Roll No. .....

Total Number of Questions : *Total Number of Printed pages - 9*

Time Alloted : 3 Hours *Maximum Marks - 100*

AFQ

PAPER – 1 : FINANCIAL REPORTING (OLD SYLLABUS)

Question No.1 is compulsory. Candidates are required to ***answer any five questions*** from the remaining six questions.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Question 1

a) The fair value of plan assets of Anupam Ltd. was Rs. 2,00,000 in respect of employee benefit pension plan as on 1st April, 2009. On 30th September, 2009 the plan paid out benefits of Rs. 25,000 and received inward contributions of Rs. 55,000. On 31st March, 2010 the fair value of plan assets was Rs. 3,00,000. On 1st April, 2009 the company made the following estimates, based on its market studies and prevailing prices.

Interest and dividend income (after tax) payable by fund	10.25 %
Realized gains on plan assets (after tax)	3.00 %
Fund administrative costs	(3.00)%
Expected rate of return	10.25%

Calculate the expected and actual returns on plan assets as on 31st March, 2010, as per AS 15

b) Sun Co-operative Society Ltd. has borrowed a sum of US$12.50 million at the commencement of the financial year 2011-12 for its solar energy project at LIBOR (London Interbank Offered Rate) of 1% + 4% . The interest is payable at the end of the respective financial year. The loan was availed at the then rate of Rs. 45 to the US dollar while the rate as on 31st March, 2012 is Rs. 48 to the US dollar. Had Sun Co-operative Society Ltd. borrowed the Rupee equivalent in India, the interest would have been 11%. You are required to compute Borrowing Cost. Also show the amount of exchange difference as per prevailing Accounting Standards.

c)Bright Ltd. acquired 30% of East India Ltd. Shares for Rs. 2,00,000 on 01-06-09. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-09 East India earned profits Rs. 80,000 and declared a dividend of Rs. 50,000 on 12-08-2009. East India reported earnings of Rs. 3,00,000 for the financial year ending on 31-03-10 and declared dividends of Rs. 60,000 on 12-06-2010.

* Calculate the carrying amount of investment in:

Separate financial statements of Bright Ltd. as on 31-03-10;

Consolidated financial statements of Bright Ltd.; as on 31-03-10;

* What will be the carrying amount as on 30-06-2010 in consolidated financial statements?

d) A plant was acquired 15 years ago at a cost of Rs. 5 crores. Its accumulated depreciation as at 31st March, 2009 was Rs. 4.15 crores. Depreciation for the financial year 2009-10 is Rs. 25 lakhs. Estimated Net Selling Price as on 31st March,2009 was Rs. 30 lakhs, which is expected to decline by 20% by the end of the next financial year.

Its value in use has been computed at Rs. 35 lakhs as on 1st April, 2009, which is expected to decrease by 30 per cent by the end of the financial year.

(i) Assuming that other conditions for applicability of the impairment Accounting Standard are satisfied, what should be the carrying amount of this plant as at 31st March, 2010?

(ii) How much will be the amount of write off for the financial year ended 31stMarch,2010?

(iii) If the plant had been revalued ten years ago and the current revaluation reserves against this plant were to be Rs. 12 lakhs, how would you answer to questions (i) and (ii) above?

(iv) If the value in use was zero and the enterprise were required to incur a cost of Rs. 2 lakhs to dispose of the plant, what would be your response to questions (i) and (ii) above?

(5 x 4 =20 Marks)

Question 2

a) Determine the order to include dilutive securities in the computation of weighted average number of shares and calculate the diluted earnings per share on the basis of the following pertaining to year ended 31/3/2012

Particulars	
Net profit attributable to equity shareholders	Rs 1,00,00,000
No. of equity shares outstanding	20,00,000

Options	1,00,000 with exercise price of Rs 60
Convertible Preference Shares	8,00,000 shares entitled to a cumulative dividend of Rs 8 per share. Each preference share is convertible into 2 equity shares
Dividend distribution tax	16.22%
12% Convertible Debentures of Rs 100 each	Nominal amount Rs 10,00,00,000. Each debenture is convertible into 4 equity shares.
Tax rate	30%

(8 Marks)

b) An enterprise grants to an employee the right to choose either a cash payment equal to the value of 1,000 shares, or 1,200 shares. The grant is conditional upon the completion of three years service. If the employee chooses the equity alternative, the shares must be held for three years after vesting date. The face value of shares is Rs 10 per share. At grant date, the fair value of the shares of the enterprise (without considering post-vesting restrictions) is Rs 50 per share. At the end of years 1, 2 and 3, the said fair value is Rs 52, Rs 55 and Rs 60 per share respectively. The enterprise does not expect to pay dividends in the next three years. After taking into account the effects of the post-vesting transfer restrictions, the enterprise estimates that the grant date fair value of the equity alternative is Rs 48 per share.

At the end of year 3, the employee chooses:

Scenario 1: The cash alternative

Scenario 2: The equity alternative

Calculate the amount of expenses for each year and pass necessary journal entries for each year & for settlement under above two scenarios.

(8 Marks)

Question 3

Draw the consolidated Balance sheet as on 31st March, 2015 as per Schedule-III with Notes to Accounts (following indirect method) based on the following information:

Balance Sheet as on 31st March, 2015 (Rs in lacs)

Liabilities	*P*	*Q*	*R*
Share Capital			
Equity Share Capital (FV Rs 100)	600	400	100
Reserves and Surplus			
Reserves	40	10	20
Surplus in Profit and Loss Account	60	40	30
Current Liabilities			
Trade Payable	30	10	35
Other Payable			
Q Limited			15
R Limited	50	-	-
Total	780	460	200

(Rs in lacs)

Assets	*P*	*Q*	*R*
Fixed Assets (Net of Depreciation)	230	150	100
Investments			
Q Limited	320		
R Limited	40	100	
Current Assets			
Inventories	50	30	40
Trade Receivables	60	50	20
Other Receivable			
R Limited		40	
P Limited			30
Bank Balance	80	90	10
Total	780	460	200

Additional Information:

(a) P Limited acquired 1,50,000 (cum bonus) shares of Q Limited and 30,000 shares of R Limited and Q Limited acquired 50,000 shares of R Limited on 31st March, 2014 .

(b) Q Limited fixed 1st April, 2014 as record date for allotment of bonus share in the ratio of 1 : 1 and the same were duly allotted.

(c) P Limited proposed dividend @ 7.50% for the year ended on 31st March, 2015.

(d) In December 2014, Q Limited invoiced goods to P Limited for Rs 30 lacs on a load of 25% on cost. 1/3rd of such goods are in stock with P Limited as at the end of the year

(e) R Limited sold to Q Limited on 1st January 2015, an asset costing Rs 20 lacs and made a profit of 20% on invoice value. Q has provided depreciation @ 10% per annum on such assets.

(16 Marks)

Question 4

The following are the Balance Sheets of X Ltd. and Y Ltd. as on 31st December, 2009.

Equity and Liabilities	X ltd (Rs)	Y ltd (Rs)	Assets	X ltd (Rs)	Y ltd (Rs)
Equity Shares of Rs.10 each	600,000	300,000	Fixed assets	700,000	250,000
10% Preference shares	200,000	100,000	Stock	240,000	320,000
Reserves and surplus	300,000	200,000	Debtors	360,000	190,000
12% debentures	200,000	150,000	B.R	60,000	20,000
		.	Bank balance	110,000	40,000
B.P	30,000	25,000	Investment in		
Sundry Creditors	220,000	125,000	6000 Shares	80,000	
			5000 Shares	80,000	
Total	1,550,000	900,000	Total	1,550,000	900,000

Fixed assets of both the companies are to be revalued at 15% above book values and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been paid already X Ltd. will absorb Y Ltd. on the following terms:

(i) 8 equity shares of Rs. 10 each will be issued by X Ltd. at par against 6 shares of Y Ltd.(ii) 10% preference shares of Y Ltd. will be paid off at 10% discount by issue of 10% preference shares of Rs. 100 each of X Ltd. at par.

(iii) 12% Debentureholders of Y Ltd. are to be paid off at a 8% premium by 12% debentures in X Ltd. issued at a discount of 10%. (iv) Rs. 30,000 to be paid by X Ltd. to Y Ltd. for liquidation expenses.

(v) Sundry creditors of Y Ltd. include Rs . 10,000 due to X Ltd.

Prepare: Balance Sheet of X Ltd. after its absorption of Y Ltd.

(16 Marks)

Question 5

a) On 1st April, 2008 Sigma Ltd. issued 6% Convertible debentures of face value of Rs 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31-03- 2012 or these may be converted into ordinary shares at the option of the holder, the interest rate for equivalent debentures without conversion rights would have been 10%.

Being a compound financial instrument, you are required to separate equity and debt portions as on 01-04-2008. Equity portion is Rs. 1,85,400. Find out the debt portion (Debenture amount). The present value of Rs. 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

End of year	6%	10%
1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

(8 Marks)

b) The following information is supplied to you about Lookdown Ltd.	
Capital & Reserves	
No of Equity Shares of Rs 100 each of which Rs 75 has been called up	5,00,000
Equity Shares in respect of which calls are in arrear @ 25 per share	Rs1,00,000
General Reserve	Rs 10,00,000
Profit & Loss account (balance at beginning of the year)	Rs (25,00,000)
Profit/(loss) for the year	Rs (1,80,000)
Industry Average Profitability	12.50%
8% Debentures of Rs 10 each	8,00,000
Lookdown Ltd. is proposing to hire the services of Mr. X to turn the company around.	
Minimum take home salary per month demanded by Mr. X	Rs 4,00,000
Average Income tax rate on salaries	25%
Provident Fund contribution by Employer per month	Rs 50,000
Profits over and above target expected by hiring Mr. X	10%

You are required to analyze the proposal and see whether it is worthwhile to employ Mr. X and also suggest the maximum emoluments that could be paid to him.

Note:

(i) PF contributions are tax exempt.

(ii) Take home salary is that remaining after employee's contribution to PF @ Rs 50,000 per month and after deduction of Income-tax on salary.

(8 Marks)

Question 6

The Balance Sheet of RNR Limited as on 31.12.1999 is as follows :

Liabilities	*(Rs Lakhs)*	*Assets*	*(Rs Lakhs)*
1,00,000 equity shares of Rs. 10 each fully paid	10	Goodwill	5
1,00,000 equity shares of Rs. 6 each, fully paid up	6	Fixed assets	15
Reserves and Surplus	4	Other tangible assets	5
Liabilities	10	Intangible assets (market value)	3
		Miscellaneous expenditure to the extent not written off	2
	30		***30***

Fixed assets are worth Rs. 24 lakhs. Other Tangible assets are revalued at Rs. 3 lakhs.

The company is expected to settle the disputed bonus claim of Rs. 1 lakh not provided for in the accounts. Goodwill appearing in the Balance Sheet is not to be considered as part of capital employed for valuation of goodwill. It is considered reasonable to increase the value of goodwill by an amount equal to average of the book value and a valuation made at 3 years' purchase of average super-profit for the last 4 years. After tax, profits and dividend rates were as follows :

Year	1996	1997	1998	1999
PAT(Rs Lakhs)	3	3.5	4	4.1
Dividend %	11	12	13	14

Normal expectation in the industry to which the company belongs is 10%.

Akbar holds 20,000 equity shares of Rs. 10 each fully paid and 10,000 equity shares of Rs. 6 each, fully paid up. He wants to sell away his holdings.

(i) Determine the break-up value and market value of both kinds of shares.

(6 Marks)

(ii) What should be the fair value of shares, if controlling interest is being sold?

(10 Marks)

Question 7 Answer any four of the following

a) A Ltd. purchased 1,00,000 MT atRs 100 each of raw material and introduced it in the production process and get 85,000 MT as output. Normal wastage is 5%. In the process, company incurred the following expenses:

Direct Labour Rs 10,00,000

Direct Variable Overheads Rs 1,00,000

Direct Fixed Overheads (Including interest Rs 40,625) Rs 1,00,000

Of the above 80,000 MT was sold during the year and remaining 5,000 MT remained in closing inventory. Due to fall in demand in market the selling price for the finished goods on the closing day was estimated to be Rs 105 per MT. Calculate the value of closing inventory

b) A company with a turnover of Rs 250 crores and an annual advertising budget of Rs 2 crore had taken up the marketing of a new product. It was estimated that the company would have a turnover of Rs 25 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of Rs 2 crore incurred on extensive special initial advertisement campaign for the new product. Is the procedure adopted by the company correct?

c) In May, 2004, XYZ Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2018 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was Rs 8 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2018 amounted to Rs 10 lakhs. Can Rs 10 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building?

d) Explain the carve out in Ind AS 1 from IAS 1 along with the reason

e) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2018, when the exchange rate was Rs. 63 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2018 when the exchange rate was Rs. 67 per US Dollar. However, on 31st March, 2018, the rate of exchange was Rs. 68 per US Dollar. The company passed an entry on 31st March, 2018 adjusting the cost of raw materials consumed for the difference between Rs. 67 and Rs. 63 per US Dollar. In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

(4 x 4 =16 Marks)