

Final (Account)

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 12

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

Question No. 1 is compulsory.

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

Working notes should form part of the answer.

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

- | | Marks |
|---|-------|
| 1. (a) The fair value of plan assets of Anupam Ltd. was ₹ 2,00,000 in respect of employee benefit pension plan as on 1 st April, 2009. On 30 th September, 2009 the plan paid out benefits of ₹ 25,000 and received inward contributions of ₹ 55,000. On 31 st March, 2010 the fair value of plan assets was ₹ 3,00,000. On 1 st April, 2009 the company made the following estimates, based on its market studies and prevailing prices. | 5 |

	%
Interest and dividend income (after tax) payable by fund	10.25
Realised gains on plan assets (after tax)	3.00
Fund administrative costs	(3.00)
Expected rate of return	10.25

Calculate the expected and actual returns on plan assets as on 31st March, 2010, as per AS-15.

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- (b) Certain callable convertible debentures are issued at ₹ 60. The value of 5
similar debentures without call or equity conversion option is ₹ 57. The value
of call as determined using Black and Scholes model for option pricing is ₹ 2.

Determine values of liability and equity component.

- (c) HSL Ltd., is manufacturing goods for local sale and exports. As on 5
31st March, 2010, it has the following finished stock in the factory
warehouse :

(i) Goods meant for local sales ₹ 100 lakhs (cost ₹ 75 lakhs)

(ii) Goods meant for exports ₹ 50 lakhs (cost ₹ 20 lakhs)

Excise duty is payable at the rate of 12%. The company's Managing Director
says that excise duty is payable only on clearance of goods and hence not a
cost. Please advice HSL using guidance note, if any issued on this, including
valuation of stock.

- (d) Rama Ltd. has provided the following information : 5

Depreciation as per accounting records = ₹ 2,00,000

Depreciation as per income-tax records = ₹ 5,00,000

Unamortised preliminary expenses as per tax record = ₹ 30,000

There is adequate evidence of future profit sufficiency. How much deferred
Tax asset/liability should be recognized as transition adjustment ? Tax rate
50%.

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2. The Balance Sheets of three companies Sun Ltd., Moon Ltd. and Light Ltd. as at 31st March, 2010 are given below :

Liabilities	Sun Ltd.	Moon Ltd.	Light Ltd.	Assets	Sun Ltd.	Moon Ltd.	Light Ltd.
	₹	₹	₹		₹	₹	₹
Share Capital				Fixed Assets	70,000	1,20,000	1,03,000
(Shares of ₹ 10 each)	1,50,000	1,00,000	60,000	Investments (At cost)			
Reserves	50,000	40,000	30,000	Shares in :			
Profit and Loss A/c.	60,000	50,000	40,000	Moon Ltd.	90,000	—	—
Sundry Creditors	30,000	35,000	25,000	Light Ltd.	40,000	—	—
				Light Ltd.	—	50,000	—
Sun Ltd.	—	10,000	8,000	Stock-in-Trade	40,000	30,000	20,000
				Debtors	20,000	25,000	30,000
				Due from —			
				Moon Ltd.	12,000		
				Light Ltd.	8,000		
				Cash in Hand	10,000	10,000	10,000
	2,90,000	2,35,000	1,63,000		2,90,000	2,35,000	1,63,000

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(a) Sun Ltd. held 8,000 shares of Moon Ltd. and 1800 shares of Light Ltd.

(b) Moon Ltd. held 3600 shares of Light Ltd.

(c) All investments were made on 1st July, 2009.

(d) The following balances were there on 1st July, 2009 :

	Moon Ltd.	Light Ltd.
	₹	₹
Reserves	25,000	15,000
Profit and Loss A/c.	20,000	25,000

(e) Moon Ltd. invoiced goods to Sun Ltd. for ₹ 4,000 at a cost plus 25% in December, 2009. The closing stock of Sun Ltd. includes such goods valued at ₹ 5,000.

(f) Light Ltd. sold to Moon Ltd. an equipment costing ₹ 24,000 at a profit of 25% on selling price on 1st January, 2010. Depreciation at 10% per annum was provided by Moon Ltd. on this equipment.

(g) Sun Ltd. proposes dividend at 10%.

Prepare the Consolidated Balance Sheet of the group as at 31st March, 2010.

Working should be part of the answer.

$$2 - 7 \times 211 = 2800$$

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3. A Ltd. and B Ltd. were amalgamated on and from 1st April, 2010. A new company C Ltd., was formed to take over the business of the existing companies. The Balance Sheets of A Ltd., and B Ltd., as on 31st March, 2010 are given below :

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(₹ in lakhs)

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share capital			Fixed Assets		
Equity shares of ₹ 100 each	800	750	Land and Building	550	400
12% Preference Shares of ₹ 100 each	300	200	Plant and Machinery	350	250
Reserves and surplus			Investments	150	50
Revaluation Reserve	150	100	Current Assets		
General Reserve	170	150	Loans and Advances		
Investment Allowance Reserve	50	50	Stock	350	250
Profit & Loss account	50	30	Sundry Debtors	250	300
Secured loans			Bills Receivable	50	50
10% Debentures (₹ 100 each)	60	30	Cash and Bank	300	200
Current Liabilities and Provisions					
Sundry Creditors	270	120			
Bills Payable	150	70			
	2,000	1,500		2,000	1,500

Additional Information :

- (1) 10% Debentureholders of A Ltd., and B Ltd., are discharged by C Ltd., issuing such number of its 15% Debentures of ₹ 100 each, so as to maintain the same amount of interest.

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- (2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd., at a price of ₹ 150 per share (face value of ₹ 100).
- (3) C Ltd. will issue 5 equity shares for each equity share of A Ltd., and 4 equity shares for each share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.
- (4) Investment allowance reserve to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd., as on 1st April, 2010 after the amalgamation has been carried out on the basis of amalgamation in the nature of purchase.

4. (a) A Ltd., agreed to absorb B. Ltd., on 31st March 2010, whose Balance Sheet stood as follows :

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Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	7,00,000
80,000 equity shares of ₹ 10 each fully paid-up	8,00,000	Investments	—
Reserves & Surplus		Current Assets	
General Reserve	1,00,000	Loans and Advances	—
Secured Loan	—	Stock-in-trade	1,00,000
Unsecured Loan	—	Sundry Debtors	2,00,000
Current Liabilities and provisions			
Sundry Creditors	1,00,000		
	10,00,000		10,00,000

The consideration was agreed to be paid as follows :

- (a) A payment in cash of ₹ 5 per share in B Ltd., and

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- (b) The issue of shares of ₹ 10 each in A Ltd., on the basis of 2 equity shares (valued at ₹ 15) and one 10% cum. preference share (valued at ₹ 10) for every five shares held in B Ltd.

The whole of the share capital consists of shareholdings in exact multiple of five except the following holding :

A	116	
B	76	
C	72	
D	28	
Other individual	8	(each member holding one share each)
	<u>300</u>	

It was agreed that A Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in B Ltd., i.e. ₹ 65 for five shares of ₹ 50 paid.

Prepare a statement showing the purchase consideration receivable in shares and cash.

- (b) The following are the summarized Balance Sheets of two companies, A Ltd. and B Ltd. as on 31-03-2010 :

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Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Equity shares of ₹ 10 each	15,00,000	10,00,000	Goodwill	2,00,000	1,00,000
Reserves	3,00,000	2,00,000	Net tangible block	17,00,000	14,00,000
10% Debentures	6,00,000	4,00,000	Current Assets	8,00,000	6,00,000
Creditors	3,00,000	5,00,000			
	<u>27,00,000</u>	<u>21,00,000</u>		<u>27,00,000</u>	<u>21,00,000</u>

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Additional information :

- (i) Assets are to be revalued as follows :

	A Ltd.	B Ltd.
	₹	₹
Revaluation of Tangible Block	21,00,000	12,00,000
Revaluation of Current Assets	10,00,000	4,00,000

- (ii) Average annual profit for three years before charging debenture interest
- | | | |
|--|----------|----------|
| | 4,50,000 | 3,10,000 |
|--|----------|----------|

- (iii) Goodwill is to be valued at four year's purchase of average super profits for three years. Such average is to be calculated after adjustment of depreciation at 10% on the amount of increase/decrease on revaluation of fixed assets. In the case of B Ltd. a claim of ₹ 10,000, which was omitted, is to be adjusted against its average profit. Income-tax is to be ignored.

- (iv) Normal profit on capital employed is to be taken at 15%, capital employed being considered on the basis of net revalued amount of tangible assets.

Ascertain the value of goodwill of A Ltd. and B Ltd.

5. The Balance Sheet of PNR Limited as on 31-12-2010 is as follows :

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Liabilities	₹	Assets	₹
1,00,000 Equity shares of ₹ 10 each fully paid-up	10	Goodwill	5
1,00,000 equity shares of ₹ 6 each fully paid-up	6	Fixed Assets	15
Reserves & Surplus	4	Other Tangible Assets	5
Liabilities	10	Intangible Assets (Market Value)	3
		Misc. Expenditure to the extent not written off	2
	30		30

Fixed assets are worth ₹ 24 lakhs. Other tangible assets are valued at ₹ 3 lakhs. The company is expected to settle the disputed bonus claim of ₹ 1 lakh, not provided for in the accounts. Goodwill appearing in the Balance Sheet is purchased goodwill. It is considered reasonable to increase the value of goodwill by an amount equal to average of the book value and a valuation made at 3 years' purchase of average super profit for the last 4 years.

After tax profits and dividend rates were as follows :

Year	PAT (₹ in lakhs)	Dividend %
2007	3.00	11
2008	3.50	12
2009	4.00	13
2010	4.10	14

Normal expectation in the industry to which the company belongs to is 10%.

Kamalesh holds 20,000 equity shares of ₹ 10 each fully paid up and 10,000 equity shares of ₹ 6 each fully paid up. He wants to sell away his holdings.

- Determine the break-up value and market value of both kinds of shares.
- What should be the fair value of shares, if controlling interest is being sold ?

Note : Make necessary assumptions, wherever required.

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6. (a) Prosperous Bank has a criterion that it will give loans to companies that have an "Economic Value Added" greater than zero for the past three years on an average. The bank is considering lending money to a small company that has the economic value characteristics shown below. The data relating to the company is as follows :

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- (i) Average operating income after tax equals ₹ 25,00,000 per year for the last three years.
- (ii) Average total assets over the last three years equals ₹ 75,00,000.
- (iii) Weighted average cost of capital appropriate for the company is 10% which is applicable for all three years.
- (iv) The company's average current liabilities over the last three years are ₹ 15,00,000.

Does the company meet the bank's criterion for a positive economic value added ?

- (b) Calculate the NAV of a mutual fund from the following information :

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1-4-2009 Outstanding units 1 crore of ₹ 10 each

₹ 10 crores (N.V. ₹ 16 crores)

Outstanding liabilities ₹ 5 crores.

Other information :

- (i) 20 lakh units were sold during the year at ₹ 24 per unit.
- (ii) No additional investments were made during the year and as at the year end 50% of the investments held at the beginning of the year were quoted at 80% of book value.
- (iii) 10% of the investments have declined permanently 10% below cost.
- (iv) At the year end 31-3-10 outstanding liabilities were ₹ 1 crore.
- (v) Remaining investments were quoted at ₹ 13 crores.

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- (c) A company has a capital base of ₹ 3 crore and has earned profits of ₹ 33 lakhs. Return on Investment of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by ₹ 7.5 lakhs over and above the target profit. Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

	₹
Capital base	3,00,00,000
Actual profit	33,00,000
Target profit	37,50,000

$$2 \times 117 = 234$$

$$7.5 \times 117 = 877.5$$

7. Answer any four of the following :

4×4
=16

- (a) Anil Pharma Ltd. ordered 16,000 kg of certain material at ₹ 160 per unit. The purchase price includes excise duty ₹ 10 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to ₹ 1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg and consumed 13,600 kg of material. Compute cost of inventory under AS-2 and amount of abnormal loss.
- (b) Jain Construction Co. Ltd. undertook a contract on 1st January, 2010 to construct a building for ₹ 80 lakhs. The company found on 31st March, 2010 that it had already spent ₹ 58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹ 31,50,000.

What amount should be charged to revenue and what amount of contract value to be recognized as turnover in the final accounts for the year ended 31st March, 2010 as per provisions of AS-7 (revised) ?

- (c) Kumar Ltd. is an engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employee is estimated to be 6 years.

You are required to advise the company.

- (d) An enterprise reports quarterly, estimates an annual income of ₹ 10 lakhs. Assume tax rates on 1st ₹ 5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are ₹ 75,000, ₹ 2,50,000, ₹ 3,75,000 and ₹ 3,00,000.

Calculate the tax expense to be recognized in each quarter.

- (e) From the following information determine the possible value of brand under the potential earning model.

	₹ (in lakhs)
(a) Profit before tax	13.00
(b) Income tax	3.00
(c) Tangible Fixed Asset	20.00
(d) Identifiable Intangible other than brand model	10.00
(e) Expected return on tangible fixed assets	6.00

Appropriate capitalization factor for intangibles is 25%.