

Time Allowed : 3 Hours

*The figures in the margin on the right side indicate full marks.*

*PART A questions are compulsory. Attempt all of them.*

*PART B has seven questions. Attempt any five of them*

*(Note: A sixth answer, if found in this part, will earn zero credit)*

**PART A**

*Attempt **all** questions*

1. (a) Indicate with reasons/working the correct answer, out of the four as given, in each of the following cases: 2x8=16

- |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                           |     |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| (i)   | Rolta Ltd. has outstanding equity shares of 50,00,000 on April 1, 2007. The company has also 12% 1,00,000 convertible debentures outstanding of Rs. 100 each to be converted into 10 equity shares. The effective tax rate is 30%. Assuming net <u>profit</u> attributable to equity shareholders for the year ended March 31, 2008 to be Rs. 100 lakh, diluted EPS would be:<br>A. Rs. 1.67<br>B. Rs. 1.81<br>C. Rs. 1.87<br>D. None of A, B and C.      | (0) |
| (ii)  | The fair values of Pension plan assets of Milestones Ltd. at the beginning and the end of the year 2007–08 were Rs. 2,80,000 and Rs. 3,08,600 respectively. The employer's contribution to the plan during the year was Rs. 29,000. If benefit payments made to the retirees are Rs. 32,000, the actual return on Pension plan assets for the year will be (as per AS – 15):<br>A. Rs. 25,600<br>B. Rs. 31,600<br>C. Rs. 32,600<br>D. None of A, B and C. | (0) |
| (iii) | As per AS–22, a deferred tax asset should be recognized only if there is a reasonable certainty that sufficient future taxable income will be available and such a conclusion is supported by<br>A. Consideration of caution<br>B. Consideration of prudence<br>C. Consideration of consistency<br>D. Consideration of conservation.                                                                                                                      | (0) |
| (iv)  | Consolidated Financial Statements are prepared on the principle that:<br>A. In form the companies are one entity, in substance they are separate.<br>B. In form the companies are separate, in substance they are one.<br>C. In form and substance, the companies are separate.<br>D. In form and substance, the companies are one.                                                                                                                       | (0) |
| (v)   | Under AS–28, when goodwill and corporate assets cannot be allocated on a reasonable and consistent basis to cash-generating unit, to determine impairment loss<br>A. 'Bottom up' test is performed<br>B. Both 'Bottom up' test and 'Top down' test are performed                                                                                                                                                                                          | (0) |

- C. 'Top down' test is performed  
D. None of these tests is performed.

(vi) In a each flow statement there is no place for

- A. Issue of Equity shares  
B. Issue of bonus shares  
C. Conversion of debt to equity  
D. Both B and C above.

(vii) The objective of AS-1 is

- A. To prohibit any change in the accounting policies  
B. To ensure disclosure of accounting policies  
C. To ensure that the effect of any change in accounting policy is adequately disclosed  
D. Both B and C above.

(viii) The time interval between the dates of balance sheets of holding company and subsidiary company for the purpose of consolidation of accounts

- A. Can be more than a year  
B. Can be 10 to 12 months  
C. Can be 7 to 9 months  
D. Cannot be more than 6 months

(b) Indicate with reasons/workings the correct given answer for each of the following three cases:

3x3=9

(i) H Ltd. is a listed company. Its capital consists of equity shares of Re. 1 each. On 31.03.2008 H Ltd. acquires 80% of the equity shares of S Ltd. The fair values of the assets of S Ltd. on that date are

|                       | Rs. (000) |
|-----------------------|-----------|
| Tangible fixed assets | 60        |
| <u>Stocks</u>         | 20        |
| Cash                  | 10        |
|                       | <u>90</u> |

The purchase consideration consists of 50,000 equity shares of H Ltd. valued at par and Rs. 50,000 cash. The Cash Flow Statement for the year to 31.03.08 will show the above transaction as:

|                                                | Rs. (000) |
|------------------------------------------------|-----------|
| A. Under Financing activity                    | 50        |
| B. Under Investment activity                   | 100       |
| C. Under Investment activity                   | 40        |
| D. Under Cash & Cash equivalent — increased by | 40        |

(ii) Easygo Ltd. is to prepare its annual accounts for the year ended 31 March, 2008. A claim for damages for Rs. 1 crore for breach of patents and copyrights has been served on the company in January 2008. A competent firm of solicitors advises that the claim is highly frivolous, without any basis and would not survive even in the first trial court. The company, however, anticipates a long drawn legal battle and huge legal costs.

As a proper course of action about the above issue the company's financial statements for the year ended 31 March, 2008.

- A. Need not have any adjustment  
B. Make no disclosure as per legal advice  
C. Disclose both the compensation and the estimated legal expenses

D. Make disclosure only for estimated legal expenses.

(iii) Expenses incurred in three phases of construction of project of power plant are given below:

|                      | Phase A<br>Rs. | Phase B<br>Rs. | Phase C<br>Rs. | Total<br>Rs. |
|----------------------|----------------|----------------|----------------|--------------|
| Cash payments        | 50,00,000      | 70,00,000      | 85,00,000      |              |
| Transfer of Assets   | 45,00,000      | 12,00,000      | 10,00,000      |              |
| Total                | 95,00,000      | 82,00,000      | 95,00,000      | 2,72,00,000  |
| Money borrowed @ 14% |                |                |                | 2,50,00,000  |

As per AS-16 capitalization of the borrowing costs would be:

|    | Phase A<br>Rs. | Phase B<br>Rs. | Phase C<br>Rs. | Total<br>Rs. |
|----|----------------|----------------|----------------|--------------|
| A. | 12,22,426      | 10,55,148      | 12,22,426      | 35,00,000    |
| B. | 8,53,656       | 11,95,123      | 14,51,221      | 35,00,000    |
| C. | —              | 11,48,000      | 13,30,000      | 24,78,000    |
| D. | —              | 10,55,148      | 12,22,426      | 22,77,574    |

## PART B

2. (a) For the given abbreviations name the terms in full:

(i) ICAI

(ii) AS

(iii) IAS

(iv) US GAAP

(v) IFRS

(b) Summarize the strategy adopted by ICAI to make India IFRS-compliant in the matter of reporting through financial statements.

3. The summarized balance sheets of X Ltd. and its subsidiary Y Ltd. as on 31.03.2008 are as follows:

| Particulars                 | X Ltd.<br>Rs.      | Y Ltd.<br>Rs.      |
|-----------------------------|--------------------|--------------------|
| Shares of Rs. 10 each       | 1,00,00,000        | 20,00,000          |
| Reserves and surplus        | 1,40,00,000        | 60,00,000          |
| Secured loans               | 49,00,000          | —                  |
| Current liabilities         | 60,00,000          | 20,00,000          |
|                             | <u>3,49,00,000</u> | <u>1,00,00,000</u> |
| Fixed assets                | 1,29,01,000        | 35,00,000          |
| Investment in Y Ltd. shares | 7,39,000           | —                  |
| Sundry debtors              | 70,00,000          | 10,00,000          |
| Inventories                 | 60,00,000          | 50,00,000          |
| Cash and bank               | 82,60,000          | 5,00,000           |
|                             | <u>3,49,00,000</u> | <u>1,00,00,000</u> |

X Ltd holds 76% of the paid-up capital of Y Ltd. The balance shares in Y Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

(a) The shares held by the foreign company will be sold to X Ltd. The price per share will be calculated by

capitalizing the yield at 16%. Yield, for this purpose, would mean 405 of the average of pre-tax profits for the last 3 years, which were Rs. 35 lakh, Rs. 44 lakh and Rs. 65 lakh.

- (b) The actual cost of shares to the foreign company was Rs. 2,40,000 only. The profit and would accrue to them would be taxable at an average rate of 30%. The tax payable will be deducted from the proceeds and X Ltd. will pay it to the Government.
- (c) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be unsecured loan payable after one year.

The Board of X Ltd. also decided that X Ltd. would absorb Y Ltd. simultaneously by writing down the fixed assets of Y Ltd. by 5%. The balance sheet figures included a sum of Rs. 1,50,000 due by Y Ltd to X Ltd. The entire arrangement was approved by all concerned for giving effect to on 01.04.2008.

Required:

Show the Balance Sheet of X Ltd. as it would appear after the above arrangement is put through on 01.04.2008. (Show your workings).

- (a) The following information relate to company AKG Ltd.

|                                                 | Exchange rate |
|-------------------------------------------------|---------------|
| Goods purchased on 25.02.2007 for US \$ 100,000 | Rs. 44.50     |
| Exchange rate on 31.03.2007                     | Rs. 45.00     |
| Date of actual payment 05.06.2007               | Rs. 45.40     |

Required:

Calculate the loss/gain for the financial year 2006-07 and 2007-08 as per AS-11

- (b) From the following information taken from the books of Vibrant Ltd. relating to Staff and Community benefits, prepare a statement classifying the various items under the appropriate heads, required under Corporate Social Reporting:

|                                                                           | Rs.       |
|---------------------------------------------------------------------------|-----------|
| Medical facilities                                                        | 45,00,000 |
| Training programmes                                                       | 21,50,000 |
| Generation of job opportunities                                           | 60,75,000 |
| Municipal taxes                                                           | 30,80,000 |
| Increase in cost of living in the vicinity due to a thermal power station | 16,55,000 |
| Extra work put in by staff and officers for drought relief                | 18,50,000 |
| Leave encashment and leave travel benefits                                | 52,00,000 |
| Educational facilities for children of staff members                      | 46,60,000 |
| Subsidized canteen facilities                                             | 14,40,000 |

- (a) You are provided with the details of a construction contract obtained by United Engineers Ltd. The contract is for Rs. 8,00,000 to be completed in 3 years. Data pertaining to the construction period are:

|                                               | Year I   | Year II  | Year III |
|-----------------------------------------------|----------|----------|----------|
|                                               | Rs.      | Rs.      | Rs.      |
| Cumulative costs incurred to date             | 2,40,000 | 5,76,000 | 6,48,000 |
| Estimated cost yet to be incurred at year end | 4,80,000 | 64,000   | —        |
| Progressive billing made during the year      | 1,60,000 | 5,92,000 | 48,000   |
| Collections or billings                       | 1,20,000 | 4,80,000 | 2,00,000 |

The firm seeks your advice and assistance in the presentation of accounts keeping in view the disclosure requirements of AS-7. Comply with the firm's request.

- (b) While preparing its final accounts for the year ended 31st March, 2008, a company made a provision for bad debts @ 5% of its total debtors. In the last week of February 2008 a debtor for Rs. 5 lakh had suffered heavy loss due to subversive act of terrorists; the loss was not covered by any insurance policy. In April 2008 the

debtor became a bankrupt.

Can the company provide for the full loss arising out of insolvency of the debtor in the first accounts for the year ended 31st March, 2008? Answer with reasons.

5. (a) Briefly describe the role of Public Accounts Committee.
- (b) State any five salient points of distinction between 'Pooling of Interest Method' and 'Purchase Method' of accounting for Mergers and Acquisitions.

7. (a) S Ltd. have six segments with the following data:

| Particulars     | Rs. in crore |       |    |    |      |    |
|-----------------|--------------|-------|----|----|------|----|
|                 | A            | B     | C  | D  | E    | F  |
| Segment Revenue | 250          | 520   | 70 | 50 | 60   | 50 |
| Segment Result  | 50           | (190) | 10 | 10 | (10) | 30 |
| Segment Assets  | 100          | 200   | 75 | 50 | 50   | 25 |

The Finance Director is of the view that it is sufficient that segments A and B only be reported. Advise.

- (b) Softex Ltd. acquired an equipment on lease from Simplex Ltd. (Lessor) on April 1, 2008 for 3 years. Its useful life is 5 years. Both the cost and the fair market value of the equipment are Rs. 6,00,000. The amount (annual lease payment) will be paid in three installments at end of each year. Simplex Ltd. will get back the equipment upon termination of the lease. However, Softex Ltd. is given an option to retain the equipment at a nominal value at the end of the lease period. The unguaranteed residual value at the end of 3 years is Rs. 80,000.

The internal rate of return (IRR) of the investment is 10%:

[PVIFA<sub>10%, 3 yrs.</sub> = 2.4868; PVIF<sub>10%, 3yr.</sub> = 0.7513].

Required:

- (i) State with reason whether the lease constitute a finance lease.
- (ii) Calculate unearned finance income keeping in view the relevant Accounting Standard (AS-19).

8. The Balance sheet of Paragon Ltd. and its subsidiary, Axis Ltd., as at March 31, 2008 are as under:

#### Liabilities

(In Rs. lakh)

Paragon Ltd.      Axis Ltd.

#### Share Capital

|                                          |               |              |
|------------------------------------------|---------------|--------------|
| Authorized, equity shares of Rs. 10 each | 7,500         | 3,000        |
| Issued and subscribed, fully paid-up     | <u>6,000</u>  | <u>2,400</u> |
| General reserve                          | 1,392         | 690          |
| Profit and Loss account                  | 1,357         | 810          |
| Bills payable                            | 186           | 80           |
| Sundry creditors                         | 730           | 427          |
| Provision for taxation                   | 428           | 197          |
| Proposed <u>dividend</u>                 | 600           | —            |
|                                          | <u>10,693</u> | <u>4,604</u> |

(In Rs. lakh)

Paragon Ltd.      Axis Ltd.

#### Assets

|                                   |       |       |
|-----------------------------------|-------|-------|
| Land and Buildings                | 1,359 | —     |
| Plant and Machinery               | 2,452 | 2,450 |
| Furniture and Fittings            | 922   | 293   |
| Investment in shares in Axis Ltd. | 1,500 | —     |
| <u>Stock</u>                      | 1,975 | 978   |

|                        |               |              |
|------------------------|---------------|--------------|
| Sundry debtors         | 1,300         | 681          |
| Bills receivable       | 180           | 100          |
| Sundry advances        | 260           | —            |
| Cash and Bank balances | 745           | 102          |
|                        | <b>10,693</b> | <b>4,604</b> |

Following additional information is available:

- (a) Paragon Ltd purchased 90 lakh shares in Axis Ltd. on April 1, 2007 when the balances in General Reserve and Profit and Loss Account of Axis Ltd. stood at Rs. 1,500 lakh and Rs, 600 lakh respectively.
- (b) On July 4, 2007 Axis Ltd. declared a dividend @ 20% for the year ended March 31, 2007. Paragon Ltd credited the dividend so received to its Profit and Loss Account.
- (c) Out of the balance in its General Reserve Account on January 1, 2008. Axis Ltd. issued 3 fully paid-up bonus shares for every 5 shares held by its shareholders. Apart from this, there was no other movement in its General Reserve Account in 2007–08.
- (d) On March 31, 2008 Axis Ltd.'s stock included goods which it had purchased for Rs. 50 lakh from Paragon Ltd on which the latter made a profit of 25% on cost.
- (e) On March 31, 2008 all the bills payable in Axis Ltd.'s Balance Sheet were acceptance in favor of Paragon Ltd. But on that date, Paragon Ltd. held only Rs. 23 lakh of these acceptances in hand, the rest having been endorsed in favour of its creditors:

Required:

[41- () () 27681]

- (i) Prepare Consolidated Balance Sheet of Paragon Ltd. and its Subsidiary Axis Ltd. as at March 31, 2008. Detailed workings are required for ('ii' to 'vi'): [5]
- (ii) Analysis of Pre-acquisition and Post-acquisition Profits. [3]
- (iii) Goodwill/Capital Reserve arising out of consolidation. [2]
- (iv) Consolidated General Reserve. [1]
- (v) Consolidated Profit and Loss Account.[2]
- (vi) Minority Interest. [2]