

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

- Please:* (1) Write answers to all Parts of a question together
(2) Open a new page for answer to a new question
(3) Attempt the required number of questions only.
(4) Indicate in the front page of the answer book the required question attempted.

PART A

1. (a) In each of the cases given below one out of four answers is correct. Indicate the correct answer (= 1 mark) 2x8=16
and give your workings/reasons briefly (= 1 mark)

- (i) PIONEER LTD. acquired 3200 Equity Shares of ARYAN LTD. on March 31, 2008. The Share Capital of ARYAN LTD. consists of 4000 Equity Shares of Rs.100 each. The cost of investments is Rs.6,80,000. ARYAN LTD. made a bonus issue on March 31, 2008 of one Equity Share for every four shares held by its shareholders. If the share in the capital profits in ARYAN LTD. is Rs.2,65,600 (after adjustment of Bonus), the amount of Goodwill/Capital Reserve shown in the Consolidated Balance Sheet on March 31, 2006 is
A. Rs.4,14,000(Goodwill);
B. Rs.2,80,000 (Capital Reserve);
C. Rs.14,400 (Goodwill);
D. Data insufficient.
- (ii) MR. BIKRAM purchased 1000 shares in Ranjan Laboratories at Rs.300 per share in 2005. There was Rights issue in 2008 at one share for every two held at a price of Rs.100 per share. If Mr. Bikram subscribed to the rights, what would be carrying cost of 1500 shares.
A. Rs.2,50,000
B. Rs.3,50,000
C. Rs.3,00,000
D. Insufficient information
- (iii) ANKITA LTD. has a Plant (Asset) which is carried in the Balance Sheet on 31.03.2009 at Rs.500 lakh. As at that date the value in use is Rs.400 lakh. What would be the impairment loss of the Plant, if the net selling price as on 31.03.2009 is Rs.300 lakh?
A. Rs.100 lakh;
B. Rs.125 lakh;
C. Rs.150 lakh;
D. Incomplete information
- (iv) ASHREEN LTD. started business on 1.4.2008. For the year ended 31st March, 2009, it has earned accounting income of Rs.20 lakh. However its taxable income was Rs.15 lakh only due to timing differences. If the tax rate applicable to the company is 40% what would be deferred Tax Asset?
A. Rs.2.00 lakh;
B. Rs.2.50 lakh;

C. Rs.6.00 lakh;
D. None of (A), (B), (C).

- (v) GAIN T LTD. acquired 80% shares of ZOOM LTD. on January 1, 2009. Trade creditors of ZOOM LTD. include Rs.45,000 for goods supplied by GAIN T LTD. on which the latter made a profit of Rs.9,000. One-fifth of the goods are still in the stock on March 31, 2009. The value of stock to be considered for the purpose of consolidation is
- A. Rs.7,200;
B. Rs.4,500;
C. Rs.1,800;
D. None of (A), (B), (C).

- (vi) The share capital of Sanjana Ltd. is Rs.10,00,000 consisting of fully paid shares of 10,000: 15% preference shares of Rs.100 each and 9,000 equity shares of Rs.100 each. The after-tax profit of the company for the year 2008-09 is Rs.1,23,000. The normal rate of return is 8%. The value of equity share of the company is
- A. Rs.171;
B. Rs.125;
C. Rs.154;
D. Rs.150.

- (vii) Accounts receivable as at 31.3.2009 is Rs.5,00,000. Provision for discount on accounts receivable as at 1.4.2008 is Rs.16,000 and provision for doubtful debts as on that date stands at Rs.25,000. Discount allowed during 2008-09 is Rs.1,000 and the company maintains 5% provision for bad debts and 3% provision for discounts on debtors. What is the amount to be transferred to profit and loss account as excess provision by way of adjustment on 31.3.2009?
- A. Rs.25,000;
B. Rs.14,250;
C. Rs. 750;
D. Rs.10,750.

- (viii) An external user of financial statement of a company is
- A. Director;
B. Partner;
C. Supplier;
D. Officer.
- Each of whom has some relationship with the company.

- (b) Choose the most appropriate one from the stated options and write it down (only indicate by A, B, C, D as you think correct).

- (i) Contingent Assets as per AS-29 are
- A. Recognized in Balance Sheet if happening is almost certain;
B. Not Recognized in Balance Sheet;
C. Disclosed in Notes to Accounts;
D. None of (A), (B), (C).
- (ii) Under the "Polling of interest method" the difference between the purchase consideration and Share Capital of the transferee Company should be adjusted to (as per AS - 14)
- A. Goodwill or Capital Reserve;
B. General Reserve;
C. Amalgamation Adjustment Account;
D. Either (A) or (C).

- (iii) RAINBOW LTD. has different distinguishable segments. One of them is engaged in providing an individual product and it is subject to risk and returns. Such segments is known as
 A. Business Segment;
 B. Geographical Segment;
 C. Reportable Segment;
 D. Primary Segment.
- (iv) As per AS – II exchange differences arising on repayment of fixed asset – linked liabilities should be adjusted to
 A. Profit & Loss Account;
 B. Fixed Asset Account;
 C. Revaluation Reserve;
 D. None of the above.
- (v) Under AS–26, the normal period of amortization for an intangible asset other than goodwill is
 A. The best estimate of its useful life;
 B. A period of 10 years;
 C. Useful life or 10 years whichever is shorter;
 D. Useful life or 10 years whichever is longer.
- (c) State Which of the following statements is T(= true) or F(= false):
- (i) Actual bad debts turning out to be more or less than provision is an example of a change in Accounting Estimate.
- (ii) An employee was terminated from service on 1.1.2008 and was re-instated in service by the Court on 31.5.2009 with all back money which was paid on 1.6.2009. The arrear salary so paid is to be debited to Prior Period Expense (Salary).
- (iii) Treating operating lease as finance lease is an example of prior period item.
- (iv) Government grant receivable as compensation for expenses or losses incurred in previous accounting period is and Extraordinary item to be disclosed separately in Profit & Loss Account of the Company.

1x4=

PART B

The summarized Balance Sheets of Sun Ltd. and Moon Ltd. for the year ending on 31.03.2009 are as follows:

Liabilities	Sun Ltd. Rs.	Moon Ltd. Rs.	Assets	Sun Ltd. Rs.	Moon Ltd. Rs.
Equity share capital (in shares of Rs.10 each)	24,00,000	12,00,000	Fixed Assets	55,00,000	27,00,000
8% Preference share capital, (in share of Rs.10 each)	8,00,000	—	Current Assets	25,00,000	23,00,000
10% Preference share capital (in share of Rs.10 each)	—	4,00,000	—	—	—
Reserves	30,00,000	24,00,000	—	—	—
Current Liabilities	18,00,000	10,00,000	—	—	—
	80,00,000	50,00,000	—	80,00,000	50,00,000

The following additional information is provided:

Sun Ltd.	Moon Ltd.
Rs.	Rs.

Profit before tax	10,64,000	4,80,000
Taxation	4,00,000	2,00,000
Preference dividend	64,000	40,000
Equity dividend	2,88,000	1,92,000

- (i) The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.
- (ii) Sun Ltd. proposes to absorb Moon Ltd. as on 31.3.2009. The terms of absorption are as under:
- (a) Preference shareholders of Moon Ltd. will receive 8% preference shares of Sun Ltd. sufficient to increase the income of preference shareholders of Moon Ltd. by 10%.
- (b) The equity shareholders of Moon Ltd. will receive equity shares of Sun Ltd. on the following basis:
- (1) The equity shares of Moon Ltd. will be valued by applying to the earnings per share of Moon Ltd. 75% of price earnings ratio of Sun Ltd. based on the results of 2008–2009 of both companies.
 - (2) The market price of equity shares of Sun Ltd. is Rs.40 per share.
 - (3) The number of shares to be issued to the equity shareholders of Moon Ltd. will be based on the above market value.
 - (4) In addition to equity shares, 8% preference shares of Sun Ltd. will be issued to the equity shareholders of Moon Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2008–2009.

- (iii) The assets and liabilities of Moon Ltd. as on 31.3.2009 are revalued by professional valuer as under.

	Increased by Rs.	Decreased by Rs.
Fixed Assets	1,00,000	—
Current Assets	—	2,00,000
Current Liabilities	—	40,000

- (iv) For the next two years, no increase in the rate of equity dividend is expected.

You are required to set out in detail the purchase consideration including computation of EPS.

Given below are the Balance Sheets of A Ltd., B Ltd., and C Ltd., as on 31st March, 2008. You are required to prepare the Consolidated Balance Sheet of the holding company and its subsidiaries as on 31st March, 2008, bearing in mind that the acquisition of shares by the companies was made on the same date.

	A Ltd. Rs.	B Ltd. Rs.	C Ltd. Rs.
Share Capital:			
7,00,000 shares of Re.1 each	7,00,000	—	—
50,000 shares of Rs.10 each	—	5,00,000	—
1,00,000 shares of Re.1 each	—	—	1,00,000
Profit & Loss Account	1,80,000	50,000 *	75,000 *
Loan from B	1,00,000	—	—
Current Liabilities	5,00,000	1,50,000	1,75,000
	<u>14,80,000</u>	<u>7,00,000</u>	<u>3,50,000</u>

Note: * Inclusive of Pre – acquisition period result as under:

B Ltd. – Profits Rs.10,000

C Ltd. – Losses Rs.15,000

	A Ltd. Rs.	B Ltd. Rs.	C Ltd. Rs.
Represented by –			
Fixed Assets	5,00,000	3,00,000	1,50,000
Investments			

40,000 shares in B at cost	5,00,000		
1,00,000 shares in C at cost	80,000		
5,000 shares in B at cost			60,000
Current Assets	4,00,000	4,00,000	1,40,000
	<u>14,80,000</u>	<u>7,00,000</u>	<u>3,50,000</u>

(a) What are the general principles of Government Accounting?

(b) State the basic structure in the form of Government accounts.

(a) State the scope of disclosure of Accounting Policies as per Accounting Standard?

(b) What is the material effect of changes in Accounting Policies?

The Board of Directors of Venus Pens Ltd. has decided (on 11.11.2008) to discontinue a portion of PENS division, which presently manufactures two different models – Fancy and Popular, by March, 2009. The company will, however, continue its Popular pens model. During the financial year ended on March, 2009 the relevant financial information of the Pens division is as follows:

	Total	Popular Pens
Fixed Assets	1,700	600
Current Assets	600	200
Current Liabilities	300	150
Loans	1,100	250
Segmental revenue	2,000	600
Segmental expenses	1,400	200
Net operating cash flow	600	700
Investment cash flow	—	(100)
Financing cash flow	300	300

The Board of Directors has approved the plan on 11.11.2008 and announced the plan on 12.12.2008. In this case initial disclosure even has occurred before the end of the enterprise's financial reporting date and so initial disclosure shall be made in the financial statements for the period ended in March, 2009. Effective tax rate is 30%. Advise on disclosure.

(a) Gold Ltd.(the Transferor company) & silver Ltd. (the Transferee company) amalgamate in an exchange of stock to form GS Ltd. The pre-amalgamation balance sheets of the respective companies are as follows:

	Gold Ltd. (Rs. In lakh)	Silver Ltd. (Rs. In lakh)
Fixed Assets	110	60
Current Assets	80	40
Total Assets	190	100
Share Capital (Rs.10 face value)	80	40
Reserve and Surplus	50	40
Debt	60	20
	<u>190</u>	<u>100</u>

For each share held in Silver Ltd., 2 shares of Gold Ltd. were given in exchange (Face Value: Rs.10; share premium Rs.25) as the market price of Gold Ltd. is Rs.35. The fair market value of the fixed assets and current assets of Silver Ltd. was assessed at Rs.70 lakh and Rs.45 lakh respectively. Prepare the post amalgamation balance sheet of GS Ltd., under 'Pooling' and the 'Purchase' methods.

(b) Financial statements are based on historical costs. Evidently inflation or deflation distorts the quality of the financial information furnished in them for the benefit of various users. Discuss the impact of inflation on financial statements and how inflation accounting and management help in improving the quality of these statements.

From the following information of Alfa Ltd. calculate earning per share (EPS) in accordance with AS-20:
(Rs.)

	Year 31.03.2009	Year 31.03.2008
1. Net profit before tax	3,00,000	1,00,000
2. Current tax	40,000	30,000
Tax relating to earlier years	24,000	30,000
Deferred tax	30,000	(13,000)
3. Profit after tax	2,06,000	73,000
4. Other information:		

(i) Profit includes compensation from Central Government towards loss on account of earthquake in 2006(non-taxable) 1,00,000 Nil

(ii) Outstanding convertible 6% Preference shares 1000 issued and paid on 30.09.2007. Face value Rs.100, Conversion ratio 15 equity shares for every preference share.

(iii) 15% convertible debentures of Rs.1,000 each total face value Rs.1,00,000 to be converted into 10 Equity shares per debenture issued and paid on 30.06.2007.

(iv) Total no. of Equity shares outstanding as on 31.03.2009, 20000 including 10000 bonus shares issued on 01.01.2009, face value Rs.100.