

Test Series: March, 2012

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) A Limited company charged depreciation on its assets on the basis of W.D.V. method from the date of assets coming to use till date, amounts to ₹ 32.23 lakhs. Now the company decides to switch over to Straight Line method of providing depreciation. The amount of depreciation computed on the basis of S.L.M. from the date of assets coming to use till the date of change of method amounts to ₹ 20 lakhs.

Discuss as per AS 6, when such changes in method of depreciation can be adopted by the company and what would be the accounting treatment and disclosure requirement.
- (b) Your client is a full tax free enterprise for the first 10 years and is in the second year of operations. Depreciation timing difference resulting in a deferred tax liability in year 1 and 2 is ₹ 100 million and ₹ 200 million respectively. From the 3rd year and onwards it is expected that the timing difference would reverse each year by ₹ 5 million. Determine deferred tax liability at the end of 2nd year and the charge to the Profit and Loss Account if any. Assume tax rate @ 35%.
- (c) An enterprise that reports quarterly has an operating loss carry forward of ₹ 100 lakhs for income-tax purposes at the start of the current financial year for which a deferred tax asset has not been recognised. The enterprise earns ₹ 100 lakhs in the first quarter of the current year and expects to earn ₹ 100 lakhs in each of the three remaining quarters. Excluding the loss carry forward, the estimated average annual income-tax rate is expected to be 40 per cent. Calculate the amount of income-tax expense reported in each quarter.
- (d) An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair value of the equipment are ₹ 3,00,000. The amount will be paid in 3 instalments and at the termination of lease lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is ₹ 40,000. The (internal rate of return) IRR of the investment is 10%. The present value of annuity factor of Re. 1

due at the end of 3rd year at 10% IRR is 2.4868. The present value of Re. 1 due at the end of 3rd year at 10% rate of interest is 0.7513.

(i) State with reason whether the lease constitutes finance lease.

(ii) Calculate unearned finance income (4 x 5 = 20 Marks)

2. The Balance Sheets of Bat Ltd. and Ball Ltd. as on 31.03.2011 were as follows:

Balance Sheet as on 31.03.2011

	Bat Ltd.	Ball Ltd.		Bat Ltd.	Ball Ltd.
	(₹)	(₹)		(₹)	(₹)
Equity Share Capital (₹ 10)	8,00,000	3,00,000	Building	2,00,000	1,00,000
10% Preference Share Capital (₹ 100)	-	2,00,000	Machinery	5,00,000	3,00,000
General reserve	2,50,000	70,000	Furniture	1,00,000	60,000
Profit and Loss Account	2,00,000	1,00,000	Investment: 6,000 shares of Ball Ltd.	60,000	-
Creditors	2,00,000	3,00,000	Stock	1,50,000	1,90,000
			Debtors	3,50,000	2,50,000
			Cash and Bank	90,000	70,000
	<u>14,50,000</u>	<u>9,70,000</u>		<u>14,50,000</u>	<u>9,70,000</u>

Bat Ltd. has taken over the entire undertaking of Ball Ltd. on 30.09.2011, on which date the position of current assets except Cash and Bank balances and Current Liabilities were as under:

	Bat Ltd. (₹)	Ball Ltd. (₹)
Stock	1,20,000	1,50,000
Debtors	3,80,000	2,50,000
Creditors	1,80,000	2,10,000

Profits earned for the half year ended on 30.09.2011 after charging depreciation at 5% on building, 15% on machinery and 10% on furniture, are:

Bat Ltd.	₹ 1,02,500
Ball Ltd.	₹ 54,000

On 30.08.2011 both the companies have declared 15% dividend for 2010-2011.

Goodwill of Ball Ltd. has been valued at ₹ 50,000 and other Fixed assets at 10% above their book values on 31.03.2011. Preference shareholders of Ball Ltd. are to be allotted 10% Preference Shares of Bat Ltd. and equity shareholders of Ball Ltd. are to receive requisite number of equity shares of Bat Ltd. valued at ₹ 15 per share in satisfaction of their claims.

Show the Balance Sheet of Bat Ltd. as of 30.09.2011 assuming absorption is through by that date. (16 Marks)

3. (a) From the following Profit and Loss Account of Young Ltd., prepare a Gross Value Added Statement. Show also the reconciliation between Gross Value Added and Profit before Taxation.

Profit and Loss Account for the year ended 31st March, 2011

Income	Notes	(₹ in lakhs)	Amount (₹ in lakhs)
Sales			206.42
Other Income			<u>10.20</u>
			216.62
Expenditure			
Production and Operational Expenses	1	166.57	
Administration Expenses	2	6.12	
Interest and Other Charges	3	8.00	
Depreciation		<u>5.69</u>	<u>186.38</u>
Profit before Taxes			30.24
Provision for taxes			<u>3.00</u>
			27.24
Investment Allowance Reserve Written Back			0.46
Balance as per Last Balance Sheet			<u>1.35</u>
			<u>29.05</u>
Transferred to:			
General Reserve		24.30	
Proposed Dividend		<u>3.00</u>	27.30
Surplus carried to Balance Sheet			<u>1.75</u>
			<u>29.05</u>

Notes:

	(₹ in lakhs)
(1) Production and Operational Expenses	
Increase in Stock	30.50
Consumption of Raw Materials	80.57
Consumption of Stores	5.30
Salaries, Wages, Bonus and Other Benefits	12.80
Cess and Local Taxes	3.20
Other Manufacturing Expenses	<u>34.20</u>
	<u>166.57</u>

- (2) Administration expenses include inter-alia Audit fees of ₹ 1 lakh, Salaries and commission to directors ₹ 2.20 lakhs and Provision for doubtful debts ₹ 2.50 lakhs.

	(₹ in lakhs)
(3) Interest and Other Charges:	
On Fixed Loans from Financial Institutions	3.90
Debentures	1.80
On Working Capital Loans from Bank	<u>2.30</u>
	<u>8.00</u>

- (b) On February 1, 2011, Rock Ltd. entered into a contract with Son Ltd. to receive the fair value of 1000 Rock Ltd.'s own equity shares outstanding as on 31-01-2012 in exchange for payment of ₹ 1,04,000 in cash i.e., ₹ 104 per share. The contract will be settled in net cash on 31.01.2012.

The fair value of this forward contract on the different dates were:

- | | |
|---|---------|
| (i) Fair value of forward on 01-02-2011 | Nil |
| (ii) Fair value of forward on 31-12-2011 | ₹ 6,300 |
| (iii) Fair value of forward on 31-01-2012 | ₹ 2,000 |

Presuming that Future Ltd. closes its books on 31st December each year, pass entries:

- (i) If net settled is in cash
- (ii) If net is settled by Son Ltd. by delivering shares of Rock Ltd. (10+6=16 Marks)

4. From the following Balance Sheets of a group of companies and the other information provided, draw up the Consolidated Balance Sheet as on 31.3.2011. Figures given are in Rupees Lakhs:

Balance Sheets as on 31.3.2011

	P	Q	R		P	Q	R
Shares capital (in shares of ₹ 10 each)	300	200	100	Fixed Assets less depreciation	130	150	100
Reserves	50	40	30	Cost of investment in Q Ltd.	180	-	-
Profit and loss balance	60	50	40	Cost of investment in R Ltd.	40	-	-
Bills payables	10	-	5	Cost of investment in R Ltd.	-	80	-
Creditors	30	10	10	Stock	50	20	20
Q Ltd. balance	-	-	15	Debtors	70	10	20
R Ltd. balance	50	-	-	Bills receivables	-	10	20
				R Ltd. balance	-	10	-
				P Ltd. balance	-	-	30
				Cash and bank balance	<u>30</u>	<u>20</u>	<u>10</u>
	<u>500</u>	<u>300</u>	<u>200</u>		<u>500</u>	<u>300</u>	<u>200</u>

- Ø P Ltd. holds 1,60,000 shares and 30,000 shares respectively in Q Ltd. and R Ltd.; Q Ltd. holds 60,000 shares in R Ltd. These investments were made on 1.7.2010 on which date the reserve and surplus were as follows:

	Q Ltd.	R Ltd.
Reserves	20	10
Profit and loss account	30	16

- Ø In December, 2010 Q Ltd. invoiced goods to P Ltd. for ₹ 40 lakhs at cost plus 25%. The closing stock of P Ltd. includes such goods valued at ₹ 5 lakhs.
- Ø R Ltd. sold to Q Ltd. an equipment costing ₹ 24 lakhs at a profit of 25% on selling price on 1.1.2011. Depreciation at 10% per annum was provided by Q Ltd. on this equipment.
- Ø Bills payables of R Ltd. represent acceptances given to Q Ltd. out of which Q Ltd. had discounted bills worth ₹ 3 lakhs.
- Ø Debtors of P Ltd. Include ₹ 5 lakhs being the amount due from Q Ltd.
- P Ltd. proposes dividend at 10%. (16 Marks)
5. (a) From the following details of a Non-Banking Finance Company, compute the amount of provision against advances as on 31st March, 2011 as per Non-Banking

Financial (Deposit, Accepting or Holding), Companies Prudential Norms (Reserve Bank) Directions, 2007:

	₹ in lakhs
Standard assets	8,400
Sub-standard assets	670
Secured portions of doubtful debts (more than three years)	220
Unsecured portions of doubtful debts	50
Loss assets	24

- (b) Google Ltd. grants 100 stock options to each of its 1,000 employees on 1.4.2011 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 Google 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 is 10%. 5,000 unvested options lapsed on 31.3.2012. 4,000 unvested options lapsed on 31.3.2013 and finally 3,500 unvested options lapsed on 31.3.2014.

Following is the earning of Google Ltd. :

Year ended on	Earning (in %)
31.3.2012	14%
31.3.2013	10%
31.3.2014	7%

850 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.
(6 + 10 = 16 Marks)

6. The balance sheet of Minor Ltd. has been given to you for the purpose of valuation of shares:

Balance Sheet of Minor Ltd. as on 31st December, 2011

Liabilities	₹	₹		₹
<i>Share Capital:</i>			<i>Fixed Assets:</i>	
Equity Shares of ₹ 10 each	5,00,000		Goodwill	75,000
Less: Call in arrear (₹ 2 on final call)	<u>10,000</u>	4,90,000	Machinery	2,30,000
8% preference shares			Factory shed	3,00,000
			Vehicles	60,000
			Furniture	25,000

of ₹ 10 each, fully paid		2,00,000	Investments	1,00,000
<i>Reserve and Surplus:</i>			<i>Current Assets:</i>	
General Reserve		2,00,000	Stock in trade	2,10,000
Profit and Loss Account		1,40,000	Sundry Debtors	3,50,000
			Cash at Bank	50,000
<i>Current Liabilities:</i>				
Bank Loan		1,00,000		
Sundry Creditors		<u>2,70,000</u>		
		<u>14,00,000</u>		<u>14,00,000</u>

Additional Information:

- Fixed Assets are worth 20% above their actual book value. Depreciation on appreciated value of fixed assets to be ignored for valuation of goodwill.
- Of the investments 80% is non-trading and the balance is trading. All trade investments are to be valued at 20% below cost. A uniform rate of dividend of 10% is earned on all investments.
- For the purpose of valuation of shares, Goodwill is to be considered on the basis of 4 years' purchase of the super-profits based on average profit of the last 3 years. Profits are as follows:

	₹
2009	1,90,000
2010	2,00,000
2011	2,10,000

In a similar business return on capital employed is 15%. In 2009 new furniture costing ₹ 10,000 was purchased but wrongly charged to revenue. (No effect has been yet been given for rectifying the same). Depreciation is charged on furniture @ 10%. Find out the value of each fully-paid and partly-paid equity share, assuming tax rate of 50%.
(16 Marks)

7. Answer any **four** parts of the question:
- (a) A company reports the following information regarding pension plan assets. Calculate the fair value of plan assets.

	Amount (₹)
Fair market value of plan assets (beginning of year)	7,00,000
Employer Contribution	1,00,000
Actual return on plan assets	50,000
Benefit payments to retirees	40,000

- (b) A Mutual Fund company raised funds on 01.04.2011 by issuing 10 lakhs units @ ₹ 17.50 per unit. Out of this Fund, ₹ 160 lakhs invested in several capital market instruments. The initial expenses amount to ₹ 9 lakhs. During June, 2011, the company sold certain securities worth ₹ 100 lakhs for ₹ 125 lakhs and it bought certain securities for ₹ 90 lakhs. The Fund Management expenses amounting to ₹ 5 lakhs per month. The dividend earned was ₹ 3 lakhs. 80% of the realised earnings were distributed among the unit holders. The market value of the portfolio was ₹ 175 lakhs. Determine Net Asset value (NAV) per unit as on 30.06.2011.
- (c) Explain significant differences and similarities between Indian Accounting Standards, IAS/IFRS and US GAAPs on the issues of
- Changes in accounting policies.
 - Inventories
- (d) Venus Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2011 at ₹ 500 lakhs. As at that date the value in use is ₹ 400 lakhs and the net selling price is ₹ 375 lakhs.
- From the above data:
- Calculate impairment loss.
 - Prepare journal entries for adjustment of impairment loss.
 - Show, how impairment loss will be shown in the Balance Sheet.
- (e) During 2011, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (₹)
Completion of detailed programme and design	25,000
Coding and Testing	20,000
Other coding costs	42,000
Testing costs	12,000
Product masters for training materials	13,000
Duplication of computer software and training materials, from product masters (2,000 units)	40,000
Packing the product (1,000 units)	11,000

What amount should be capitalized as software costs in the books of the company, on Balance Sheet date?
(4 x 4 = 16 Marks)