
2. The same fire resulted in destruction of a machine having a written down value of Rs. 1,00,000. The Insurance Company admitted the Company's claim to the extent of 80 per cent. The machine was insured at its fair value of Rs. 1,50,000.
3. On 13th March, 2009 Aqua sold goods costing Rs. 1,50,000 to Baqa at a mark-up of 20 per cent. Half of these goods were resold to Aqua who in turn was able to liquidate the entire stock of such goods before closure of accounts on 31st March, 2009. As on 31st March, 2009 Baqa's accounts payable show Rs. 60,000 due to Aqua on the two transactions.
4. Aqua acquired the holdings in Baqa on 1st January, 2007 when the reserves and accumulated profits of Baqa Ltd. stood at Rs. 75,000.

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5. Both Companies have not provided for tax on current year profits. The Current year taxable profits are Rs. 33,000 and Rs. 60,000 for Aqua Ltd. and Raqa Ltd. respectively. The tax rate is 33%.
6. The incremental profits earned by Raqa Ltd. for the period January, 2009 to March 2009 over that earned in the corresponding period in 2008 was Rs. 54,000. Exempt for the profits that resulted from the transactions with Aqua in the aforesaid period the entire profits have been realised in cash before 31st March, 2009.

You are requested to consolidate the accounts of the two companies and prepare a Consolidated Balance Sheet of Aqua Limited and its subsidiary as at 31st March, 2009.

2. Small Ltd. & Little Ltd., two Companies in the field of speciality chemicals, decided to go in for a follow on Public Offer after completion of an amalgamation of their businesses. As per agreed terms initially a new company, Big Ltd. will be incorporated on 1st January, 2010 with an authorised capital of Rs. 2 crore comprised of 20 lakh equity shares of Rs. 10 each. The holding company would acquire the entire shareholding of Small Ltd. & Little Ltd. and in turn would issue its shares to the outside holders of these shares. It is also agreed that the consideration would be a multiple of the average P/E ratio for the period 1st January, 2009 to 31st March, 2009 times the rectified profits of each company, subject to necessary adjustments for complying with the terms of the share issue.

The following information is supplied to you :

	Small Ltd.	Little Ltd.
Ordinary Shares of Rs. 10 each (Nos.)	40 lakhs	20 lakhs
10% Preference shares of Rs. 100 each (Nos.)	2 lakh	Nil
10% Preference shares of Rs. 10 each (Nos.)	Nil	2 lakh
5% debentures of Rs. 10 each (Nos.)	4 lakh	4 lakh
Investments Held		
(a) 4 lakh ordinary shares in Small Ltd.	—	Rs. 40 lakhs
(b) 2 lakh ordinary shares in Little Ltd.	Rs. 20 lakhs	—
Profit before interest & Tax (PBIT) after Considering impact of inter-company Transactions and Holdings.	Rs. 50 lakhs	Rs. 25 lakhs
Average P/E ratio Jan., 2009 to March, 2009	10	8

The following additional information is also furnished to you in respect of adjustments required to the profit figure as given above :

1. The profits of the respective companies would be adjusted for half the value of contingent liabilities as on 31st March, 2009.
2. Debtors of Small Ltd. include an irrecoverable amount of Rs. 2 lakh against which Rs. 1 lakh was recovered but kept in Advance account.
3. Little Ltd. had omitted to provide for increased FOREX liability of US\$ 10,000 on loan availed in financial year 2005-06 for purchase of Machinery. The machinery was acquired on 1st January, 2006 and put to use in Financial year 2006-07. The additional liability arose due to change in exchange rates and is arrived at in conformity with prevailing provisions of AS 11. The exchange rate is US \$ 1 = INR 50.
4. Small Ltd. has omitted to invoice a sale that took place on 31st March, 2009 of goods costing Rs. 2,50,000 at a mark up of 15 per cent instead the goods were considered as part of closing inventory.
5. Closing Inventory of Rs. 45 lakhs of Little Ltd. as on 31st March, 2009 stands undervalued by 10 per cent.
6. Contingent liabilities of Small Ltd. & Little Ltd. as on 31st March, 2009 stands at Rs. 5 lakhs and Rs. 10 lakhs respectively.

The terms of the share issue are as under :

- (i) Shares in Big Ltd. will be issued at a premium of Rs. 13 per share for all external shareholders of Small Ltd. The Premium will be Rs. 15 per share for shares in Big Ltd. issued to all external shareholders of Little Ltd.
- (ii) No shares in Big Ltd. will be issued in lieu of the investments (intercompany holdings) of both companies. Instead the shares so held shall be transferred to Big Ltd. at the close of the financial year ended 31st March, 2010 at Par Value consideration payable on date of transfer.
- (iii) Big Ltd. would in addition to the issue of shares to outside shareholders of Small Ltd. and Little Ltd. make a preferential allotment on 31st March, 2010 of 2 lakhs ordinary shares at a premium of Rs. 28 per share to Virgin Capital Ltd. (VCL). These shares will not be eligible for any dividends declared or paid till that date.

- (iv) Big Ltd. will go in for a 18 per cent unsecured Bank overdraft facility to meet incorporation costs of Rs. 16 lakhs and towards management expenses till 31st March, 2010 estimated at Rs. 14 lakhs. The overdraft is expected to be availed on 1st February, 2010 and closed on 31st March, 2010 out of the proceeds of the preferential allotment.
- (v) It is agreed that interim dividends will be paid on 31.03.2010 for the period January, 2010 to March, 2010 by Big Ltd. at 2 per cent; Small Ltd. at 3 per cent and Little Ltd. at 2.5 per cent. Ignore Dividend Distribution tax.
- (vi) The prevailing Income Tax Rate is 25 per cent.

You are required to compute the number of shares to be issued to the shareholders of each of the companies and prepare the projected Profit and Loss Account for the period from 1st January, 2010 to 31.03.2010 of Big Ltd. and its Balance Sheet as on 31st March, 2010.

3. (a) Timby Ltd. is in the business of making sports equipment. The Company operates from Thailand. To globalise its operations Timby has identified Fine Toys Ltd. an Indian Company, as a potential take over candidate. After due diligence of Fine Toys Ltd. the following information is available : 10

a) Cash Flow Forecasts (Rs. in Crore) :

Year	10	9	8	7	6	5	4	3	2	1
Fine Toys Ltd.	24	21	15	16	15	12	10	8	6	3
Timby Ltd.	108	70	55	60	52	44	32	30	20	16

- b) The Net worth of Fine Toys Ltd. (in lakh Rs.) after considering certain adjustments suggested by the due diligence team reads as under :

Tangible	750
Inventories	145
Receivables	75
	970

Less:

Creditors	165	
Bank Loans	250	(415) ✓
Represented by equity shares of Rs. 1000 each		555 ✓

Talks for take over have crystallized on the following :

1. Timby Ltd. will not be able to use Machinery worth Rs. 75 lakhs which will be disposed of by them subsequent to take over. The expected realization will be Rs. 50 lakhs.
2. The inventories and receivables are agreed for takeover at values of Rs. 100 and Rs. 50 lakhs respectively which is the price they will realize on disposal.
3. The liabilities of Fine Toys Ltd. will be discharged in full on take over alongwith an employee settlement of Rs. 90 lakhs for the employees who are not interested in continuing under the new management ?
4. Timby Ltd. will invest a sum of Rs. 150 lakhs for upgrading the Plant of Fine Toys Ltd. on takeover. A further sum of Rs. 50 lakhs will also be incurred in the second year to revamp the machine shop floor of Fine Toys Ltd.
5. The Anticipated Cash Flows (in Rs. crore) post takeover are as follows :

Year	1	2	3	4	5	6	7	8	9	10
	18	24	36	44	60	80	96	100	140	200

You are required to advise the management the maximum price which they can pay per share of Fine Toys Ltd. if a discount factor of 20 per cent is considered appropriate.

- (6) Investors Mutual Fund is registered with SEBI and having its registered office at Pune. The fund is in the process of finalising the annual statement of accounts of one of its Open ended Mutual Fund Schemes. From the information furnished below you are required to prepare a statement showing the movement of unit holders funds for the Financial year ended 31st March, 2009. 4

Opening Balance of net assets	12,00,000
Net Income for the year (Audited)	85,000
850200 units issued during 2008-09	96,500
752300 units redeemed during 2008-09	71,320
The par value per unit is Rs. 100.	

(Figures given above are in Rs. '000)

4. (a) Pankaj Ltd. is a company engaged in manufacture of Nuclear Power Stations. The Company usually resorts to long term Foreign Currency borrowings for its fund requirements. The Company had on 1st April, 2005 borrowed U.S. \$100 million from Global Fund Consortium based in Washington, USA. The funds were used by Pankaj Ltd. for purposes OTHER THAN acquiring 'Depreciable Capital Assets'. The loan carries an interest rate of 3 per cent on reducing balance and is repayable in two instalments, the first one due on 1st April, 2010 and the next on 1st April, 2012. The interest due on the loan has been paid in full on 31st March of each year. The exchange rate on the date of borrowing was 1 U.S. \$ = INR 40. 10

The accounting treatment followed by the Company for the subsequent three years with exchange rates prevailing on those dates were as under :

Year ended	Exch Rate	Accounting Treatment
31st March, 2006	1 US \$ = 41	Forex Loss of Rs. 10 crore charged to Profit and Loss account;
31st March, 2007	1 US \$ = 39	Forex gain of Rs. 20 crore recognised in Profit and Loss account;
31st March, 2008	1 US \$ = 48	Forex Loss of Rs. 90 crore charged to Profit and Loss account;

Note : Interest payment were charged to Profit and Loss account of each year at transaction value on payment dates.

Pankaj Ltd. is in the process of finalising its accounts for the year ended 31st March, 2009 and understands that A.S. 11 has been amended and opts to follow the Companies (Accounting Standards) Amendment Rules, 2009.

- (a) You are required to show treatment of the Forex Losses/gains in the light of the above amendment to AS 11 for the years 2005-06; 06-07; 07-08 & 08-09. The exchange rate to 1 US Dollar on 31st March, 2009 is Rs. 50. Assuming that the rates of Exchange on 31st March, 2010 and 31st March, 2011 will be Rs. 51 and Rs. 52 respectively the accounting for the Forex Losses/gains may also be shown for these years also.
- (b) What are the disclosure requirements to be complied with by Pankaj Ltd. as a result of having opted to follow the amendment in the Companies (Accounting Standard) Rules, 2006.
- (c) Would your answer to (a) above be different if Pankaj Ltd. was not a Company and were a Co-operative Society.
- (b) As on 1st April, 2008 the fair value of plan assets was Rs. 1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 2008 the plan paid out benefits of Rs. 19,000 and received inward contributions of Rs. 49,000. On 31st March, 2009 the fair value of plan assets was Rs. 1,50,000 and present value of the defined benefit obligation was Rs. 1,47,920. Actuarial losses on the obligations for the year 2008-09 were Rs. 600.

On 1st April, 2008 the company made the following estimates, based on its market studies, understanding and prevailing prices.

	%
Interest & dividend income, after tax payable by the fund	9.25
Realised & unrealised gains on plan assets (after tax)	2.00
Fund administrative costs	1.00
Expected Rate of Return	<u>10.25</u>

You are required to find the expected and actual returns on plan assets.

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5. (a) Global Health Foundation furnishes the following information with regard to its Development fund for the year 2009 : 8

Rs.

UN Grant received for Building Construction in Afghanistan	50,00,000
Development Grant from Prize Foundation	40,00,000
Grants from Private charities for acquiring land at Afghanistan	30,00,000
Interest received on Fixed Deposits invested in Trust Bank @ 10 per cent per annum on 1st July, 2009	2,00,000
Cost of Land purchased for setting up Rehabilitation Centre at Afghanistan	12,25,000
Transfers from unrestricted fund for purchasing moveable assets	45,00,000
Advance payment for acquiring balance land at Afghanistan	7,00,000
Furniture purchased for Rehabilitation Project	3,00,000
Cost of 5 Desert Deuller Jeeps	35,00,000
Amount settled to builders for construction of Rehabilitation Centre Building at Afghanistan based on percentage of work completed	12,50,000

Prepare a statement of Changes in Development Fund and a Balance Sheet of the Fund at the year end.

- 6 (b) AS Ltd. Leased a machine to SB Ltd. on the following terms : 8

(Rs. in Lakhs)

Fair value of the machine	4.00
Lease term	5 years
Lease Rental Per annum	1.00
Guaranteed Residual value	0.20
Expected Residual value	0.40
Internal Rate of Return	15%

Depreciation is provided on straight line method at 10 per cent per annum. Ascertain unearned Financial Income. Necessary Journal entries in the books of the Lessee in first year may be shown.

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6. In preparing the Financial Statements of Santhanam Ltd. for the year ended 31st March, 2009, you come across the following features. State with reasons, how you would deal with them in the Financial Statements :

- (i) An unquoted long term investment is carried in the books at its cost of Rs. 5 lakhs. The Published Accounts of the unlisted Company received in May, 2009 showed that the Company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs. 80,000. 5
- (ii) The Company invested Rs. 560 lakhs in April, 2009 in the acquisition of another Company doing similar business, the negotiations for which had started during the current Financial Year. 5
- (iii) There was a major theft of stores valued at Rs. 46 lakhs in the preceding year which was detected only during the current Financial Year. 6