

Test Series: March, 2013

MOCK TEST PAPER – 2

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

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.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Vikas Ltd. purchased a plant for ` 50 lakhs from Yash Ltd. during 2012 - 2013 and installed immediately. The price includes excise duty of ` 5 lakhs. During 2012 - 2013, the company produced excisable goods on which the excise authority charged excise duty to the extent of ` 4.5 lakhs. Show the necessary Journal Entries explaining the treatment of CENVAT credit. You are also required to indicate the value of plant at which it should be recorded in Fixed Asset register.
- (b) Sabka Bank has classified its total investment on 31-3-2013 into three categories (a) held to maturity (b) available for sale (c) held for trading.
'Held to maturity' investments are carried at acquisition cost less amortised amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates or as per the prices declared by FIMMDA. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. Comment whether the policy of the bank is in accordance with AS 13?
- (c) A Ltd. sold machinery having WDV of ` 40 lakhs to B Ltd. for ` 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. Comment if –
 - (a) Sale price of `50 lakhs is equal to fair value.
 - (b) Fair value is ` 60 lakhs.
 - (c) Fair value is ` 45 lakhs and sale price is ` 38 lakhs.
 - (d) Fair value is ` 40 lakhs and sale price is ` 50 lakhs.
 - (e) Fair value is `46 lakhs and sale price is ` 50 lakhs
- (d) During the financial year 2012-2013, Ms. Advanced Computers, incurred costs to develop and produce 'Excellent', which is low risk high-tech software. Following details are made available:

	₹
Completion of detailed program design	26,000
Costs incurred for coding and testing to establish technological feasibility	20,000
Other coding costs after establishment of technological feasibility	48,000
Other testing costs after establishment of technological feasibility	40,000
Costs of producing product masters for training manuals	30,000
Duplication of computer software and training materials from product masters (1000 units)	50,000
Packaging Product (500 units)	18,000

Required:

- (i) Determine the amount to be capitalised as software cost subject to amortisation as on 31st March 2013.
 - (ii) What expenditure should be booked as expenses during the financial year 2012-2013? Reply with reference to the AS 26? (4 × 5 = 20 Marks)
2. Hari Ltd. and Narayan Ltd. are to be amalgamated into Hari Narayan Ltd. The new company is to take over all the assets and liabilities of the amalgamating companies.

Assets and Liabilities of Hari Ltd. are to be taken over at book values in exchange of shares in Hari Narayan Ltd. Three shares in the new company are to be issued at a premium of 20% for two shares of Hari Ltd.

The scheme for Narayan Ltd. is as follows:

1. 10% Preference shareholders are to be allowed two 15% Preference shares of ₹ 100 each in Hari Narayan Ltd. for three Preference shares held in Narayan Ltd.
2. The Debentures of Narayan Ltd. are to be paid off at 5% discount by the issue of debentures of Hari Narayan Ltd. at par.
3. The Equity shareholders of Narayan Ltd. are to be allowed as many shares at par in Hari Narayan Ltd. as will cover the balance on their account and for this purpose, plant and machinery is to be valued less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.

Show the Journal Entries and the Balance Sheet of the amalgamated company immediately after amalgamation.

The summarised Balance Sheets of the two companies prior to amalgamation are as follows:

Liabilities	Hari Ltd.	Narayan Ltd.	Assets	Hari Ltd.	Narayan Ltd.
Equity Shares of ` 10 each	6,40,000	12,50,000	Plant and Machinery	12,80,000	20,00,000
10% Preference Shares of ` 100 each	-	7,50,000	Sundry Debtors	1,52,000	1,25,000
General Reserves	8,80,000	-	Inventories	1,00,000	1,50,000
Secured Debentures	-	5,00,000	Cash and Bank Balance	1,08,000	1,00,000
Sundry Creditors	1,20,000	2,25,000	Profit and Loss Account	-	<u>3,50,000</u>
	<u>16,40,000</u>	<u>27,25,000</u>		<u>16,40,000</u>	<u>27,25,000</u>

2.

(16 Marks)

3. Evil Ltd. purchased control of Devil Ltd. on 01.10.2012. Following are the summarized Balance Sheets of Evil Ltd. and Devil Ltd. as at 31st March, 2013:

Liabilities	Evil Ltd.	Devil Ltd.	Assets	Evil Ltd.	Devil Ltd.
Equity Capital (` 10)	6,00,000	3,00,000	Goodwill	10,000	40,000
General Reserves	60,000	50,000	Land & Buildings	1,00,000	1,00,000
Profit & Loss Account	1,00,000	1,00,000	Plant & Machinery	2,00,000	1,80,000
Bills Payable to Evil Ltd.	-	10,000	Investment: 22,500 Shares of Devil Ltd.	3,37,500	-
Sundry Creditors	1,00,000	70,000	Stock in Trade	1,17,500	1,00,000
			Trade Debtors	50,000	90,000
	<u>8,60,000</u>	<u>5,30,000</u>	Cash at Bank	<u>45,000</u>	<u>20,000</u>
				<u>8,60,000</u>	<u>5,30,000</u>

Note: Contingent Liability: Evil Ltd. has bills discounted of ` 15,000.

On 01.04.2012, Devil Ltd. had ` 50,000 in General Reserve and ` 60,000 in Profit and Loss A/c. On 30th September 2012, 10% dividend was declared by Devil Ltd. in respect of financial year 2011-12 from its profit and loss account. Evil Ltd. credited its share of dividend, on receipt, to the Profit and Loss Account.

Debtors of Devil Ltd. include ` 10,000 due from Evil Ltd. Machinery of Devil Ltd. standing in books at ` 2,00,000 as on 1.4.2012, was revalued at ` 2,40,000. Stock of Evil Ltd. includes goods valued at ` 16,000 purchased from Devil Ltd., on which the latter made a profit of 1/3rd on cost price.

Prepare the Consolidated Balance Sheet of Evil Ltd. and its subsidiary Devil Ltd. as on 31.03.2013. (16 Marks)

4. From the following Profit & Loss Account of Sparkle Ltd., prepare a gross value added statement for the year ended 31.12.2012:

Show also the reconciliation between gross value added and profit before taxation.

Profit and Loss Account for the year ended 31.12.2012

	Notes	(` '000)	(` '000)
Income:			
Sales			6,240
Other Income			<u>55</u>
			6,295
Expenditure:			
Production and operational expenses	1	4,320	
Administration expenses (Factory)	2	180	
Interest & Other charges	3	624	
Depreciation		<u>16</u>	<u>(5,140)</u>
Profit before tax			1,155
Less : Provision for tax			<u>(55)</u>
Profit after tax			1,100
Balance as per last Balance Sheet			<u>60</u>
			1,160
Transferred to fixed assets replacement reserve		400	
Dividend paid		<u>160</u>	<u>(560)</u>
Surplus carried to Balance Sheet			<u>600</u>

Notes:

1. Production & Operation expenses: (` '000)

Consumption of raw materials	3,210
Consumption of stores	40
Local tax	8
Salaries to administrative staff	620

Other manufacturing expenses	<u>442</u>
	<u>4,320</u>

2. Administration expenses include salaries and commission to directors ` 5 thousand.
3. Interest and other charges include: (` '000)
- (a) Interest on bank overdraft (Overdraft is of temporary nature) 109
 - (b) Fixed loan from I.C.I.C.I. 51
 - (c) Working capital loan from I.F.C.I. 20
 - (d) Excise duties amount to one-tenth of total value added by manufacturing and trading activities. (16 Marks)
5. (a) On 1st April 2009, A Ltd. issued a 10 per cent convertible debentures with a face value of ` 1,000 maturing on 31<sup>st</sup> March 2018. The debentures are convertible into equity shares of A Ltd. at a conversion price of ` 25 per share. Interest is payable half-yearly in cash. At the date of issue, A Ltd. could have issued non-convertible debt with a ten year term bearing a coupon interest rate of 11 per cent. On 1st April 2014, the convertible debenture has a fair value of ` 1,700. A Ltd. makes a tender offer to debenture holders to repurchase the debentures for ` 1,700, which the holders accepted. At the date of repurchase, A Ltd. could have issued non-convertible debt with a five-year term bearing a coupon interest rate of 8 per cent. Show how an entity accounts for (i) equity and liability at the inception and (ii) at the repurchase of the convertible instrument. (8 Marks)
- (b) On 1st April, 2013, Fair Return Mutual Fund has the following assets and prices at 3.00 p.m.

Shares of	No. of shares	Market price per share (`)
P Ltd.	5000	19.70
Q Ltd.	25000	482.60
R Ltd.	5000	264.40
S Ltd.	50000	674.90
T Ltd.	15000	25.90

No. of units of fund 4,00,000 units

Calculate:

- (a) NAV of the Fund.
- (b) Assuming Mr. Mohan, send a cheque of ` 25,00,000 to the Fund on 1st April, 2013 and Fund Manager purchases 9,000 shares of R Ltd. and balance is held in bank. What will be the new position of the fund?
- (c) Now suppose on 2nd April 2013, at 3.00 p.m. the market price of shares is as

follows:

Shares	₹
P Ltd.	20.30
Q Ltd.	513.70
R Ltd.	290.80
S Ltd.	671.90
T Ltd.	44.20

Calculate the new NAV?

(8 Marks)

6. (a) Jayadev Ltd. had earned a PAT of ₹ 48 lakhs for the year just ended. It wants you to ascertain the value of its business, based on the following information.
1. Tax rate for the year just ended was 36%. Future tax rate is estimated at 34%.
 2. The company's equity shares are quoted at ₹ 120 at the Balance Sheet date. The company had an equity capital of ₹ 100 lakhs, divided into shares of ₹ 50 each.
 3. Profits for the year have been calculated after considering the following in the Profit and Loss Account:
 - (i) Subsidy ₹ 2 lakhs received from the Government towards fulfilment of certain social obligations. The Government has withdrawn this subsidy and hence, this amount will not be received in future.
 - (ii) Interest ₹ 8 lakhs is on term loan. The final instalment of this term loan was fully settled in this year.
 - (iii) Managerial remuneration ₹ 15 lakhs. The shareholders have approved an increase of ₹ 6 lakhs in the overall managerial remuneration, from the next year onwards.
 - (iv) Loss on sale of fixed assets and Investments amounting to ₹ 8 lakhs.

(10 Marks)

- (b) On April 1, 2012, a company offered 100 shares to each of its 500 employees at ₹ 40 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant date is ₹ 50 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 48 per share.

On April 30, 2012, 400 employees accepted the offer and paid ₹ 40 per share purchased. Nominal value of each share is ₹ 10.

Record the issue of shares in book of the company under the aforesaid plan. (6 Marks)

7. Answer any four of the following:

- (a) LH Ltd. provides you with the following summarized balance sheet as at 31st March 2013. (₹ in lakhs)

Liabilities		Amount	Assets		Amount
Share Capital	981.46	2,295.08	Fixed Assets (Net)		2,409.90
Reserves and			Current Asset		50.00
Surplus	1,313.62				
Long term Debt					
Sundry Creditors		144.44			
		20.38			
		2,459.90			2,459.90

Additional information provided is as follows:

- (i) Profit before interest and tax is ₹ 2,202.84 lakhs
- (ii) Interest paid is ₹ 13.48 lakhs.
- (iii) Tax rate is 40%
- (iv) Risk Free Rate = 11.32%
- (v) Long term Market Rate = 12%
- (vi) Beta = 1.62 (highest during the period)
- (vii) Cost of equity = 12.42% and cost of debt = 5.6%.

You are required to calculate Economic Value Added of LH Ltd.

- (b) On 1st January 2013, an entity issued a debt instrument with a coupon rate of 3.5% at a par value of ₹ 60,00,000. The directly attributable costs of issue were ₹ 1,20,000. The debt instrument was repayable on 31st December 2019, at a premium of ₹ 11,00,000. What is the total amount of the finance cost associated with the debt instruments?
- (c) Bright Finance Ltd. is a non-banking financial company. It provides you with the following information regarding its outstanding hire purchase instalments, ₹ 200 lakhs of which instalments are overdue on 200 accounts for last three months (amount overdue ₹ 40 lakhs) on 24 accounts for eight months (amount overdue ₹ 24 lakhs). On 10 accounts for more than 30 months (amount overdue ₹ 20 lakhs) and 4 accounts for more than three years (amount over due ₹ 20 lakhs-already identified as sub-standard assets) and one account of ₹ 10 lakhs which has been identified as non-recoverable by the management. Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount

` 6 lakhs) for more than two years and other are identified as sub-standard asset for a period of less than two years.

Classify the assets of the company in line with Non-Banking Financial (Deposit, Accepting or Holding) Companies, Prudential Norms (Reserve Bank) Directions, 2007.

- (d) Certain Ltd., has signed at 31st Dec, 2012, 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 2012 in his accounts?
- (e) DS Ltd. took a loan from bank for ` 10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. Normal operating cycle of the business is 20 months. First instalment is due on 1.4.2013 of ` 1,00,000. Determine how the loan will be classified for the purpose of the Financial Statements of DS Ltd. for the year ended 31.3.2013. (4 x 4 =16 Marks)