Total No. of Questions—7] [Total No. of Printed Pages—8

Time Allowed—3 Hours Maximum Marks—100

# ARM

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

Question No. **1** is compulsory.

Answer any **five** out of the remaining questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

Marks

1. Answer any **four** out of the following : 4×5=20

(a) On 30.6.2007, Asmitha Ltd. incurred Rs. 2,00,000, Net Loss from disposal of a business segment. Also, on 30.7.2007, the company paid Rs. 60,000 for Property taxes Assessed for the calendar year 2007. How the above transactions should be included in determination of Net Income of Asmitha Ltd. for the six months interim period ended on 30.9.2007.

(b) M/s XYZ Ltd. has three segments namely X, Y, Z. The total Assets of the Company are Rs. 10.00 crs. segment X has Rs. 2.00 crs., segment Y has Rs. 3.00 crs. and segment Z has Rs. 5.00 crs. deferred tax Assets included in the Assets of each segments are X—Rs. 0.50 crs., Y—Rs. 0.40 crs. and Z—Rs. 0.30 crs. The accountant contends that all the three segments are reportable segments. Comment.

(c) M/s Dinesh & Company signed an agreement with workers for increase in wages with retrospective effect. The out-flow on Account of arrears was for 2005-06—Rs. 10.00 lakhs, for 2006-07—Rs. 12.00 lakhs and for 2007-08—Rs. 12.00 lakhs. This amount is payable in September, 2008. The accountant wants to charge Rs. 22.00 lakhs as prior period charges in Financial statement for 2008-09. Discuss.

P.T.O.

(d) M/s Prima Co. Ltd. sold goods worth Rs. 50,000 to M/s Y and Company. M/s Y and Co. asked for discount of Rs. 8,000 which was agreed by M/s Prima Co. Ltd. the sale was effected and Goods were despatched. After receiving, Goods worth Rs. 7,000 was found defective, which they returned immediately. They made the payment of Rs. 35,000 to M/s Prima Co. Ltd. Accountant booked the sales for Rs. 35,000. Please discuss.

(e) Himalayas Ltd. is showing an intangible Asset at Rs. 72 lakhs as on 01.04.2007 and that item was acquired for Rs. 96 lakhs on 01.04.2004 and that item was available for use from that date. Himalayas Ltd. has been following the policy of amortisation the intangible Asset over a period of 12 years on Straight line basis. Comment on the accounting treatment of the above with reference to relevant accounting standard.

**Solution to Question 1 (a)**

Asmitha Limited in its six months ending 30/9/07 interim period, shall account for

(i) Loss on disposal of a business segment as an ordinary item to the fullest extent of Rs.200000. However, the same should be disclosed so as to bring a better understanding on the financial statement.

(ii) Property tax of Rs.60000 is for the full calendar year 2007 is paid during the 3rd calendar quarter, shall be accounted only for the 2nd and 3rd quarter of the calendar year for the six months ending 30th September 2007. That is Rs.30000 shall be accounted as current interim period expenses and Rs.15000 attributable for the 1st calendar quarter shall be accounted as prior period item in case there was no estimate made in that period or else as changes in accounting estimate. The other 15000 Rs. attributable to the 4th calendar quarter shall be accounted as prepaid expenses.

**Solution to Question 1 (b)**

| Segments | Total assets | Deferred Tax | Net Assets | % | Segment? |
|---|---|---|---|---|---|
| X | 2 | 0.5 | 1.5 | 17 | Yes |
| Y | 3 | 0.4 | 2.6 | 30 | Yes |
| Z | 5 | 0.3 | 4.7 | 53 | Yes |
| | 10 | 1.2 | 8.8 | | |

Since every segment assets account for more than 10% of the total enterprise assets, the accountant is correct in his contention.

Note: Deferred Tax assets are to be excluded in the above computation.

**Solution to Question 1 (c)**

The arrears of payment made during the current year 2008-09 are for 3 earlier years affecting the current year's profit and loss account. But to qualify an item as prior period item, it should have arisen on account of error or omission, whereas the existence of these arrears came only on account of agreement entered during the current period having retrospective effect. Therefore there is no scope to take up the case as prior period item in the absence of error or omission. It is to be treated as ordinary item but requiring disclosure as there is a bulk amount of debit during the current period. Disclosure will enhance better understanding on the financial statement.

**Solution to Question 1 (d)**

| **Items** | **Gross** | **Returns** | **Net of returns** |
|---|---|---|---|
| Sales | 50000 | 7000 | 43000 |
| Discount (16%) =8k/50k | 8000 | 1120 | 6880 |
| Net Sales after discount | **42000** | **5880** | **36120** |

As the sale was initially booked net of discount at Rs.42000, the return of goods worth Rs.7000 should have also qualified for a pro rata discount of Rs.1120 and is to be adjusted. Net sale to be accounted shall be Rs.36120. Accountant is wrong in accounting sales at Rs.35000.

**Solution to Question 1 (e)**

As per para 63 of AS 26, intangible assets shall be amortised for a period not exceeding ten years, unless it can be rebutted by a stronger case where the life is established through agreement for a period greater than 10 years. Stronger case shall come in the form of rights bought [copyrights, patents etc.] for a period exceeding 10 years, say 15 years or so. In such a case, amortization can be made for a period of 15 years instead of 10 years. The question is not clear as what is the life of the intangible asset. If the life is for 12 years, then the action of the company is correct or else it is not correct. If the life is for a period lesser than 10 years, then amortization shall be carried out for the number of years of life.

2. System Ltd. and HRD Ltd. decided to Amalgamate as on 01.04.2008. Their Balance Sheets as on 31.03.2008 were as follows : 16

(Rs. in '000)

| Particulars | System Ltd. | HRD Ltd. |
|---|---|---|
| Sources of Funds : | | |
| Equity share capital (Rs. 10 each) | 150 | 140 |
| 9% preference share Capital (Rs. 100 each) | 30 | 20 |
| Investment allowance Reserve | 5 | 2 |
| Profit and Loss Account | 10 | 6 |
| 10% Debentures | 50 | 30 |
| Sundry Creditors | 25 | 15 |
| Tax provision | 7 | 4 |
| Equity Dividend Proposed | 30 | 28 |
| Total | 307 | 245 |
| Application of Funds : | | |
| Building | 60 | 50 |
| Plant and Machinery | 80 | 70 |
| Investments | 40 | 25 |
| Sundry Debtors | 45 | 35 |
| Stock | 36 | 40 |
| Cash and Bank | 40 | 25 |
| Preliminary Expenses | 6 | — |
| Total | 307 | 245 |

From the following information, you are to prepare the Draft Balance Sheet as on 01.04.2008 of a New Company, Intranet Ltd., which was formed to take over the business of both the company and took over all the Assets and Liabilities :

(i) 50% Debenture are to be converted into Equity Shares of the New Company.

(ii) Out of the investments, 20% are non-trade investments.

(iii) Fixed Assets of Systems Ltd. were valued at 10% above cost and that of HRD Ltd. at 5% above cost.

(iv) 10% of sundry Debtors were doubtful for both the companies. Stocks to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at Par.

(vi) Equity shareholders of both the transferror company are to be discharged by issuing Equity shares of Rs. 10 each of the new company at a premium of Rs. 5 per share.

Amalgamation is in the nature of Purchase.

**Solution to Question No. 2**

**Rs.000s**

| **Calculation of purchase consideration** | | | | | |
|---|---|---|---|---|---|
| **S. No.** | **Beneficiaries** | **Mode** | **Calculation** | | **Amount** |
| | | | **S** | **H** | **Total** |
| 1 | ESH | 1:1 @ Rs. 15 | 150/10 x 1/1 x 15 = 225 | 140/10 x 1/1 x 15 = 210 | 435 |
| 2 | PSH | 1:1 | 30 | 20 | 50 |
| | | | **255** | **230** | **485** |
| | | | | | |
| 3 | DH 50% | In the form of equity shares | **25** | **15** | **40** |
| | | | | | **525** |

**Note:**
Payments effected to members alone shall form part of purchase consideration as per para 3(g) of AS 14. Settlement to debenture holders is taken only for computation and not aggregated for purchase consideration. Security premium is the difference between 435 and [150+140] i.e Rs.145

**Rs.000s**

| **Taken Over values of assets and liabilities. Net asset value** | | | |
|---|---|---|---|
| | **S** | **H** | **Total** |
| Building | 66 | 52.5 | 118.5 |

| | | | |
|---|---|---|---|
| Plant & Machinery | 88 | 73.5 | 161.5 |
| Trade Investments | 32 | 20 | 52 |
| Non Trade Investments | 8 | 5 | 13 |
| Sundry Debtors (net) | 40.5 | 31.5 | 72 |
| Stock | 36 | 40 | 76 |
| Cash | 40 | 25 | 65 |
| 10% Debentures (50%) | (25) | (15) | (40) |
| Sundry Creditors | (25) | (15) | (40) |
| Tax Provisions | (7) | (4) | (11) |
| Proposed Dividend | (30) | (28) | (58) |
| | 223.5 | 195.5 | 419 |

**Goodwill is the difference between the settlement to Members and Debenture holders with the Net asset taken over. Goodwill 106 = 525 - 419**

**Rs.000s**

| **Balance Sheet as on 1/4/08** | | | |
|---|---|---|---|
| **Liabilities** | | **Assets** | |
| Equity Share Capital | 330 | Goodwill | 106 |
| 9% Preference Share Capital | 50 | Building | 118.5 |
| Security Premium | 145 | Plant & Machinery | 161.5 |
| 10% Debenture | 40 | Trade Investments | 52 |
| Sundry Creditors | 11 | Non-Trade Investment | |
| Proposed Dividend | 58 | Sundry Debtors | 72 |
| | | Stock | 76 |
| | | Cash | 65 |
| | **664** | | **664** |

3. The following are the Balance Sheets of Ram Ltd., Shyam Ltd. and Tom Ltd. as on 31.03.2008 : 16

(Rs. in '000)

| Particulars | Ram Ltd. | Shyam Ltd. | Tom Ltd. |
|---|---|---|---|
| Liabilities | | | |
| Equity Share Capital (Rs. 100 each) | 8,000 | 4,000 | 1,600 |
| General Reserve | 1,600 | 280 | — |
| Profit and Loss Account | 1,360 | 960 | — |
| Current Liabilities | 1,280 | 3,000 | 1,120 |
| Total | 12,240 | 8,240 | 2,720 |

(Rs. in '000)

| Particulars | | Ram Ltd. | Shyam Ltd. | Tom Ltd. |
|---|---|---|---|---|
| Assets | | | | |
| Investments : | | | | |
| 32,000, shares in Shyam Ltd. | | 4,800 | — | — |
| 4,000, shares in Tom Ltd. | | 200 | — | — |
| 12,000, shares in Tom Ltd. | | — | 720 | — |
| Profit and Loss Account | | — | — | 640 |
| Current Assets | | 7,240 | 7,520 | 2,080 |
| | Total | 12,240 | 8,240 | 2,720 |

From the following information, prepare consolidated Balance Sheet of Ram Ltd. and its subsidiaries as on 31.03.2008 :

(i) Shyam Ltd. has advanced Rs. 8,00,000 to Tom Ltd.

(ii) Current Liabilities of Ram Ltd. includes Rs. 4,00,000 due to Tom Ltd.

(iii) Shyam Ltd. and Tom Ltd. have not paid any Dividend.

(iv) Ram Ltd. acquired its investments on 01.04.2007 from Shyam Ltd. and then amount standing to Credit of General Reserve and Profit and Loss account were Rs. 2,80,000 and Rs. 5,20,000 respectively.

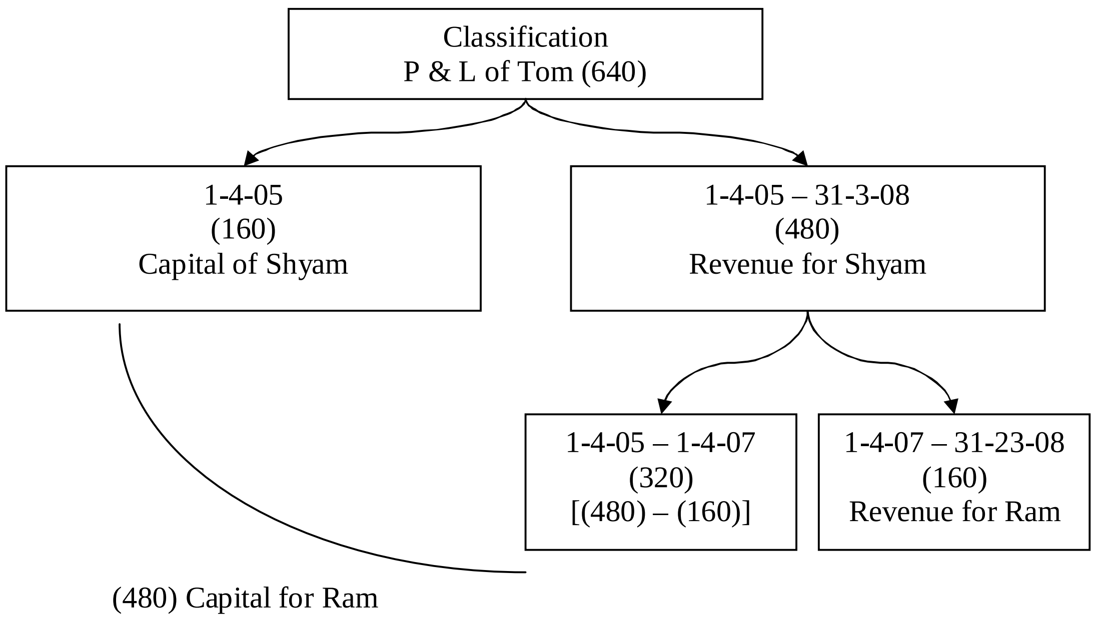
(v) Ram Ltd. acquired investments in Tom Ltd. on 01.04.2007, when the Debit balance in Profit and Loss account in books of Tom Ltd. was Rs. 4,80,000.

(vi) Shyam Ltd. acquired its investments in Tom Ltd. on 01.04.2005 and then the Debit balance in Profit and Loss account was Rs. 1,60,000.

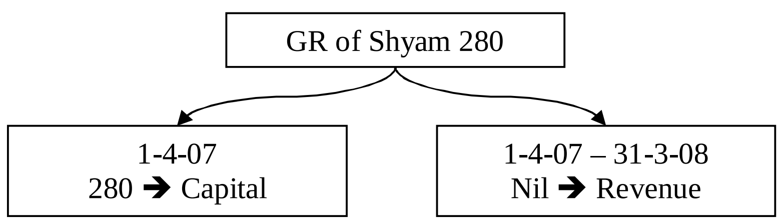
(vii) Shyam Ltd.'s Assets includes Rs. 4,80,000, which were invoiced by Ram Ltd. at a price which was 20% above cost.

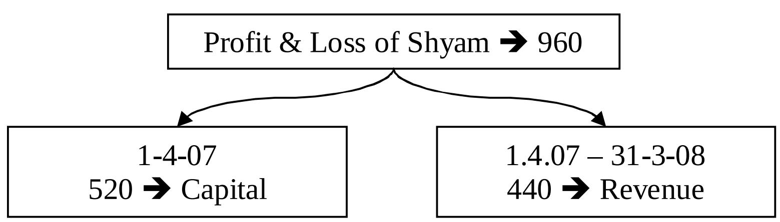
**Solution to Question No. 3**

| **Cut off** | **R. in S** | **R in T** | **S in T** |
|---|---|---|---|
| **DOA** | **1-4-07** | **1-4-07** | **1-4-05** |
| **DOC** | **31-3-08** | | |
| **Post** | **07-08** | **07-08** | **05-06 to 07 – 08** |
| **%** | **32K/40K = 80%** | **4000/16000 = 25%** | **12000/16000 = 75%** |
| | | | |
| | | **100% in Tom** | |
| **MI** | **20%** | **Nil** | |




**Increase of Rs.(320) is capital for Ram for its share of 25%. It works out to Rs.(80)**



| **Stock Reserve** | |
|---|---|
| Stock (held by Shyam) | 480 |
| Markup/TP | 1/6 |
| Stock Reserve | 80 |
| Type | Downstream |
| To be adjusted in consolidated P & L | 80 |
| In Minority Interest | Nil |

| **Chart A** | | | | |
|---|---|---|---|---|
| | **Ram** | | **Minority Interest** | |
| | **Shyam** | **Tom** | **Shyam 20%** | **Tom** |
| 1) Capital Reserve | | | | |
| (Direct Method) | | | | |
| General Reserve | 280 | - | - | - |
| P & L | 520 | (160 | - | - |
| | **800** | **(160)** | - | - |
| Less: Minority Interest | 160 | Nil | 160 | - |
| | **640** | **(160)** | - | - |
| Add: Capital item for Ram in the classification | | | | |
| of Reserves of Tom | | +(80) | | |
| | | (240) | | |
| | | | | |
| (ii) Revenue Profit | 440 | (480) | - | - |
| Transfer 75% | +(360) | -(360) | - | - |
| | **80** | **120** | | |
| Less: Minority Interest | 16 | - | 16 | - |
| | 64 | (120) | - | - |
| Less: Capital item(ref note given in classification) | - | (80) | | |
| | **64** | **(40)** | | |
| | | | | |
| (iii) ESC | 4000 | 1600 | - | - |
| Less: Minority Interest | 800 | - | 800 | - |
| | **3200** | **1600** | **976** | - |

**Chart B Goodwill/Capital Reserve**

| | | | |
|---|---|---|---|
| Investment by Ram in Shyam | | | 4800 |
| Investment by Ram in Tom | | | 200 |
| Investments by Shyam in Tom | | | 720 |
| | | | **5720** |
| Less: NV In Shyam | 3200 | | |
| Less: NV in Tom | 1600 | 4800 | |
| Capital profit – Shyam | 640 | | |

| | | | |
|---|---|---|---|
| Capital Profit – Tom | (240) | 400 | 5200 |
| **Goodwill** | | | **520** |

**Chart C Consolidated profit and loss Account**

| | | |
|---|---|---|
| Profit and Loss A/c | | 1360 |
| Add: Share of RP of Shyam | 64 | |
| Share of RP of Tom | (40) | 24 |
| | | **1384** |
| Less: Stock Reserve | | 80 |
| | | **1304** |

**Chart D Elimination of Mutual Owing and Stock Reserve**

| | **Current Assets** | **Current Liabilities** |
|---|---|---|
| Ram | 7240 | 1280 |
| Shyam | 7520 | 3000 |
| Tom | 2080 | 1120 |
| | **16840** | **5400** |
| Less: MO (800 + 400) | 1200 | 1200 |
| | **15640** | **4200** |
| Less: SR | 80 | -- |
| | **15560** | **4200** |

**Consolidated Balance Sheet**

**Rs.000s**

| **Liabilities** | | **Assets** | |
|---|---|---|---|
| Equity Share Capital | 8000 | Goodwill (Chart B) | **850** |
| General Reserve | 1600 | Current Assets (Chart D) | **15560** |
| Profit and Loss A/c (Chart C) | 1304 | | |
| Current Liabilities (Chart D) | 4200 | | |
| Minority Interest (Chart A) | 976 | | |
| | **16080** | | **16080** |

4. (a) A Mutual Fund raised funds on 01.04.2007 by issuing 10 lakhs units @ Rs. 17.50 per unit. Out of this Fund, Rs. 160 lakhs invested in several capital market instruments. The initial expenses amounts to Rs. 9 lakhs. 8×2 =16

During June, 2007, the Fund sold certain Securities worth Rs. 100 lakhs for Rs. 125 lakhs and it bought certain securities for Rs. 90 lakhs. The Fund Management expenses amounting to Rs. 5 lakhs per month. The dividend earned was Rs. 3 lakhs. 80% of the realised earnings were distributed among the unitholders. The market value of the portfolio was Rs. 175 lakhs. Determine Net Asset Value (NAV) per unit as on 30.06.2007.

(b) The Balance Sheet of Gunshot Ltd. as on 31.3.2008 is given :

(Rs. in '000)

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Share Capital : | | Fixed Assets | 2,700 |
| Equity share of Rs. 10 each | 800 | Non-trade Investments | 300 |
| Share Premium | 100 | Stock | 600 |
| General Reserve | 780 | Sundry Debtors | 360 |
| Profit and Loss A/c | 120 | Cash and Bank | 160 |
| 10% Debenture | 2,000 | | |
| Creditors | 320 | | |
| | 4,120 | | 4,120 |

Gunshot Ltd. buy back 16,000 shares at Rs. 20 per share. For this purpose, the Company sold its all Non-trade investments for Rs. 3,20,000. Give Journal Entries with full narrations effecting the buy back.

**Solution to Question 4 (a)**

| **Transactions** | **Amount (in lacs)** |
|---|---|
| Amount raised | 175 |
| Initial expenses | (9) |
| Investments made | (160) |
| Investments sold | 125 |
| Further Investment made | (90) |
| Dividend earned | 3 |
| Dividend Distributed | (22.4) |
| Cash in hand (balancing figure) | 21.6 |
| Market value of Investment (given) | 175 |
| Total Asset = 21.6+ 175 | 196.60 |
| No. of Units (in lacs) | 10 |
| NAV | 19.66 |

Dividend distributed @ 80% of the realized earning is computed on the gain on the sale of investments and the dividend earned. i.e 80% x [(125 – 100) + 3]

**Solution to Question 4 (b)**

**(i) Sale of non-trade Investments**

| | | |
|---|---|---|
| Cash A/c Dr. | 320 | |
| To Investments | | 300 |
| To Profit and Loss A/c | | 20 |

(Being sale of investments made at profit)

**(ii) Buy Back is effective and formalities completed**

| | | |
|---|---|---|
| Equity share capital a/c Dr. (1600 x 10) | 160 | |
| Premium on buy back | 160 | |
| To Equity Share Holder | | 320 |

| | | |
|---|---|---|
| Security premium a/c Dr | 100 | |
| General Reserve a/c Dr. | 60 | |
| To Capital Redemption Reserve A/c | | 160 |
| (Being in pursuant to buy back arrangement, the company utilized fully from security premium and the balance from General Reserve to finance buy back) | | |

5. Dawn Ltd. was incorporated to take over Arun Ltd., Brown Ltd. and Crown Ltd. Balance Sheet of all the three companies as on 31.03.2008 are as follows : 16

(Rs. in '000)

| Particulars | Arun Ltd. | Brown Ltd. | Crown Ltd. |
|---|---|---|---|
| Liabilities : | | | |
| Equity Share Capital (Share of Rs. 10 each) | 1,800 | 2,100 | 900 |
| Reserve | 300 | 150 | 300 |
| 10% Debentures | 600 | — | 300 |
| Other Liabilities | 600 | 450 | 300 |
| Total | 3,300 | 2,700 | 1,800 |

(Rs. in '000)

| Particulars | Arun Ltd. | Brown Ltd. | Crown Ltd. |
|---|---|---|---|
| Assets : | | | |
| Net Tangible Block | 2,400 | 1,800 | 1,500 |
| Goodwill | — | 150 | — |
| Other Assets | 900 | 750 | 300 |
| Total | 3,300 | 2,700 | 1,800 |

From the following information you are to :

(a) Work out the number of Equity shares and Debentures are to be issued to the shareholders of each company.

(b) Prepare the Balance Sheet of Dawn Ltd. as on 31.03.2008.

Information :

(i) Assets are to be revalued and revalued amount of Tangible Block and other Assets are as follows :

| | Tangible Block | Other Assets |
|---|---|---|
| Arun Ltd. | Rs. 30,00,000 | Rs, 10,50,000 |
| Brown Ltd. | Rs. 15,00,000 | Rs, 4,20,000 |
| Crown Ltd. | Rs. 18,00,000 | Rs, 2,40,000 |

(ii) Normal profit on capital employed is to be taken at 10%.

(iii) Average amount of profit for three years before charging interest on Debenture are

| | |
|---|---|
| Arun Ltd. | Rs. 5,40,000 |
| Brown Ltd. | Rs. 4,32,000 |
| Crown Ltd. | Rs. 3,12,000 |

(iv) Goodwill is to be calculate at three year's purchase of average super profits for three years, such average is to be calculated after adjustment of 10% depreciation on Increase/Decrease on revaluation of Fixed Assets (Tangible Block).

(v) Capital employed being considered on the basis of net revaluation of Tangible Assets.

(vi) Equity Shares of Rs. 10 each fully paid up in Dawn Ltd. are to be distributed in the ratio of average Profit after adjustment of depreciation on revaluation of Tangible Block.

(vii) 10% Debentures of Rs. 100 each fully paid up are to be issued by Dawn Ltd. for the Balance due.

(viii) The ratio of issue of Equity shares and debentures of Dawn Ltd. are to be maintained at 3 : 1, towards the take over companies.

(ix) The amount required for preliminary expenses of Rs. 1,50,000 and for payment to existing Debentureholders, were provided by issuing Equity shares of Rs. 10 each in Dawn Ltd.

**Solution to Question No. 5**

**Computation of Goodwill**

**a) Computation of CE**

| | | | | **Rs. '000** |
|---|---|---|---|---|
| | **A** | **B** | **C** | **Total** |
| Tangible Block | 3000 | 1500 | 1800 | 6300 |
| CA | 1050 | 420 | 240 | 1710 |
| Deb | (600) | - | (300) | (900) |
| Crs | (600) | (450) | (300) | (1350) |
| Net Block | **2850** | **1470** | **1440** | **5760** |

**b) Computation of Actual Profit**

| | | | **Rs. '000** |
|---|---|---|---|
| | **A** | **B** | **C** |
| Average Profit | 540 | 432 | 312 |
| Debenture Interest | (60) | - | 30 |
| Profit After Interest | 480 | 432 | 282 |
| (Additional)/ Excess Depn. | (60) | 30 | (30) |
| Revised Profit | **420** | **462** | **252** |

**c) Computation of Expected Profit**

| | | | **Rs. '000** |
|---|---|---|---|
| | **A** | **B** | **C** |
| CE | 2850 | 1470 | 1440 |
| ROCE @ 10% | 285 | 147 | 144 |

**d) Computation of Super Profit**

| | | | **Rs. '000** |
|---|---|---|---|
| | **A** | **B** | **C** |
| Actual | 420 | 462 | 252 |
| Expected | 285 | 147 | 144 |
| Super Profit | 135 | 315 | 108 |

**e) Computation of Goodwill**

| | | | **Rs. '000** |
|---|---|---|---|
| | **A** | **B** | **C** |
| Super Profit | 135 | 315 | 108 |
| No. of years of purchase | 3 | 3 | 3 |
| Goodwill | 405 | 945 | 324 |
| | | 1674 | |

**II. Computation of Purchase Consideration**

| | **A** | **B** | **C** |
|---|---|---|---|
| CE | 2850 | 1470 | 1440 |
| Goodwill | 405 | 945 | 324 |
| PC | 3255 | 2415 | 1764 |
| | | 7434 | |
| | Equity shares | | Debenture |
| | ¾ | | ¼ |
| | 5575.5 | | 1858.5 |

**Distribution of Equity shares based on adjusted earnings.**

Equity Shares

5575.50

| A | B | C |
|---|---|---|
| $\frac{420}{420+462+252}$ | $\frac{462}{420+462+252}$ | $\frac{252}{420+462+252}$ |
| =2065 | =2271.5 | =1239 |

**Computation of Debentures in purchase consideration**

| | | | **Rs. '000** |
|---|---|---|---|
| | **A** | **B** | **C** |
| Purchase Consideration | 3255000 | 2415000 | 1764000 |
| Equity Shares | 2065000 | 2271500 | 1239000 |
| Debentures | 1190000 | 143500 | 525000 |

**Rs. '000**

| **Balance Sheet of ABC as on 31-3-06** | | | | |
|---|---|---|---|---|
| **Liabilities** | | | **Assets** | |
| Equity Share Capital (as part of Purchase Consideration) | 5575.5 | | Goodwill | 1674 |
| Preliminary Expenses (financed) | 150 | | Tangible block | 6300 |
| Debenture Settlement (financed) | 900 | 6625.5 | Current Assets | 1710 |
| 10% Debentures | | 1858.5 | Miss Exp (Preliminary Expenditure) | 150 |
| Trade Creditors and Expense Creditors | | 1350 | | |
| | | **9834** | | **9834** |

6. (a) P Ltd. started its business on 01.04.2007. It issued one lac Equity Shares of Rs. 10 each at par and 30,000, 9% Debentures of Rs. 50 each, both were fully subscribed. It purchased Plant and Machinery for worth Rs. 15 lac and goods for trading worth Rs. 12 lac @ Rs. 100 per unit. Estimated life of plant and machinery was 10 years with no scrap value. Goods were sold at Profit of 40% on selling price. Collection from Debtors outstanding as on 31.3.2008 amounted to Rs. 5 lac. Goods sold were replaced at a cost of Rs. 120 per unit, the number of units being the same. Trade Creditors outstanding as on 31.3.2008 were Rs. 3 lac. The replaced Goods were entirely in stock on 31.3.2008, replacement cost of Goods was considered to be Rs. 140 per unit. Replacement cost of Machine was Rs. 20 lac as on 31.3.2008. Draft Profit and Loss Account and Replacement reserve on replacement cost basis. 8×2 =16

(b) Prepare a value added statement for the year ended on 31.3.2008 and reconciliation total value added with profit before taxation, from the Profit and Loss Account of Futures Ltd. for the year ended on 31.3.2008 :

| | | (Rs. in '000) |
|---|---|---|
| Income : | | |
| Sales | | 24,400 |
| Other Income | | 508 |
| | | 24,908 |
| Expenditure : | | |
| Operating cost | 21,250 | |
| Excise duty | 1,110 | |
| Interest on Bank Overdraft | 75 | |
| Interest on 9% Debenture | 1,200 | 23,635 |

| | (Rs. in '000) |
|---|---|
| Profit before Depreciation | 1,273 |
| Depreciation | 405 |
| Profit before tax | 868 |
| Provision for tax | 320 |
| Profit after tax | 548 |
| Proposed Dividend | 48 |
| Retained Profit | 500 |

The following additional Information are given :

(i) Sales represents Net sales after adjusting Discounts, Returns and Sales tax.

(ii) Operating cost includes Rs. 82,50,000 as wages, salaries and other benefits to Employees.

(iii) Bank overdraft is temporary.

7. Write short notes on any **four** from the following : 4×4=16

(a) State the treatment of the following items with reference to 'Indian Accounting Standards' (IAS) and International Financial Reporting Standards (IFRS) :

(i) Extra ordinary items

(ii) Contingencies.

(b) Reversal of an Impairment Loss.

(c) Market value Added.

(d) What are the types of Employees benefit and what is the objective of Introduction of this Standard i.e. AS-15 ?

(e) What are Timing differences and Permanent differences ?

## Solution to Question No. 6 (a)

| Profit and Loss A/c for the year ended 31-3-08 | | |
|---|---|---|
| | | **(Rs. '000)** |
| | **Historical cost** | **Replacement cost** |
| Sales | 2000 | 2000 |
| Cost of goods sold | 1200 | 1440 |
| Cross profit | 800 | 560 |
| Depreciation 15L/10 | 150 | 175 |
| Profit before Int. | 650 | 385 |
| Debenture Interest (9% x 15L) | 135 | 135 |
| Net profit | 515 | 250 |

**Balance sheet as on 31-3-08**

| Liabilities | Historical Cost | Replacement Cost Basis |
|---|---|---|
| Equity Share Capital | 1000 | 1000 |
| Profit and Loss A/c | 515 | 250 |
| Replacement Reserve | | 955 |
| 9% Debentures | 1500 | 1500 |
| Creditors | 300 | 300 |
| | **3315** | **4005** |
| **Assets** | | |
| Machinery | 1350 | 1800 |
| Stock | 1440 | 1680 |
| Debtors | 500 | 500 |
| Cash & Bank | 25 | 25 |
| | **3315** | **4005** |

**Replacement Reserve**

| | | |
|---|---|---|
| Stock | (1680 – 1440) | 240 |
| Cost of goods sold | (1440 – 1200) | 240 |
| Depreciation | (175 – 150) | 25 |
| Machinery (difference) | (1800 – 1350) | 450 |
| | | **955** |

**Depreciation**

**(15L + 20L)/2 = 1.75L**

**Cash flow statement**

| | | | |
|---|---|---|---|
| Equity Share Capital | 1000 | Machinery | 1500 |
| Debentures | 1500 | Stock Purchases | 1200 |
| Sales | 2000 | Stock replaced | 1440 |
| Closing Creditors | 300 | Debenture Interest | 135 |
| | | Increase in Debtors | 500 |
| | | Closing Cash balance | 25 |
| | **4800** | | **4800** |

**Solution to Question No. 6 (b)**

**Gross value statement of Futures Ltd.**

| | | | | |
|---|---|---|---|---|
| Sale | 24400 | | | |
| Less: Excise duty | 1110 | 23290 | | |
| Less: RM & Other Services | | | | |
| Operating cost (21250 – 8250) | 13000 | | | |
| Int. on BOD | 75 | 13075 | 10215 | |
| Other income | | | 508 | |
| | | | 10723 | % |
| *Applied on* | | | | |
| Employees | | | 8250 | 76.94 |
| **Financiers** | | | | |
| Interest on debentures | 1200 | | | |
| Proposed Dividend | 48 | | 1248 | 11.64 |
| Governmental payment – Tax | | | 320 | 2.98 |
| **Holders of capital** | | | | |
| Depreciation | 405 | | | |
| Retained profit | 500 | | 905 | 8.44 |
| | | | 10723 | 100 |

**Reconciliation statement between GVA & PBT**

| | | |
|---|---|---|
| Gross value added | | 10723 |
| Less: Interest on 9% debentures | 1200 | |
| Depreciation | 405 | |
| Wages and Salaries | 8250 | 9855 |
| Profit before tax | | 868 |