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Roll No. ....

Total No. of Questions – **7**

Total No. of Printed Pages – **12**

Time Allowed – **3** Hours

Maximum Marks – **100**

CEL

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 has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. **1** is compulsory

Answer any **five** from the remaining **six** questions.

Marks

1. (a) Albert Finance Ltd. has made the following investments. **5**

(i) Purchased the following equity shares from stock exchange on 1st June, **2009.**

	Cost ₹
Scrip X	1,80,000
Scrip Y	50,000
Scrip Z	1,70,000
	4,00,000

(ii) **Purchased** gold of ₹ 3,00,000 on 1st April, 2006.

(iii) **Invested in mutual funds at a cost of ₹ 6,00,000 on 31st March, 2009.**

(iv) Purchased government securities at a cost of ₹ 5,00,000 on 1st April, 2009

How will you treat these investments as per applicable AS in the books of the company for the year ended on 31st March, 2010, if the values of these investments are as follows :

Marks

Shares	₹	₹
Scrip X	1,90,000	
Scrip Y	40,000	
Scrip Z	70,000	3,00,000
Gold		5,00,000
Mutual funds		4,50,000
Government securities		7,00,000

Also explain is it possible to off-set depreciation in investment in mutual funds against appreciation of the value of investment in government securities ?

(b) A Ltd. purchased fixed assets costing ₹ 2,544 lakhs on 1st April, 2009 and the same was fully financed by foreign currency loan in U.S. Dollars, repayable in four equal annual instalments. Exchange rate at the time of purchase was 1 US Dollar = ₹ 42.40. The first instalment was paid on 31st March, 2009 when 1 US Dollar fetched ₹ 45.40. The entire loss on exchange was included in cost of goods sold of normal business operations. A Ltd. provides depreciation on their fixed assets at 20% on WDV basis. 5

Show the correct accounting treatment with reference to relevant accounting standards.

(c) State the treatment of the following items with reference to Indian Accounting Standards (AS) and International Financial Reporting Standards (IFRS) : 5

(i) Impairment of assets

(ii) Business combinations

 Marks

(d) The Chief Accountant of ANZ Ltd., gives the following data regarding its six segments : **5**

₹ in Lakhs

Particulars	**M**	**N**	**O**	**P**	**Q**	**R**	**Total**
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	–190	10	10	–10	30	–100
Segment Revenue	300	620	80	60	80	60	1200

The Chief Accountant is of the opinion that segments 'M' and 'N' alone should be reported. Is he justified in his view ? Discuss.

2. The summarised B/S. of the following three companies are given below : **16**

(₹ in Lakhs)

	A. Ltd.	B. Ltd.	C. Ltd.
Liabilities :	as on 31st March, 2009		
Equity Shares (₹ 10 each fully paid up)	60	48	40
7½% Cum. Pref. Shares (₹ 100 each fully paid)	15	12	10
Capital reserve on revaluation of land, buildings and machinery	120	–	–
General Reserve	25	15	10
8% 2,500 Mortgage Debenture Bonds of ₹ 1,000 each	25	–	–
Secured loans and advances from banks	153	71	52
Unsecured loans :			
(i) From B Ltd.	–	–	12
(ii) From C Ltd.	15	–	–
(iii) Deposits from public	18	12	3
Current liabilities and provisions			
(i) Inter-company balances	9	–	–
(ii) Other liabilities and provisions	314	125	72
Total	**754**	**283**	**199**

Marks

Assets :			
Fixed Assets (Net)	272	104	42
Investments (at cost)			
2,50,000 Equity Shares of B Ltd.	25	–	–
80,000 Equity Shares of C Ltd.	8	–	–
1,60,000 Equity Shares of C Ltd.	–	20	–
10,000 Cumulative Pref. Shares of A Ltd.	–	–	10
1,500 Mortgage Debentures of A Ltd.	–	–	14
Current assets	353	123	112
Profit and Loss Account	96	36	21
Total	**754**	**283**	**199**

(i) A Ltd. subscribed for the shares of B Ltd. & C Ltd. at par at the time of first issue of shares by the latter companies.

(ii) B Ltd. subscribed for 80,000 shares of C Ltd. at par at the time of first issue and latter acquired by purchase in the market 80,000 shares of C Ltd. at ₹ 15 each when reserves and surplus of C Ltd. stood at ₹ 5 lakhs.

(iii) Current Assets of B Ltd. & C Ltd. included ₹ 4 lakhs and ₹ 6 lakhs respectively being the current accounts balance against A Ltd. These accounts remained unreconciled.

(iv) Preference dividends were in arrears for

(a) 8 years in the case of A Ltd. and

(b) 4 years in the case of other two companies.

Prepare the Consolidated Balance Sheet for the year as on 31st March, 2009.

Marks

3. Libra Ltd. has two divisions A and B and their respective shares of various Assets and Liabilities in the company's Balance Sheet as on 31st March, 2009 are given below : 16

(₹ in Lakhs)

Fixed Assets	A division	B division	Total
Cost	650	340	
Less : Depreciation	225	160	
Written down value	425	180	605
Investments			115
Current Assets	350	430	
Less : Current Liabilities	185	210	
Net Current Assets	165	220	385
			1,105
Financed by :			
Loan Funds			400
Own funds :			
Equity share capital-shares of ₹ 10 each			300
Reserve and Surplus			405
			1,105

Division B has been invariably suffering losses. The company sold this division B along with its assets and liabilities to a newly formed company, Zee Ltd. which was incorporated with an authorized capital of ₹ 800 lakhs divided into shares of ₹ 10 each. Zee Ltd. allotted to Libra Ltd's shareholders its two fully paid equity shares of ₹ 10 each at par for every fully paid equity shares of ₹ 10 each held in Libra Ltd. as discharge of consideration for the division taken over.

Zee Ltd. recorded in its books the fixed assets at ₹ 280 lakhs, current assets at ₹ 320 lakhs and liabilities at the same value at which they appeared in the books of Libra Ltd.

Marks

On 1st April, 2009 Libra Ltd. sold all its investments for ₹ 135 lakhs and redeemed debentures liability of ₹ 150 lakhs at par, which was included in loan funds. The cash transaction being recorded in the Bank Account pertaining to A division.

You are required to :

(i) Show Journal Entries in the Books of Libra Ltd.

(ii) **Prepare Libra Ltd's Balance Sheet immediately after the Demerger and**

(iii) **Initial Balance Sheet of Zee Ltd.**

4. The Balance Sheet of Bird Ltd. as on 31st March, 2009 is given below : 16

Liabilities	**₹**	**₹**	**Assets**	**₹**
Share Capital :			Fixed Assets :	
Equity shares of ₹ 10			Goodwill	40,000
each	6,00,000		Machinery	3,00,000
Less : Calls in arrear			Freehold properties	4,50,000
(₹ 2 for final call)	20,000	5,80,000	Vehicles	1,00,000
7% Preference Shares of			Furniture	50,000
₹ 10 each fully paid		3,00,000	Investments	2,00,000
Reserve and surplus :			Current Assets :	
General Reserve		3,50,000	Stock-in-Trade	2,50,000
Profit and Loss Account		1,50,000	Sundry Debtors	4,00,000
Current Liabilities :			Cash at Bank	60,000
Sundry creditors		3,00,000	Preliminary expenses	30,000
Bank Loan		2,00,000		
		18,80,000		**18,80,000**

Additional Information :

(i) On 1-4-2006 a new furniture costing ₹ 20,000 was purchased and wrongly charged to revenue. No rectification has yet been made for above. Depreciation charged on furniture is @ 10% on reducing system.

Marks

(ii) Fixed Assets are worth 15% above their actual Book Value.

(iii) Stock is overvalued by ₹ 50,000 and 10% Debtors are doubtful.

(iv) Of the investments, 10% is in Trade and the balance Non-Trade. Trade investments are to be valued at 10% below cost. A uniform rate of dividend of 10% is earned on all investments.

(v) For the purpose of valuation of shares, goodwill is to be considered on the basis of 2 years' purchase of super profits based on average profit of last 3 years. Profits are as follows :

	₹
2006-07	2,50,000
2007-08	2,80,000
2008-09	3,30,000

(vi) In a similar business normal return on capital employed is 20%.

You are required to value each fully paid and partly-paid equity share, assuming tax rate of 50%.

5. (a) S Ltd. is considering buying the business of R Ltd.; the final accounts of which for the last 3 years were as follows : 10

Profit and Loss Accounts for the 3 years ended Dec. 31st

(Figures in ₹)

	2007	**2008**	**2009**
Sales	2,00,000	1,90,000	2,24,000
Material consumed	1,00,000	95,000	1,12,000
Business expenses	80,000	80,000	82,000
Depreciation	12,000	13,000	14,000
Net profit	**8,000**	**2,000**	**16,000**

10 31 1/40

500000
1080400

Marks

Balance Sheets as at 31st Dec.

(Figures in ₹)

	2006	**2007**	**2008**	**2009**
Fixed Assets	1,00,000	1,20,000	1,40,000	1,80,000
(at cost) less Depreciation	70,000	82,000	95,000	1,09,000
	30,000	38,000	45,000	71,000
Stock in trade	16,000	17,000	18,500	21,000
Sundry Debtors	21,000	24,000	26,000	28,000
Cash in hand and at bank	32,000	11,000	28,000	13,200
Prepaid expenses	1,000	500	2,000	1,000
	1,00,000	**90,500**	**1,19,500**	**1,34,200**
Equity capital	50,000	50,000	70,000	70,000
Share premium	–	–	5,000	5,000
General Reserve	16,000	24,000	26,000	42,000
Debentures	20,000	–	–	–
Sundry Creditors	11,000	13,000	14,000	14,000
Accrued Expenses	3,000	3,500	4,500	3,200
	1,00,000	**90,500**	**1,19,500**	**1,34,200**

S Ltd. wishes the offer to be based upon trading cash flows rather than book profits. By trading cash flow is meant cash received from debtors less cash paid to creditors and for business expenses (excluding depreciation), together with an allowance for average annual expenditure on fixed assets of ₹ 15,000 per year.

Marks

The actual expenditure on fixed assets is to be ignored, as is any cash received or paid out on the issue or redemption of shares or debentures.

S Ltd. wishes the trading cash flow to be calculated for each of the years 2007, 2008 and 2009 and for these to be combined using weighting of 20% for 2007, 30% for 2008 and 50% for 2009 to give an average annual trading cash flow.

S Ltd. considers that the average annual trading cash flow should show a return of 10% on its investment.

You are required to calculate :

(a) the trading cash flow for each of the years 2007, 2008 & 2009.

(b) the weighted average annual trading cash flow.

(c) the price which S Ltd. should offer for the business.

(b) **From the following information of Steel India Ltd.** for the year ended 31st March, 2010, prepare their Social Balance Sheet as on that date. **6**

A specialist has valued their human assets at ₹ 828 lakhs.

Their investments were classified as :

(₹ in lakhs)

	Residential	Hospital	School	Welfare
Buildings	17.00	1.00	1.40	0.80
Equipments	2.80	1.00	1.00	–

– Water, Electricity and gas supply systems totalled ₹ 1 lakh.

– Their net owned funds were ₹ 26 lakhs.

Marks

6. (a) The following is the Profit and Loss Account of Murali Ltd., for the year ended 31st March, 2010. Prepare a gross value added statement of Murali Ltd. **10**

Profit and Loss Account for the year ended 31st March, 2010

			Amount (₹ in lakhs)
Income			890
Sale			55
Other Income			945
Expenditure			
Production and operational expenses	(a)	641	
Administrative expenses (factory)	(b)	33	
Interest	(c)	29	
Depreciation		17	720
Profit before tax			225
Provision for taxation			30
Profit after tax			195
Balance as per last Balance Sheet			10
			205
Transferred to General Reserve			45
Dividend Paid			95
			140
Surplus carried to Balance Sheet			65
			205

Notes :

		₹ in lakhs
(a)	Production and Operational Expenses	
	Consumption of Raw materials	293
	Consumption of stores	59
	Salaries, wages, gratuities etc., (Admn)	82
	Cess and local taxes	98
	Other manufacturing expenses	109
		641

Marks

(b) Administration expenses include salaries, commission to Directors ₹ 9.00 lakhs. Provision for doubtful debts ₹ 6.30 lakhs

		₹ in lakhs
(c)	Interest on loan from Bank for working capital	9
	Interest on loan from Bank for fixed loan	10
	Interest on loan from financial institution for fixed loan	8
	Interest on Debentures	2
		29

(d) The charges for taxation include a transfer of ₹ 3.00 lakhs to the credit of Deferred tax account.

(e) Cess and local taxes include Excise Duty, which is equal to 10% of cost of bought-in materials.

(b) From the following in respect of loan funds of M/s Cometogether Foundation for 2009-10, prepare a statement showing changes in fund balance during the year. 6

	₹
Private and Government grants	5,00,000
Loan fund matching grant from revenue funds	10,000
Other transfer from unrestricted funds	1,00,000
Investment income	15,000
Interest on loans	25,000
Refunded to grantors	20,000
Loan cancellation and written off	10,000
Administrative and collection costs	15,000
Fund balance at the beginning of the year	20,15,000

Marks

7. Attempt any **four** : 4×4 = 16

(a) An airline is required by law to overhaul its aircraft once in every three years. A company which operates aircrafts does not provide any provision as required by law in its final account. Discuss with reference to relevant Accounting Standard. 4

(b) A company purchased on April 1, 2010 a special purpose machinery for ₹ 1 crore, and received Central Government subsidy for 25% of the price. Effective life of the machinery is 8 years. Explain the accounting treatment and quote the relevant AS. 4

(c) An intangible item is appearing in the Balance Sheet of A Ltd. at ₹ 15 lakhs on 1-4-2010. The item was acquired for ₹ 25 lakhs on 1-4-2008. The enterprise has been following a policy of amortizing the intangible item over a period of 5 years on straight line basis. Applying paragraph 63 of AS-26 the enterprise determines the amortization period to be 8 years, being the best estimate of its useful life, from the date when the item was available for use i.e., April, 1, 2008. Comment. 4

(d) Certain Ltd., has signed at 31st Dec, 2009, the Balance Sheet date, a contract where the total revenue is estimated at ₹ 15 crores and total cost is estimated at ₹ 20 crores. No work began on the contract. Is contractor required to give any accounting effect for the year ended December, 31st 2009 in his accounts ? 4

(e) Can PT Ltd. a wire netting company, while valuing its finished stock at the year end include interest on Bank Overdraft as an element of cost, for the reason that overdraft has been taken specifically for the purpose of financing current assets like inventory and for meeting day to day working expenses ? 4

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40 50 60
16 20 24
24 30 36

$x - x \times 10/100$ = 461 513
90x =