

Test Series : August, 2012

MOCK TEST PAPER – 1

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 assumption(s) may be made by the candidates.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Presented below is an extract of the Schedule of Secured and Unsecured Loans of Annual Report 2010-11 of Super Star Ltd.

Particulars	Schedule No	As at 31st Mar'2011 (₹)
Loan Funds		
a) Secured Loans	3	6,07,114
b) Unsecured Loans - Short Term		
- Banks		<u>36,112</u>
		<u>6,43,226</u>
Schedule 3: Secured Loans		
Term Loans from:		
- Banks		2,95,002
- Others		<u>3,12,112</u>
		<u>6,07,114</u>
Other Information:		
Current maturities of long-term loan from bank		₹ 30,000
Current maturities of long-term loan from other parties		₹ 15,376

There was no interest accrued/due as at end of the year.

Prepare appropriate note to accounts complying with the requirements of Revised Schedule VI on the basis of available information. (5 Marks)

- (b) On 1.4.2011, a mutual fund scheme had 36 lakh units of face value of ₹ 10 each was outstanding. The scheme earned ₹ 324 lakhs in 2011-12, out of which ₹ 180

lakhs was earned in the first half of the year. On 30.9.2011, 4 lakh units were sold at a "NAV" of ₹ 70.

Pass Journal entries for sale of units and distribution of dividend at the end of 2011-12. (5 Marks)

- (c) XL Ltd. grants 100 stock options to each of its 500 employees on 1.4.2009 for ₹ 20, depending upon the employees at the time of vesting of options. The market price of the share is ₹ 50. These options will vest at the end of year 1 if the earning of Choice Ltd. is 16%, or it will vest at the end of the year 2 if the average earning of two years is 13%, or lastly it will vest at the end of the third year if the average earning of 3 years will be 10%. 2,500 unvested options lapsed on 31.3.2010. 2,000 unvested options lapsed on 31.3.2011 and finally 1,750 unvested options lapsed on 31.3.2012.

Following is the earning of XL Ltd.:

Year ended on	Earning (in %)
31.3.2010	14%
31.3.2011	10%
31.3.2012	7%

425 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above in respect of last year only. (5 Marks)

- (d) Global Ltd. purchased a plant from M/s K Engineering Ltd. on 30-09-2011 with a quoted price of ₹ 45 lakhs. M/s K Engineering Ltd. offer 3 months credit with a condition that discount of 1.25% will be allowed if the payment were made within one month. VAT is 12.5% on the quoted price. Company incurred 2.5% on transportation costs and 1.5% on erection costs of the quoted price. Preoperative cost amount to ₹ 2.50 lakhs. To finance the purchase of the machinery, company took a term bank loan of ₹ 25 lakhs at an interest rate of 12.50% per annum. The machine was ready for use on 31-12-2011; however, it was put to use only on 01-04-2012.

Find out the original cost and suggest the accounting treatment for the cost incurred during the period between the date the machine was ready for use and the actual date the machine was put to use. (5 Marks)

2. The following are the balance sheets of AS Ltd. and its holding company AH Ltd. as at 31st March, 2012:

Liabilities	AS Ltd. ₹	AH Ltd. Assets ₹	AS Ltd. ₹	AH Ltd. ₹
10% Preference shares of	80,000	- Plant & Machinery	2,20,000	2,50,000

₹ 100 each			Investment –		
Equity shares of ₹ 10 each	1,00,000	3,00,000	7,500 Equity shares in AS Ltd.		1,65,000
			50 6% Debentures in AS Ltd.		5,000
General Reserve	40,000	50,000	Stock	55,000	40,000
Profit and Loss A/c (1.4.2011)	12,500	25,000	Debtors	35,000	35,900
			Cash & Bank	20,000	20,100
Profit for the year	32,500	60,000	Other Current Assets	33,500	34,000
6% Debentures of ₹ 100 each	20,000	25,000			
Debenture interest accrued	1,200	–			
Sundry creditors	<u>77,300</u>	<u>90,000</u>			
	<u>3,63,500</u>	<u>5,50,000</u>		<u>3,63,500</u>	<u>5,50,000</u>

Other information is as under:

- AS Ltd. incurred a major expenditure of ₹ 15,000 on repairs of a machinery in the beginning of the current year and wrongly charged the amount to Profit and Loss Account. Rate of depreciation is 10%. The repair expenses incurred on the machinery further increased the capacity of the machinery.
- No entries have been made in the books of AH Ltd. for debenture interest due from AS Ltd. for the year ended 31st March, 2012.
- AH Ltd. acquired shares in AS Ltd. on 31st March, 2012. For the purpose of acquisition of shares, plant and machinery of AS Ltd. were revalued at ₹ 2,50,000.
- Ignore tax aspects.

You are required to prepare consolidated balance sheet of AH Ltd. and its subsidiary AS Ltd. as at 31st March, 2012. (16 Marks)

- Capital structure of Jet Ltd. as at 31.3.2012 is as under:

	(₹ in lakhs)
Equity share capital of Rs.100 each	20
10% preference share capital	10
15% debentures	16
Reserves	8

Jet Ltd. earns profits of ₹ 10 lakhs annually on an average before deduction of interest on debentures and income tax which works out to 40%.

Normal return on equity shares of companies similarly placed is 12% provided:

- Profit after tax covers fixed interest and fixed dividends at least 3 times.

- (b) Capital gearing ratio is 0.75.
- (c) Yield on share is calculated at 50% of profits distributed and at 5% on undistributed profits.

Jet Ltd. has been regularly paying equity dividend of 10%. Compute the value per equity share of the company (16 Marks)

4. (a) From the following information in respect of Getex Ltd., prepare a value added statement for the year 2012:

	₹
Turnover	27,600
Plant and Machinery (net)	12,960
Depreciation on Plant and Machinery	3,300
Dividends to ordinary shareholders	1,752
Total stock of all materials, WIP and finished goods	
Opening stock	1,920
Closing stock	2,400
Raw materials purchased	7,500
Printing and Stationery	264
Auditor's remuneration	336
Retained profits for the year	3,456
Rent, Rates and Taxes	1,980
Other expenses	1,020
Interest on borrowings	480
Income tax for the year	3,312
Wages and Salaries	3,924
Employees State Insurance	420
PF contribution	336

Calculate the value added per employee, average earnings per employee and sales per employee on the basis that 20 employees work in Getex Ltd. (8 Marks)

- (b) The following are the summarized Balance Sheets of two companies, C Ltd., and D Ltd. as on 31-03-2012:

Liabilities	C Ltd. ₹	D Ltd. ₹	Assets	C Ltd. ₹	D Ltd. ₹
Equity shares of ₹ 10 each	30,00,000	20,00,000	Goodwill	4,00,000	2,00,000

Reserves	6,00,000	4,00,000	Net tangible block	34,00,000	28,00,000
10% Debentures	12,00,000	8,00,000	Current Assets	16,00,000	12,00,000
Creditors	<u>6,00,000</u>	<u>10,00,000</u>			
	<u>54,00,000</u>	<u>42,00,000</u>		<u>54,00,000</u>	<u>42,00,000</u>

Additional information:

- (i) Assets are to be revalued as follows:

	C Ltd. ₹	D Ltd. ₹
Revaluation of Tangible Block	42,00,000	24,00,000
Revaluation of Current Assets	20,00,000	8,00,000

- (ii)

	C Ltd. ₹	D Ltd. ₹
Average annual profit for three years before charging debenture interest	9,00,000	6,20,000

- (iii) Goodwill is to be valued at four year's purchase of average super profits for three years. Average is to be calculated after adjustment of depreciation at 10% on the amount of increase/decrease on revaluation of fixed assets. In the case of D Ltd. a claim of ₹ 20,000, which was omitted, is to be adjusted against its average profit. Income tax is to be ignored.
- (iv) Normal profit on capital employed is to be taken at 15%, capital employed being considered on the basis of revalued amount of tangible assets.

Ascertain the value of goodwill of C Ltd. and D Ltd. (8 Marks)

5. (a) From the following in respect of 'X' Limited, calculate the total value of human capital by Lev and Schwartz Model.

Distribution of Employees of 'X' Limited

Age	Unskilled		Semiskilled		Skilled	
	No.	Avg. annual Earnings (₹)	No.	Avg. annual Earnings (₹)	No.	Avg. annual Earnings (₹)
30-39	50	22,500	30	45,000	20	1,05,000
40-49	25	37,500	15	60,000	10	1,50,000
50-54	15	45,000	10	75,000	05	2,25,000

Retirement age is 55 years. Apply discount factor of 10%. In calculations of total value of human factor lowest value of each class should be taken.

Annuity Factor @ 10%

For 5 years = 3.7908

For 10 years = 6.1446

For 15 years = 7.6061

For 20 years = 8.5136

For 25 years = 9.0770

(12 Marks)

(b) 'Z' Co. provides you with the following information:

Equity ₹ 150 lakhs

8% Secured Loans ₹ 30 lakhs

10% Unsecured Loans ₹ 45 lakhs

Net Profit after tax ₹ 23,74,500

Rate of Tax 40%

Cost of Equity 12%

You are required to calculate EVA for 'Z' Co.

(4 Marks)

6. AX Ltd. and BY Ltd. were amalgamated on and from 1st April, 2012. A new company CXY Ltd. was formed to take over the business of the existing companies. The summarized Balance Sheets of AX Ltd. and BY Ltd. as on 31st March, 2012 are given below:

Liabilities	(₹ in lakhs)		Assets	(₹ in lakhs)	
	AX Ltd.	BY Ltd.		AX Ltd.	BY Ltd.
Share Capital			Fixed Assets		
Equity Shares of ₹ 100 each	2,400	2,250	Land and Building	1,650	1,200
12% Preference shares of ₹ 100 each	900	600	Plant and Machinery	1,050	750
Reserves and Surplus			Investments	450	150
Revaluation Reserve	450	300	Current Assets, Loans and Advances		
General Reserve	510	450	Stock	1,050	750
Profit and Loss Account	150	90	Sundry Debtors	750	900
Secured Loans			Bills Receivable	150	150
8% Debentures (₹ 100 each)	180	90	Cash and Bank	900	600
Current Liabilities and provisions					

Sundry Creditors	810	360			
Bills Payable	<u>600</u>	<u>360</u>		<u> </u>	<u> </u>
	<u>6,000</u>	<u>4,500</u>		<u>6,000</u>	<u>4,500</u>

Additional Information:

- (1) 8% Debentureholders of AX Ltd. and BY Ltd. are discharged by CXY Ltd. issuing such number of its 12% Debentures of ₹ 100 each so as to maintain the same amount of interest.
- (2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of CXY Ltd. at a price of ₹ 140 per share (face value of ₹ 100 each).
- (3) CXY Ltd. will issue 5 equity shares for each equity share of AX Ltd. and 4 equity shares for each equity share of BY Ltd. The shares are to be issued @ ₹ 40 each, having a face value of ₹ 10 per share.

Prepare the Balance Sheet of CXY Ltd. as on 1st April, 2012 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. (16 Marks)

7. Answer any **four** of the following:

- (a) Should appropriation to mandatory reserves be excluded from net profit attributable to equity shareholders?

AB Ltd. is engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered into with its debentureholders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the Reserve constitutes at least half the value of such debentures.

As such, appropriations are not available for distribution to the equity shareholders. AB Ltd. has excluded this from the numerator in the computation of basis EPS. Is this treatment correct?

- (b) M/s KS Ltd. has entered into a contract by which it has the option to sell its specified asset to KN Ltd. for ₹ 100 lakhs after 3 years whereas the current market price is ₹ 150 lakhs. Company always settles account by delivery. What type of option is this? Is it a financial instrument? Explain with reference to the relevant accounting standard.
- (c) M/s KST Ltd. has three segments namely K, S, T. The total assets of the Company are ₹ 15.00 crs. Segment K has ₹ 3.00 crs., segment S has ₹ 4.50 crs. and segment T has ₹ 7.50 crs. Deferred tax assets included in the assets of each segments are K- ₹ 1.50 crs., S—₹ 1.20 crs. and T—₹ 0.90 crs. The accountant contends that all the three segments are reportable segments. Comment.

- (d) M/s Good Ltd. signed an agreement with workers for increase in wages with retrospective effect. The outflow on account of arrears was for 2009-10—₹ 5.00 lakhs, for 2010-11—₹ 6.00 lakhs and for 2011-12—₹ 7.00 lakhs. This amount is payable in August, 2012. The accountant wants to charge ₹ 18.00 lakhs as prior period charges in financial statement for 2012-13. Discuss.
- (e) While preparing its final accounts for the year ended 31st March, 2012, a company made a provision for bad debts @ 5% of its total debtors. In the last week of February 2012, a debtor for 8 lakhs had suffered heavy loss due to earthquake. The loss was not covered by any insurance policy. In April, 2012, the debtor became bankrupt. Can the company provide for full loss arising out of insolvency of debtor in the final accounts for year ended 31st March, 2012? (4 x 4 =16 Marks)