Roll No..............................

Total No. of Questions—6] [Total No. of Printed Pages—8

Time Allowed—3 Hours Maximum Marks—100

FAC

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.

Answer **all** questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

Marks

1. The draft Balance Sheets of 3 Companies as at 31st March, 2007 are as below : 16

(In Rs. 000's)

Liabilities	Morning Ltd.	Evening Ltd.	Night Ltd.
Share Capital—shares of Rs. 100 each	40,000	20,000	10,000
Reserves	1,800	1,000	900
P/L A/c (1.4.06)	1,500	2,000	800
Profit for 2006-07	7,000	3,800	1,800
Loan from Morning Ltd.	—	5,000	—
Creditors	2,500	1,000	1,400
	52,800	32,800	14,900
Assets			
Investments :			
1,60,000 shares in Evening	18,000	—	—
75,000 shares in Night	8,000	—	—
Loan to Evening Ltd.	5,000	—	—
Sundry assets	21,800	32,800	14,900
	52,800	32,800	14,900

Marks

Following additional information is also available :

(a) Dividend is proposed by each company at 10%.

(b) Stock transferred by Night Ltd. to Evening Ltd. fully paid for was Rs. 8 lacs on which the former made a Profit of Rs. 3 lacs. On 31st March, 2007, this was in the inventory of the latter.

(c) Loan referred to is against 8% interest. Neither Morning Ltd. not Evening Ltd. has considered the interest.

(d) Reserves as on 1.4.2006 of Evening Ltd. and Night Ltd. were Rs. 8,00,000 and Rs. 7,50,000 respectively.

(e) Cash-in-transit from Evening Ltd. to Morning Ltd. was Rs. 1,00,000 as on 31.3.2007.

(f) The shares of the subsidiaries were all acquired by Morning Ltd. on 1st April, 2006.

Prepare consolidated Balance Sheet as on 31st March, 2007. Workings should be part of the answer.

2. The Balance Sheets of Strong Ltd. and Weak Ltd. as on 31.03.2007 are as below : 16

Balance Sheet as on 31.03.2007

Liabilities	Strong Ltd. Rs.	Weak Ltd. Rs.	Assets	Strong Ltd. Rs.	Weak Ltd. Rs.
Equity Share Capital (Rs. 100 each)	50,00,000	30,00,000	Fixed Assets other than Goodwill	30,00,000	20,00,000
Reserve	4,00,000	2,00,000	Stock	8,00,000	6,00,000
P/L A/c	6,00,000	4,00,000	Debtors	14,00,000	9,00,000
Creditors	5,00,000	3,00,000	Cash & Bank	12,00,000	3,50,000
			Preliminary Expenses	1,00,000	50,000
	65,00,000	39,00,000		65,00,000	39,00,000

35000 30000 35000 + 20000 + 50000 - 30000

Marks

Strong Ltd. takes over Weak Ltd. on 01.07.07 No Balance Sheet of Weak Ltd. is available as on that date. It is however estimated that Weak Ltd. earns estimated profit of Rs. 2,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets, during April-June, 2007.

Estimated profit of Strong Ltd. during these 3 months is Rs. 4,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets.

Both the companies have declared and paid 10% dividend within this 3 months' period. Goodwill of Weak Ltd. is valued at Rs. 2,00,000 and Fixed Assets are valued at Rs. 1,00,000 above the estimated book value. Purchase consideration is to be satisfied by Strong Ltd. by shares at par.

Ignore Income-tax.

600000
+40000
+75000
- 150000

You are required to calculate the following :

(i) No. of shares to be issued by Strong Ltd. to Weak Ltd. against purchase consideration;

(ii) Net Current Assets of Strong Ltd. and Weak Ltd. as on 01.07.2007;

(iii) P/L A/c balance of the Strong Ltd. as on 01.07.2007;

93500

(iv) Fixed Assets as on 01.07.2007;

(v) Balance Sheet of Strong Ltd. as on 01.07.2007 after take over of Weak Ltd.

3\. (a) Shivaji Ltd. purchased Fixed assets worth Rs. 90,00,000 on 1st April, 2002. The life of the assets is 10 years and they are to be depreciated on straight line basis. The assets were revalued on 1st April, 2004 when 50% of the assets was assessed at 10% less than the book value, and the remaining assets were revalued at 15% higher than book value. The assets were ultimately sold on 1.4.2006 for Rs. 54,80,000. Excess depreciation on revaluation, if any, should be charged to Revaluation Reserve. 8

Show Fixed Assets A/c, Depreciation A/c and Revaluation Reserve A/c, supported by Workings wherever necessary.

Marks

(b) The Balance Sheet of Domestic Ltd. as on 31st March, 2007 is as under : 12

(All figures are in lacs)

Liabilities		Rs.	Assets	Rs.
Equity Shares Rs. 10 each		3,000	Goodwill	744
Reserves (including provision for taxation of Rs. 300 lacs)		1,000	Premises and Land at cost	400
			Plant and Machinery	3,000
			Motor Vehicles (purchased on 1.10.06)	40
5% Debentures		2,000	Raw materials at cost	920
Secured loans		200	Work-in-progress at cost	130
Sundry Creditors		300	Finished Goods at cost	180
Profit & Loss A/c			Book Debts	400
Balance from previous B/S	Rs. 32		Investment (meant for replacement of Plant and Machinery)	1,600
Profit for the year (After taxation)	Rs. 1,100	1,132	Cash at Bank and Cash in hand	192
			Discount on Debentures	10
			Underwriting Commission	16
		7,632		7,632

The resale value of Premises and Land is Rs. 1,200 lacs and that of Plant and Machinery is Rs. 2,400 lacs. Depreciation @ 20% is applicable to Motor Vehicles. Applicable depreciation on Premises and Land is 2%, and that on Plant and Machinery is 10%. Market value of the Investments is Rs. 1,500 lacs. 10% of book debts is bad. In a similar company the market value of equity shares of the same denomination is Rs. 25 per share and in such company dividend is consistently paid during last 5 years @ 20%. Contrary to this, Domestic Ltd. is having a marked upward or downward trend in the case of dividend payment.

Past 5 years' profits of the company were as under :

2001-02	Rs. 67 lacs
2002-03	(–) Rs. 1,305 lacs (loss)
2003-04	Rs. 469 lacs
2004-05	Rs. 546 lacs
2005-06	Rs. 405 lacs

The unusual negative profitability of the company during 2002-03 was due to the lock out in the major manufacturing unit of the company which happened in the beginning of the second quarter of the year 2001-02 and continued till the last quarter of 2002-03.

Value the Goodwill of the Company on the basis of 4 years' purchase of the Super Profit.

(Necessary assumption for adjustment of the Company's inconsistency in regard to the dividend payment, may be made by the examinee.)

4. (a) Indian Engineering and Technological Institute, an autonomous body furnishes the following information : 8

On 1.4.2006, unutilised restricted Govt. Grant (Capital) balance is Rs. 40,00,000; unutilised unrestricted Govt. Grant (Revenue) balance is Rs. 9,00,000; Institute's own corpus fund is Rs. 25,00,000. Besides, a private endowment fund of Rs. 18,50,000 is there on that date. The entire endowment fund is in Fixed deposit with a bank fetching interest of 9.5% p.a. half-yearly transferred on 30th September and 31st March to a current account meant for scholarship and awards. The said current account has a balance of Rs. 1,37,500. Apart from this, total Cash and Bank Balance as on 1.4.06 is Rs. 85,00,000.

Following transactions took place during the year 2006-07 :

(1) Salary paid out of own fund is Rs. 65,00,000.

(2) Salary to the Research Associates of a Govt. sponsored research scheme is Rs. 4,00,000 paid out of unrestricted Govt. Grant.

(3) Cost of renovation of the administrative building borne out of the Institute's own fund is Rs. 4,75,000. The renovation work was completed on 21st November, 2006 which was also the date of payment. Book value of the building was Rs. 38,00,000 on 1.4.06. The rate of depreciation is 5% p.a. calculated at full year's rate if the asset exists for a period exceeding 6 months, and at half-year's rate in other cases. The same principle is followed by the Institute in all cases of depreciation.

(4) Tuition fees were received Rs. 85,00,000.

(5) Scholarships and awards of Rs. 1,43,000 were given on 9th December, 2006.

(6) A Laboratory building was under construction for the last two years. Balance of Capital Work-in-progress on 1.4.06 was Rs. 28,00,000. The work has been completed on 25th May, 2006. Final payment was made

earlier on 29.4.2006. Total expenditure comes to Rs. 37,00,000. Rate of depreciation on the Laboratory building is 5%. The entire expenditure will be spent from the restricted Govt. (Capital) Grant on certain conditions attached by the Govt. The Institute follows the principles of AS-12 in the case of use of revenue and capital grant. Since certain conditionality will apply over a period of time, it is decided that deferred income method will be followed.

Show the following Ledger accounts :

(i) Restricted Government Grant (Capital) A/c

(ii) Unrestricted Government Grant (Revenue) A/c

(iii) Current A/c of Endowment and Scholarship

(iv) Cash and Bank A/c.

(b) Value Added Ltd. furnishes the following Profit and Loss A/c : 8

Profit and Loss A/c for the year ended 31st March, 2007

Income	Notes	Rs. ('000)
Turnover	1	29,872
Other Income		1,042
		30,914
Expenditure		
Operating expenses	2	26,741
Interest on 8% Debenture		987
Interest on Cash Credit	3	151
Excise duty		1,952
		29,831
Profit before depreciation		1,083
Less Depreciation		342
Profit before tax		741
Provision for tax	4	376
Profit after tax		365
Less Transfer to Fixed assets Replacement Reserve		65
		300
Less Dividend paid		125
Retained Profit		175

1659

Marks

Notes :

(1) Turnover is based on invoice value and net of Sales tax.

(2) Salaries, wages and other employee benefits amounting to Rs. 14,761 ('000) are included in operating expenses.

(3) Cash Credit represents a temporary source of finance. It has not been considered as a part of capital.

(4) Transfer of Rs. 54 ('000) to the credit of deferred tax account in included in provision for tax.

Prepare value added statement for the year ended 31st March, 2007 and Reconcile total value added with profit before taxation.

5 (a) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS-3 : 6

		Rs. (in lacs)	Rs. (in lacs)
	Net Profit		60,000
Add :	Sale of Investments		70,000
	Depreciation on Assets		11,000
	Issue of Preference Shares		9,000
	Loan raised		4,500
	Decrease in Stock		12,000
			1,66,500
Less :	Purchase of Fixed Assets	65,000	
	Decrease in Creditors	6,000	
	Increase in Debtors	8,000	
	Exchange gain	8,000	
	Profit on sale of investments	12,000	
	Redemption of Debenture	5,700	
	Dividend paid	1,400	
	Interest paid	945	1,07,045
			59,455
Add opening cash and cash equivalent			12,341
	Closing cash and cash equivalent		71,796

Marks

(b) P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship ~~with~~ P Ltd. 4

How would you assess the situation from the viewpoint of AS-18 on Related Party Disclosures ?

(c) Lessee Ltd. took a machine on lease from Lessor Ltd., the fair value being Rs. 7,00,000. The economic life of the machine as well as the lease term is 3 years. At the end of each year Lessee Ltd. pays Rs. 3,00,000. Guaranteed Residual Value (GRV) is Rs. 22,000 on expiry of the lease. Implicit Rate of Return (IRR) is 15% p.a. and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively. 6

Calculate the value of machine to be considered by Lessee Ltd. and the interest (Finance charges) in each year.

6. Write short notes on the following :

(a) The concept of Materiality 6

(b) Maintenance of Books of Account by Stock Brokers 5

(c) Human Resources Accounting. 5

222946

211172.

300000

300000

300000 + 22000

700000

$14 + \frac{222946}{222946 - 211172} \times 1$

.676

.871

.759

.661