

PAPER – 1 : ADVANCED ACCOUNTING

Answer all questions.

Working notes should form part of the answer.

Question 1

The Balance Sheets of three companies Angle Ltd., Bolt Ltd., and Canopy Ltd., as at 31<sup>st</sup> December, 2007 are given below:

| Liabilities                                     | Angle Ltd.<br>Rs. | Bolt Ltd.<br>Rs. | Canopy Ltd.<br>Rs. |
|---|-------------------|------------------|--------------------|
| Share capital<br>(Equity shares of Rs.100 each) | 15,00,000         | 10,00,000        | 6,00,000           |
| Reserves  | 2,00,000          | 1,25,000         | 75,000             |
| Profit and Loss A/c                             | 5,00,000          | 2,75,000         | 2,50,000           |
| Sundry creditors                                | 2,00,000          | 2,50,000         | 1,00,000           |
| Bills payable                                   | -                 | -                | 50,000             |
| Angle Ltd.                                      | -                 | 1,00,000         | 80,000             |
|   | <u>24,00,000</u>  | <u>17,50,000</u> | <u>11,55,000</u>   |
| Goodwill  | 2,50,000          | 5,80,000         | 4,50,000           |
| Plant and Machinery                             | 4,00,000          | 2,50,000         | 3,25,000           |
| Furniture and Fittings                          | 2,00,000          | 1,50,000         | 1,40,000           |
| Shares in-                                      |                   |                  |                    |
| Bolt Ltd. (7,500 shares)                        | 9,00,000          | -                | -                  |
| Canopy Ltd. (1,000 shares)                      | 1,50,000          |                  |                    |
| Canopy Ltd. (3,500 shares)                      | -                 | 5,20,000         | -                  |
| Stock in trade                                  | 1,00,000          | 1,50,000         | 1,60,000           |
| Sundry debtors                                  | 1,40,000          | 70,000           | 70,000             |
| Bills receivable                                | 50,000            | 20,000           | -                  |
| Due from-                                       |                   |                  |                    |
| Bolt Ltd.                                       | 1,20,000          | -                | -                  |
| Canopy Ltd.                                     | 80,000            | -                | -                  |
| Cash in hand                                    | <u>10,000</u>     | <u>10,000</u>    | <u>10,000</u>      |
| Total   | <u>24,00,000</u>  | <u>17,50,000</u> | <u>11,55,000</u>   |

(a) All shares were acquired on 1<sup>st</sup> July, 2006.

(b) On 1<sup>st</sup> January, 2006, the balances were:

|   | Angle Ltd.<br>Rs. | Bolt Ltd.<br>Rs. | Canopy Ltd.<br>Rs. |
|---|-------------------|------------------|--------------------|
| Reserves  | 1,00,000          | 1,00,000         | 50,000             |
| Profit and Loss account                             | 50,000            | (50,000)Dr.      | 30,000             |
| Profit during 2006 were earned evenly over the year | 3,00,000          | 2,50,000         | 1,00,000           |

- (c) Each company declared a dividend of 10% in the year 2007 on its shares out of Profits for the year 2006; Angle Ltd. and Bolt Ltd. have credited their Profit and Loss account with the dividends received.
- (d) The increase in reserves in case of Angle Ltd., Bolt Ltd., and Canopy Ltd., was effected in the year 2006.
- (e) All the bills payable appearing in Canopy Ltd.'s Balance Sheet were accepted in favour of Bolt Ltd., out of which bills amounting Rs.30,000 were endorsed by Bolt Ltd., in favour of Angle Ltd.
- (f) Stock with Bolt Ltd. includes goods purchased from Angle Ltd., for Rs.18,000. Angle Ltd., invoiced the goods at cost plus 20%.

Prepare consolidated Balance Sheet of the group as at 31<sup>st</sup> December, 2007. Working should be part of the answer. Ignore taxation including dividend distribution tax, disclose minority interest as per AS 21. (20 Marks)

Answer

Consolidated Balance Sheet of Angle Ltd. and its subsidiaries

Bolt Ltd and Canopy Ltd

as at 31<sup>st</sup> December, 2007

| Liabilities                                     | Rs.       | Assets                      | Rs.             |
|---|-----------|-----------------------------|-----------------|
| Share Capital<br>(Equity shares of Rs.100 each) | 15,00,000 | Goodwill                    |                 |
| Minority Interest (W.N. 6)                      |           | Angle Ltd. 2,50,000         |                 |
| Bolt Ltd. 3,97,396                              |           | Bolt Ltd. 5,80,000          |                 |
| Canopy Ltd. <u>2,31,250</u>                     | 6,28,646  | Canopy Ltd. <u>4,50,000</u> | 12,80,000       |
| Reserves<br>(2,00,000+14,844+2,083)             | 2,16,927  | Add: Cost of control(W.N.7) | <u>1,55,833</u> |
| Profit and Loss Account<br>(W.N.4)              | 7,62,260  | Plant & Machinery           |                 |
| Sundry Creditors                                |           | Angle Ltd. 4,00,000         |                 |
| Angle Ltd. 2,00,000                             | 5,50,000  | Bolt Ltd. 2,50,000          |                 |
| Bolt Ltd. 2,50,000                              |           | Canopy Ltd. <u>3,25,000</u> | 9,75,000        |
| Canopy Ltd. <u>1,00,000</u>                     |           | Furniture & Fittings        |                 |
| Bills Payable 50,000                            |           | Angle Ltd. 2,00,000         |                 |
| Less: Mutually held <u>50,000</u>               | Nil       | Bolt Ltd. 1,50,000          |                 |
|   |           | Canopy Ltd. <u>1,40,000</u> | 4,90,000        |
|   |           | Stock-in-Trade              |                 |
|   |           | Angle Ltd. 1,00,000         |                 |
|   |           | Bolt Ltd. 1,50,000          |                 |
|   |           | Canopy Ltd. <u>1,60,000</u> |                 |

|  |                  |                  |
|--|------------------|------------------|
|  | 4,10,000         |                  |
| Less: Provision for unrealised Profit          | <u>3,000</u>     | 4,07,000         |
| Sundry Debtors                                 |                  |                  |
| Angle Ltd.                                     | 1,40,000         |                  |
| Bolt Ltd.                                      | 70,000           |                  |
| Canopy Ltd.                                    | <u>70,000</u>    | 2,80,000         |
| Bills Receivable                               |                  |                  |
| Angle Ltd.                                     | 50,000           |                  |
| Bolt Ltd.                                      | <u>20,000</u>    |                  |
|  | 70,000           |                  |
| Less: Mutually held                            | <u>50,000</u>    | 20,000           |
| Cash-in-hand                                   |                  |                  |
| Angle Ltd.                                     | 10,000           |                  |
| Bolt Ltd.                                      | 10,000           |                  |
| Canopy Ltd.                                    | <u>10,000</u>    | 30,000           |
| Cash-in-Transit / Dues from Bolt Ltd. (W.N. 8) |                  | <u>20,000</u>    |
|  | <u>36,57,833</u> | <u>36,57,833</u> |

Disclosure of Minority Interest in accordance with AS 21

Amount of Equity attributable to minorities on the date of Investment ie. 1.7.2006

|   | Bolt Ltd        | Canopy Ltd.     |
|---|-----------------|-----------------|
| Share capital   | 2,50,000        | 1,50,000        |
| Share in Capital Reserve as on 1.1.06                     | 25,000          | 12,500          |
| Share in Capital Profits as on 1.1.06                     | (12,500)        | 7,500           |
| Share in Capital Profits for the period 1.1.06 to 30.6.06 | <u>31,250</u>   | <u>12,500</u>   |
|   | <u>2,93,750</u> | <u>1,82,500</u> |
| Total amount of Equity attributable to minorities         | 4,76,250        |                 |

Disclosure in accordance with AS 21

Minority Interest as on 31.12.2007

|   |                 |
|---|-----------------|
| Amount of equity as on the date of Investment ie. 1.7.2006  | 4,76,250        |
| Add: Movement in equity and proportionate share of Profit less dividend from the date of Investment upto 31.12.07 | <u>1,52,396</u> |
|   | <u>6,28,646</u> |

## Working Notes:

## 1. Ascertainment of Profits for the year 2007

|   | Angle Ltd.<br>Rs. | Bolt Ltd.<br>Rs. | Canopy Ltd.<br>Rs. |
|---|-------------------|------------------|--------------------|
| Balance as on 1 <sup>st</sup> January, 2006   | 50,000            | (50,000)         | 30,000             |
| Add: Profits earned during 2006               | <u>3,00,000</u>   | <u>2,50,000</u>  | <u>1,00,000</u>    |
|   | 3,50,000          | 2,00,000         | 1,30,000           |
| Less: Dividend Declared                       | <u>1,50,000</u>   | <u>1,00,000</u>  | <u>60,000</u>      |
|   | 2,00,000          | 1,00,000         | 70,000             |
| Less: Transfer to Reserve                     | <u>1,00,000</u>   | <u>25,000</u>    | <u>25,000</u>      |
|   | 1,00,000          | 75,000           | 45,000             |
| Profit for the year 2007 (Balancing Figure)   | <u>4,00,000</u>   | <u>2,00,000</u>  | <u>2,05,000</u>    |
| Balance as on 31 <sup>st</sup> December, 2007 | <u>5,00,000</u>   | <u>2,75,000</u>  | <u>2,50,000</u>    |

## 2. Undistributed profits for the year 2006

|                            | Bolt Ltd.<br>Rs. | Canopy Ltd.<br>Rs. |
|----------------------------|------------------|--------------------|
| Profits for the year 2006  | 2,50,000         | 1,00,000           |
| Less: Dividends declared   | <u>1,00,000</u>  | <u>60,000</u>      |
|                            | 1,50,000         | 40,000             |
| Less: Transfer to Reserves | <u>25,000</u>    | <u>25,000</u>      |
|                            | <u>1,25,000</u>  | <u>15,000</u>      |

## 3. Analysis of Profits

|   | Capital<br>Profits<br>Rs. | Revenue<br>Reserve<br>Rs. | Revenue<br>Profits<br>Rs. |
|---|---------------------------|---------------------------|---------------------------|
| Canopy Ltd.   |                           |                           |                           |
| Reserves as on 1 <sup>st</sup> January, 2006                            | 50,000                    |                           |                           |
| Transfer to Reserve in the year 2006 [(75,000-50,000)/2]                | 12,500                    | 12,500                    |                           |
| Profit & Loss Account   |                           |                           |                           |
| Balance as on 1 <sup>st</sup> January, 2006                             | 30,000                    |                           |                           |
| Profit for 2006 remaining undistributed<br>[(1,00,000-25,000-60,000)/2] | 7,500                     |                           | 7,500                     |
| Profit for the year 2007 (2,50,000-30,000-15,000)                       | <u>        </u>           | <u>        </u>           | <u>2,05,000</u>           |
| (A)   | 1,00,000                  | 12,500                    | 2,12,500                  |

|   |                   |                   |                 |
|---|-------------------|-------------------|-----------------|
| Minority Interest [ $\frac{1}{4}$ th of (A) ]                               | <u>25,000</u>     | <u>3,125</u>      | <u>53,125</u>   |
|   | 75,000            | 9,375             | 1,59,375        |
| Share of Angle Ltd. [ $\frac{1}{6}$ th of (A)]                              | <u>16,667</u>     | <u>2,083</u>      | <u>35,417</u>   |
| Share of Bolt Ltd.  | <u>58,333</u>     | <u>7,292</u>      | <u>1,23,958</u> |
| Bolt Ltd.   |                   |                   |                 |
| Reserves as on 1 <sup>st</sup> January, 2006                                | 1,00,000          |                   |                 |
| Transfer to Reserves 2006 [(1,25,000-1,00,000)/2]                           | 12,500            | 12,500            |                 |
| Profit & Loss Account - Balance (Dr.) as on 1 <sup>st</sup> January, 2006   | (50,000)          |                   |                 |
| Undistributed Profits for 2006 [(2,50,000-25,000-1,00,000)/2]               | 62,500            |                   | 62,500          |
| Share in profits of Canopy Ltd.   | 58,333            | 7,292             | 1,23,958        |
| Profit for the year, 2007 (2,75,000+50,000-1,25,000)                        | <u>          </u> | <u>          </u> | <u>2,00,000</u> |
| (B)   | 1,83,333          | 19,792            | 3,86,458        |
| Less: Minority Interest [ $\frac{1}{4}$ th of (B)]                          | <u>45,833</u>     | <u>4,948</u>      | <u>96,615</u>   |
| Share of Angle Ltd.   | <u>1,37,500</u>   | <u>14,844</u>     | <u>2,89,843</u> |
| 4. Consolidated Profit and Loss Account of Angle Ltd.                       |                   |                   |                 |
|   |                   |                   | Rs.             |
| Profit & Loss Account balance as on 31.12.2007                              |                   |                   | 5,00,000        |
| Add: Share in revenue profits of Canopy Ltd.                                |                   |                   | 35,417          |
| Share in revenue profits of Bolt Ltd.                                       |                   |                   | <u>2,89,843</u> |
| Less: Pre-acquisition dividend  |                   |                   | 8,25,260        |
| Angle Ltd. $\frac{1}{2}$ (Rs. 75,000 +Rs. 10,000)                           |                   | 42,500            |                 |
| Bolt Ltd. ( $\frac{1}{2}$ of Rs. 35,000)                                    |                   | <u>17,500</u>     | <u>60,000</u>   |
|   |                   |                   | 7,65,260        |
| Less: Unrealised Profit in Closing Stock ( $\frac{20}{120} \times 18,000$ ) |                   |                   | <u>3,000</u>    |
|   |                   |                   | <u>7,62,260</u> |
| 5. Consolidated Reserves of Angle Ltd.                                      |                   |                   |                 |
|   |                   |                   | Rs.             |
| Reserves as on 31.12.2007   |                   |                   | 2,00,000        |
| Add: Share in revenue reserves of Canopy Ltd.                               |                   |                   | 2,083           |
| Add: Share in revenue reserves of Bolt Ltd.                                 |                   |                   | <u>14,844</u>   |
|   |                   |                   | <u>2,16,927</u> |
| 6. Minority Interest  |                   |                   |                 |
|   | Bolt Ltd.         | Canopy Ltd.       |                 |
|   | Rs.               | Rs.               |                 |
| Share Capital   | 2,50,000          | 1,50,000          |                 |
| Share of Capital Profits  | 45,833            | 25,000            |                 |

|  |                 |                  |
|--|-----------------|------------------|
| Share of Revenue Reserves  | 4,948           | 3,125            |
| Share of Revenue Profits   | <u>96,615</u>   | <u>53,125</u>    |
| Total  | <u>3,97,396</u> | <u>2,31,250</u>  |
| Grand total  |                 | <u>6,28,646</u>  |
| 7. Cost of Control/Goodwill  |                 |                  |
|  | Rs.             | Rs.              |
| Cost of investments (9,00,000+1,50,000+5,20,000)   |                 | 15,70,000        |
| Less: Dividend Attributable to Pre-Acquisition Profits for 6 months i.e. [(75,000+45,000)/2] |                 | <u>60,000</u>    |
|  |                 | 15,10,000        |
| Less:Face value of Shares  |                 |                  |
| Bolt Ltd.  | 7,50,000        |                  |
| Canopy Ltd.  | 4,50,000        |                  |
| Capital Profits  |                 |                  |
| Bolt Ltd.  | 1,37,500        |                  |
| Canopy Ltd.  | <u>16,667</u>   | <u>13,54,167</u> |
| Goodwill   |                 | <u>1,55,833</u>  |
| 8 Cash in Transit /Dues from Bolt Ltd.   |                 |                  |
|  | Rs.             | Rs.              |
| (i) Due to Angle Ltd.  |                 |                  |
| From Bolt Ltd.   | 1,20,000        |                  |
| From Canopy Ltd.   | <u>80,000</u>   | 2,00,000         |
| (ii) Due by Angle Ltd.   |                 |                  |
| To Bolt Ltd.   | 1,00,000        |                  |
| To Canopy Ltd.   | <u>80,000</u>   | <u>1,80,000</u>  |
|  |                 | <u>20,000</u>    |

## Question 2

The following are the Balance Sheets of Andrew Ltd. and Barry Ltd., as at 31.12.2007:

Andrew Ltd.

(in Rs.'000s)

| Liabilities                          | Assets  |        |
|--------------------------------------|---|--------|
| Share capital                        | Fixed assets                                      | 3,400  |
| 3,00,000 Equity shares of Rs.10 each | 3,000 Stock (pledged with secured loan creditors) | 18,400 |

|  |               |                         |               |
|--|---------------|-------------------------|---------------|
| 10,000 Preference shares of Rs.100 each          | 1,000         | Other Current assets    | 3,600         |
|  |               | Profit and Loss account | 16,600        |
| General reserve                                  | 400           |                         |               |
| Secured loans (secured against pledge of stocks) | 16,000        |                         |               |
| Unsecured loans                                  | 8,600         |                         |               |
| Current liabilities                              | 13,000        |                         |               |
|  | <u>42,000</u> |                         | <u>42,000</u> |

Barry Ltd.

(in Rs.'000s)

|                                      |               |                |               |
|--------------------------------------|---------------|----------------|---------------|
| Liabilities                          |               | Assets         |               |
| Share capital                        |               | Fixed assets   | 6,800         |
| 1,00,000 Equity shares of Rs.10 each | 1,000         | Current assets | 9,600         |
| General reserve                      | 2,800         |                |               |
| Secured loans                        | 8,000         |                |               |
| Current liabilities                  | 4,600         |                |               |
|                                      | <u>16,400</u> |                | <u>16,400</u> |

Both the companies go into liquidation and Charlie Ltd., is formed to take over their businesses.

The following information is given:

- (a) All Current assets of two companies, except pledged stock are taken over by Charlie Ltd. The realisable value of all Current assets are 80% of book values in case of Andrew Ltd. and 70% for Barry Ltd. Fixed assets are taken over at book value.
- (b) The break up of Current liabilities is as follows:

|   |             |            |
|---|-------------|------------|
|   | Andrew Ltd. | Barry Ltd. |
|   | Rs.         | Rs.        |
| Statutory liabilities (including Rs.22 lakh in case of Andrew Ltd. in case of a claim not having been admitted shown as contingent liability) | 72,00,000   | 10,00,000  |
| Liability to employees  | 30,00,000   | 18,00,000  |

The balance of Current liability is miscellaneous creditors.

- (c) Secured loans include Rs.16,00,000 accrued interest in case of Barry Ltd.

- (d) 2,00,000 equity shares of Rs.10 each are allotted by Charlie Ltd. at par against cash payment of entire face value to the shareholders of Andrew Ltd. and Barry Ltd. in the ratio of shares held by them in Andrew Ltd. and Barry Ltd.
- (e) Preference shareholders are issued Equity shares worth Rs.2,00,000 in lieu of present holdings.
- (f) Secured loan creditors agree to continue the balance amount of their loans to Charlie Ltd. after adjusting value of pledged security in case of Andrew Ltd. and after waiving 50% of interest due in the case of Barry Ltd.
- (g) Unsecured loans are taken over by Charlie Ltd. at 25% of Loan amounts.
- (h) Employees are issued fully paid Equity shares in Charlie Ltd. in full settlement of their dues.
- (i) Statutory liabilities are taken over by Charlie Ltd. at full values and miscellaneous creditors are taken over at 80% of the book value.

Show the opening Balance Sheet of Charlie Ltd. Workings should be part of the answer.

(16 Marks)

Answer

Balance sheet of Charlie Ltd. as at 31<sup>st</sup> December, 2007

| Liabilities                     | Rs.           | Assets                             | Rs.           |
|---------------------------------|---------------|------------------------------------|---------------|
| Share Capital                   |               | Goodwill (W.N.4)                   | 9,470         |
| Authorised                      |               | Other Fixed Assets (3,400 + 6,800) | 10,200        |
| Shares of Rs.10 each            |               | Current Assets(2,880 + 6,720)      | 9,600         |
| Issued, subscribed & Paid up:   |               | Cash at Bank                       | 2,000         |
| 7,00,000 equity shares of Rs.10 | 7,000         |                                    |               |
| each, fully paid up (W.N. 5)    |               |                                    |               |
| (of the above 5,00,000 shares   |               |                                    |               |
| have been issued for            |               |                                    |               |
| consideration other than cash)  |               |                                    |               |
| Secured loans (1,280 + 7,200)   | 8,480         |                                    |               |
| Unsecured Loans (25% of 8,600)  | 2,150         |                                    |               |
| Current Liabilities             |               |                                    |               |
| (7,200 + 1,000 + 4,000 +1,440)  | 13,640        |                                    |               |
|                                 | <u>31,270</u> |                                    | <u>31,270</u> |

Working Notes:

1. Value of miscellaneous creditors taken over by Charlie Ltd. (in Rs. '000s)
- |                        | Andrew Ltd. | Barry Ltd. |
|------------------------|-------------|------------|
|                        | Rs.         | Rs.        |
| Given in balance sheet | 13,000      | 4,600      |

|  |  |               |                 |                        |
|--|--|---------------|-----------------|------------------------|
| Less: Statutory liabilities                              |  |               | 5,000           | 1,000                  |
| Liability to employees                                   |  |               | <u>3,000</u>    | <u>1,800</u>           |
| Miscellaneous creditors                                  |  |               | <u>5,000</u>    | <u>1,800</u>           |
| 80% thereof  |  |               | <u>4,000</u>    | <u>1,440</u>           |
| 2. Value of total liabilities taken over by Charlie Ltd. |  |               |                 |                        |
|  |  | Andrew Ltd.   |                 | Barry Ltd.             |
|  |  | Rs.           | Rs.             | Rs.                    |
| Current liabilities                                      |  |               |                 |                        |
| Statutory liabilities                                    |  | 7,200         |                 | 1,000                  |
| Liability to employees                                   |  | 3,000         |                 | 1,800                  |
| Miscellaneous creditors (W.N.1)                          |  | <u>4,000</u>  | 14,200          | <u>1,440</u>           |
| Secured loans  |  |               |                 |                        |
| Given in Balance sheet                                   |  | 16,000        |                 | 8,000                  |
| Interest waived  |  | -             |                 | <u>800</u>             |
| Value of Stock   |  | <u>14,720</u> |                 |                        |
| (80% of Rs.184 lakhs)                                    |  |               | 1,280           |                        |
| Unsecured Loans  |  |               |                 |                        |
| (25% of Rs. 86 lakhs)                                    |  |               | <u>2,150</u>    | <u>-</u>               |
|  |  |               | <u>17,630</u>   | <u>11,440</u>          |
| 3. Assets taken over by Charlie Ltd.                     |  |               |                 |                        |
|  |  |               | Andrew Ltd.     | Barry Ltd.             |
|  |  |               | Rs.             | Rs.                    |
| Fixed Assets (Assumed on book value basis)               |  |               | 3,400           | 6,800                  |
| Current Assets 80% and 70% respectively of book value    |  |               | <u>2,880</u>    | <u>6,720</u>           |
|  |  |               | <u>6,280</u>    | <u>13,520</u>          |
| 4. Goodwill / Capital Reserve on amalgamation            |  |               |                 |                        |
| Liabilities taken over (W.N. 2)                          |  |               | 17,630          | 11,440                 |
| Equity shares to be issued to Preference Shareholders    |  |               | <u>200</u>      | <u>-</u>               |
|  |  | A             | 17,830          | 11,440                 |
| Less: total assets taken over (W.N. 3)                   |  | B             | <u>6,280</u>    | <u>13,520</u>          |
|  |  | A-B           | 11,550          | (2,080)                |
|  |  |               | <u>Goodwill</u> | <u>Capital Reserve</u> |
| Net Goodwill   |  |               | 9,470           |                        |

## 5. Equity shares issued by Charlie Ltd.

|   |                               | Number          |
|---|-------------------------------|-----------------|
| (i) For Cash                                  |                               | 200000          |
| For consideration other than cash             |                               |                 |
| (ii) In Discharge of Liabilities to Employees | 4,80,000                      |                 |
| (iii) To Preference shareholders              | <u>20,000</u>                 | <u>5,00,000</u> |
|   |                               | <u>7,00,000</u> |
| Value of shares                               | Rs.10x 7,00,000= Rs. 70 Lakhs |                 |

## Question 3

- (a) From the following information of Beta Ltd. calculate Earning Per Share (EPS) in accordance with AS-20:

|   | (Rs.)           |               |
|---|-----------------|---------------|
|   | Year            | Year          |
|   | 31.3.08         | 31.3.07       |
| 1. Net profit before tax  | 3,00,000        | 1,00,000      |
| 2. Current tax  | 40,000          | 30,000        |
| Tax relating to earlier years   | 24,000          | (13,000)      |
| Deferred tax  | 30,000          | 10,000        |
| 3. Profit after tax   | <u>2,06,000</u> | <u>73,000</u> |
| 4. Other information:   |                 |               |
| (a) Profit includes compensation from Central Government towards loss on account of earthquake in 2005 (non-taxable)  | 1,00,000        | NIL           |
| (b) Outstanding convertible 6% Preference shares 1,000 issued and paid on 30.9.2006. Face value Rs.100, Conversion ratio 15 equity shares for every preference share. |                 |               |
| (c) 15% convertible debentures of Rs.1,000 each total face value Rs.1,00,000 to be converted into 10 Equity shares per debenture issued and paid on 30.6.2006.        |                 |               |
| (d) Total no. of Equity shares outstanding as on 31.3.2008, 20,000 including 10,000 bonus shares issued on 1.1.08, face value Rs.100.                                 |                 |               |

- (b) From the following details in respect of loan funds of Excellent School of Management for 2007-08, prepare a statement showing changes in fund balance during the year:

|  | Rs.       |
|--|-----------|
| Fund balance at the end of the year          | 30,30,000 |
| Loan fund matching grant from revenues funds | 30,000    |
| Private and Government grants                | 11,00,000 |

|   |                    |
|---|--------------------|
| Other transfers from unrestricted revenue funds | 1,50,000           |
| Interest on loans                               | 60,000             |
| Investment income                               | 35,000             |
| Loan cancellations and write offs               | 15,000             |
| Refunded to grantors                            | 60,000             |
| Administrative and Collection costs             | 25,000             |
|   | (8 + 8 = 16 Marks) |

Answer

(a) Calculation of Earning Per Share (EPS) of Beta Ltd.

|   | Rs.<br>Year ended<br>31.3.08 | Rs.<br>Year ended<br>31.3.07 |
|---|------------------------------|------------------------------|
| 1. A. Earning after extra ordinary items<br>(2,06,000 – 6,000) (73,000 – 3,000) | 2,00,000                     | 70,000                       |
| B. No. of Equity Shares   | 20,000                       | 20,000                       |
| C. Basic Earnings Per share [A/B]   | 10.00                        | 3.50                         |
| A. Earning before extra ordinary items  | 1,00,000                     | 70,000                       |
| B. No. of Equity Shares   | 20,000                       | 20,000*                      |
| C. Basic Earnings Per share [A/B]   | 5.00                         | 3.50                         |
| 2. Tax Rate applicable  |                              |                              |
| 40,000 + 30,000/2,00,000  | 35%                          |                              |
| 30,000 + 10,000/1,00,000  |                              | 40%                          |
| 3. A. Dividend on Weighted Average Preference Shares                            | 6,000                        | 3,000                        |
| B. Incremental shares   | 15,000                       | 7,500                        |
| C. EPS on Incremental Shares [A/B]  | 0.40                         | 0.40                         |
|   | (dilutive)                   | (dilutive)                   |
| 4. Convertible Debentures   |                              |                              |
| A. Increase in earnings   |                              |                              |
| $(1,00,000 \times \frac{15}{100} \times .65)$                                   | 9,750                        |                              |

---

\* Since the bonus issue is without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2007.

|                          |   |                 |
|--------------------------|---|-----------------|
|                          | $1,00,000 \times \frac{15}{100} \times .60 \times \frac{9}{12}$ | 6,750           |
| B. Increase in shares    | 1,000   | 750             |
| C. Increase in EPS [A/B] | 9.75  | 9.00            |
|                          | (Anti dilutive)   | (Anti dilutive) |

It is anti-dilutive as it increases the EPS from continuing ordinary operations (Para 39, AS 20)

| <u>Calculation of Diluted EPS</u>  | Year ended<br>31.3.08<br>Rs. | Year ended<br>31.3.07<br>Rs. |
|--|------------------------------|------------------------------|
| A. Profit from continuing ordinary activities before Preference Dividend | 1,06,000                     | 73,000                       |
| No. of ordinary equity shares  | 20,000                       | 20,000                       |
| Adjustment for dilutive potential of 6% convertible pref. shares         | <u>15,000</u>                | <u>7,500</u>                 |
| B. Total no. of shares   | <u>35,000</u>                | <u>27,500</u>                |
| C. Diluted EPS from continuing ordinary operations [A/B]                 | 3.02                         | 2.65                         |
| D. Profit including extra ordinary items                                 | 2,06,000                     | 73,000                       |
| E. Adjusted No. of shares  | 35,000                       | 27,500                       |
| F. Diluted EPS including extra ordinary items [D/E]                      | 5.88                         | 2.65                         |

Disclosure of EPS in accordance with AS 20 in the Profit and Loss Account

| <u>Earning per share (Face value Rs.100)</u>    | 31.3.08 (Rs. ) | 31.3.07 (Rs.) |
|---|----------------|---------------|
| Basic EPS from continuing ordinary operations   | 5.00           | 3.50          |
| Diluted EPS from continuing ordinary operations | 3.02           | 2.65          |

(b) Excellent School of Management  
Statement of Changes - Loan Funds

|  | Rs.              |
|--|------------------|
| (i) Fund Balance at the beginning of the year<br>(Balancing Figure – Refer Working Note) | 17,55,000        |
| (ii) Additions during 2007-08  |                  |
| Private and Government Grants  | 11,00,000        |
| Interest on loans  | 60,000           |
| Investment Income  | <u>35,000</u>    |
|  | <u>11,95,000</u> |

|       |   |                  |
|-------|---|------------------|
| (iii) | Deductions during 2007-08                       |                  |
|       | Loan cancellations and write offs               | 15,000           |
|       | Refunded to Grantors                            | 60,000           |
|       | Administrative and Collection Costs             | <u>25,000</u>    |
|       |   | <u>1,00,000</u>  |
| (iv)  | Transfer from other funds during 2007-08        |                  |
|       | Loan fund Matching Grant                        | 30,000           |
|       | Other transfers from unrestricted Revenue Funds | <u>1,50,000</u>  |
|       |   | <u>1,80,000</u>  |
| (v)   | Net Additions [(ii)- (iii)+ (iv)]               | 12,75,000        |
| (vi)  | Fund Balance at the end of the year             | 30,30,000        |
|       | Working Note:                                   |                  |
|       | Fund Balance at the end of the year             | 30,30,000        |
|       | Less: Net Additions                             | <u>12,75,000</u> |
|       | Fund Balance at the beginning of the year       | <u>17,55,000</u> |

Question 4

- (a) From the following Profit and Loss account of New Mode Reporting Ltd., prepare a gross value added statement for the year ended 31<sup>st</sup> December, 2007. Show also the reconciliation between GVA and Profit before taxation:

| Profit and Loss Account |  | Rs.'000s   | Rs.'000s      |
|-------------------------|--|------------|---------------|
| Income                  |  |            |               |
|                         | Sales                                  | 12,480     |               |
|                         | Other income                           | <u>110</u> | 12,590        |
| Expenditure             |  |            |               |
|                         | Production and Operational expenditure | 8,640      |               |
|                         | Administrative expenses                | 360        |               |
|                         | Interest and other charges             | 1,248      |               |
|                         | Depreciation                           | <u>32</u>  | <u>10,280</u> |
|                         | Profit before tax                      |            | 2,310         |
|                         | Less: Provision for tax                |            | <u>110</u>    |
|                         | Profit after tax                       |            | 2,200         |
|                         | Add: balance as per last Balance Sheet |            | <u>120</u>    |
|                         |  |            | 2,320         |

|  |            |              |
|--|------------|--------------|
| Less: Transfer to Fixed assets replacement Reserve | 800        |              |
| Dividend paid                                      | <u>320</u> | <u>1,120</u> |
| Surplus carried to Balance Sheet                   |            | <u>1,200</u> |

Additional information:

(i) Production and Operational expenses consists of

|                                  |           |
|----------------------------------|-----------|
|                                  | Rs.       |
| Consumption of Raw materials     | 64,20,000 |
| Consumption of Stores            | 80,000    |
| Local tax                        | 16,000    |
| Salaries to Administrative staff | 12,40,000 |
| Other Manufacturing expenses     | 8,84,000  |

(ii) Administrative expenses include salaries and commission to directors – Rs.10,000

(iii) Interest and other charges include-

|  |          |
|--|----------|
|  | Rs.      |
| (a) Interest on bank overdraft<br>(overdraft is of temporary nature) | 2,18,000 |
| (b) Fixed loan from SIDBI  | 1,02,000 |
| (c) Working capital loan from IFCI                                   | 40,000   |
| (d) Excise duties  | ?        |

(iv) Excise duties amount to one-tenth of total value added by manufacturing and trading activities.

(b) Anischit Finance Ltd. is a non-banking finance company. It makes available to you the costs and market price of various investments held by it as on 31.3.2008:

|          |                |                        |              |
|----------|----------------|------------------------|--------------|
|          |                | (Figures in Rs. Lakhs) |              |
|          |                | Cost                   | Market Price |
| Scripts: |                |                        |              |
| A.       | Equity Shares- |                        |              |
|          | A              | 60.00                  | 61.20        |
|          | B              | 31.50                  | 24.00        |
|          | C              | 60.00                  | 36.00        |
|          | D              | 60.00                  | 120.00       |
|          | E              | 90.00                  | 105.00       |
|          | F              | 75.00                  | 90.00        |
|          | G              | 30.00                  | 6.00         |

|    |                        |       |       |
|----|------------------------|-------|-------|
| B. | Mutual funds-          |       |       |
|    | MF-1                   | 39.00 | 24.00 |
|    | MF-2                   | 30.00 | 21.00 |
|    | MF-3                   | 6.00  | 9.00  |
| C. | Government securities- |       |       |
|    | GV-1                   | 60.00 | 66.00 |
|    | GV-2                   | 75.00 | 72.00 |

(i) Can the company adjust depreciation of a particular item of investment within a category?

(ii) What should be the value of investments as on 31.3.2008?

(iii) Is it possible to off-set depreciation in investment in mutual funds against appreciation of the value of investment in equity shares and government securities?

(10 + 6= 16 Marks)

Answer

(a) **New Mode Reporting Ltd.**  
**Value Added Statement**  
 for the year ended 31<sup>st</sup> December, 2007

|       |  |             |                      |
|-------|--|-------------|----------------------|
|       |  |             | (Figures in Rs.'000) |
| Sales |  |             | 12,480               |
| Less: | Cost of Materials and Services:                        |             |                      |
|       | Production and Operational Expenses (8,640 – 16-1,240) | 7,384       |                      |
|       | Administrative Expenses (360 – 10)                     | 350         |                      |
|       | Interest on Bank Overdraft                             | 218         |                      |
|       | Interest on Working Capital Loan                       | 40          |                      |
|       | Excise Duties (Refer to working note)                  | 360         |                      |
|       | Other/miscellaneous charges (888 – 360)                | <u>528</u>  | 8,880                |
|       | Value added by manufacturing and trading activities    |             | <u>3,600</u>         |
| Add:  | Other Income   |             | 110                  |
|       | Gross value added from operations                      |             | <u>3,710</u>         |
|       | Application of Gross Value Added                       |             |                      |
|       |  | Rs. in '000 | Rs.in'000      %     |
| To    | Pay Employees:   |             |                      |
|       | Salaries to Administrative Staff                       |             | 1240      33.42      |
| To    | Pay Directors:   |             |                      |
|       | Salaries and Commission                                |             | 10      0.27         |
| To    | Pay Government:  |             |                      |

|    |   |             |              |               |
|----|---|-------------|--------------|---------------|
|    | Local Taxes   | 16          |              |               |
|    | Income Tax  | <u>110</u>  | 126          | 3.40          |
| To | Pay Providers of Capital:                             |             |              |               |
|    | Interest on Fixed Loan                                | 102         |              |               |
|    | Dividend  | <u>320</u>  | 422          | 11.37         |
| To | Provide for maintenance and expansion of the company: |             |              |               |
|    | depreciation  | 32          |              |               |
|    | Fixed Assets Replacement Reserve                      | 800         |              |               |
|    | Retained Profit (1200 – 120)                          | <u>1080</u> | <u>1912</u>  | <u>51.54</u>  |
|    |   |             | <u>3,710</u> | <u>100.00</u> |

Reconciliation between Gross Value added and Profit Before Taxation

|                                    |           |  |             |
|------------------------------------|-----------|--|-------------|
|                                    |           |  | Rs.in'000   |
| Profit before Tax                  |           |  | 2,310       |
| Add Back: Depreciation             | 32        |  |             |
| Salaries to Administrative Staff   | 1240      |  |             |
| Directors' Salaries and Commission | 10        |  |             |
| Interest on Fixed Loan             | 102       |  |             |
| Local Tax                          | <u>16</u> |  | <u>1400</u> |
| Total value added                  |           |  | <u>3710</u> |

Working Note:

|                                  |           |            |
|----------------------------------|-----------|------------|
| Calculation of excise duty       | Rs.'000   | Rs.'000    |
| Interest and other charges       |           | 1,248      |
| Less: Interest on bank overdraft | 218       |            |
| Interest on SIDBI loan           | 102       |            |
| Interest on IFCI loan            | <u>40</u> | <u>360</u> |
| Excise duty and other charges    |           | <u>888</u> |

Assuming that these other /miscellaneous charges will be deducted for arriving at the value added, the excise duty will be calculated as follows:-

Let Excise Duties be denoted by - E

Then, other charges = 888 - E

Excise duty are  $\frac{1}{10}$ th of value added

Hence  $E = \frac{1}{10}$ th [12,480 – {7,384+ 350+218 + 40+E + (888 – E)}]

=  $\frac{1}{10}$ th [12,480 – 8,880]

=  $\frac{1}{10}$ th × 3,600= 360

Other/miscellaneous charge 888 – 360 = Rs.528

The above solution has been given accordingly.

Alternatively, if other/miscellaneous charges are considered as application of value added (i.e., not deducted for deriving the value added), calculation of Excise Duties (E) will be as follows:

$$E = \frac{1}{10} [12,480 - (7,384 + 350 + 218 + 40 + E)]$$

$$E = \frac{1}{10} \times (4,488 - E)$$

$$11E = 4,488$$

$$E = \text{Rs.}408$$

And thus other/miscellaneous charges will be Rs.888 – 408 = Rs.480

Gross Value added in this case will be Rs. 4,080 + 110 (Other income) = Rs.4,190

And accordingly, application part will be prepared after taking other/miscellaneous charges.

- (b) (i) Quoted current investments for each category shall be valued at cost or market value, whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Therefore, depreciation of a particular item of investments can be adjusted within the same category of investments.
- (ii) Value of Investments as on 31.3.2008

| Type of Investment         | Valuation Principle           | Value<br>Rs.in lakhs |
|----------------------------|-------------------------------|----------------------|
| Equity Shares (Aggregated) | Lower of cost or market Value | 406.50               |
| Mutual Funds               | NAV (Market value, assumed)   | 54.00                |
| Government securities      | Cost                          | 135.00               |
|                            |                               | <u>595.50</u>        |

As per para 14 of AS 13 "Accounting for Investments", the carrying amount for current investments is the lower of cost and market price. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly, the investments may be computed at the lower of cost and market value computed categorywise.

- (iii) Inter category adjustments of appreciation and depreciation in values of investments cannot be done. It is not possible to offset depreciation in investment in mutual funds against appreciation of the value of investments in equity shares and Government securities.

## Question 5

- (a) Golden Eagle Ltd., has been successful jewellers for the past 100 years and sales are against cash only. The company diversified into apparels. A young senior executive was put in charge of Apparels business and sales increased 5 times. One of the conditions for sales that dealers can return the unsold stocks within one month of the end of season. Sales return for the year was 25% of sales. Suggest a suitable Revenue Recognition Policy with references to AS-9.
- (b) Discuss the concept of Cost v/s Fair value with reference to Indian Accounting Standards.
- (c) Why Human Resources Asset is not recognised in the Balance sheet?
- (d) A company has a scheme for payment of settlement allowance to retiring employees. Under the scheme, retiring employees are entitled to reimbursement of certain travel expenses for class they are entitled to as per company rule and to a lump-sum payment to cover expenses on food and stay during the travel. Alternatively employees can claim a lump sum amount equal to one month pay last drawn.

The company's contentions in this matter are:

- (i) Settlement allowance does not depend upon the length of service of employee. It is restricted to employee's eligibility under the Travel rule of the company or where option for lump-sum payment is exercised, equal to the last pay drawn.
- (ii) Since it is not related to the length of service of the employees, it is accounted for on claim basis.

State whether the contentions of the company are correct as per relevant Accounting Standard. Give reasons in support of your answer. (4 x 4= 16 Marks)

## Answer

- (a) As per AS 9 "Revenue recognition", revenue recognition is mainly concerned with the timing of recognition of revenue in statement of profit and loss of an enterprise. The amount of revenue arising on a transaction is usually determined by the agreement between the parties involved in the transaction. When uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

In the case of the Jewellery Business the company is selling for cash and returns are negligible. Hence, revenue can be recognized on sales. On the other hand, in Apparels Industry, the dealers have a right to return the unsold goods within one month of the end of the season. In this case, the company is bearing the risk of sales return and therefore, the company should not recognize the revenue to the extent of 25% of its sales. The company may disclose suitable revenue recognition policy in its financial statements separately for both Jewellery and Apparels business.

(b) Cost vs. Fair value

Cost basis: The term cost refers to cost of purchase, costs of conversion on other costs incurred in bringing the goods to its present condition and location. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Fair value: Fair value of an asset is the amount at which an enterprise expects to exchange an asset between knowledgeable and willing parties in an arm's length transaction.

Indian Accounting Standards are generally based on historical cost with a very few exceptions:

AS 2 "Valuation of Inventories" – Inventories are valued at net realizable value (NRV) if cost of inventories is more than NRV.

AS 10 "Accounting for Fixed Assets" – Items of fixed assets that have been retired from active use and are held for disposal are stated at net realizable value if their net book value is more than NRV.

AS 13 "Accounting for Investments" – Current investments are carried at lower of cost and fair value. The carrying amount of long term investments is reduced to recognise the permanent decline in value.

AS 15 "Employee Benefits" – The provision for defined benefits is made at fair value of the obligations.

AS 26 "Intangible Assets" – If an intangible asset is acquired in exchange for shares or other securities of the reporting enterprise, the asset is recorded at its fair value, or the fair value of the securities issued, whichever is more clearly evident.

AS 28 "Impairment of Assets" – Provision is made for impairment of assets.

On the other hand IFRS and US GAAPs are more towards fair value. Fair value concept requires a lot of estimation and to the extent, it is subjective in nature.

(c) Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resources. Human resources are not recognized in balance sheet as there are no measurement criteria for recognition of human resources. Human resource accounting is at developing stage and no accounting principles have been established for valuation of human assets. Costs incurred on human resources are recognised as expenses in profit and loss account. Leading public sector units like OIL, BHEL, NTPC and SAIL etc. have started reporting human resources in their annual reports as additional information.

- (d) The present case falls under the category of defined benefit scheme under Para 49 of AS 15 (Revised) "Employee Benefits". The said para encompasses cases where payment promised to be made to an employee at or near retirement presents significant difficulties in the determination of periodic charge to the statement of profit and loss. The contention of the Company that the settlement allowance will be accounted for on claim basis is not correct even if company's obligation under the scheme is uncertain and requires estimation. In estimating the obligation, assumptions may need to be made regarding future conditions and events, which are largely outside the company's control. Thus,
- (1) Settlement allowance payable by the company is a defined retirement benefit, covered by AS 15 (Revised).
  - (2) A provision should be made every year in the accounts for the accruing liability on account of settlement allowance. The amount of provision should be calculated according to actuarial valuation.
  - (3) Where, however, the amount of provision so determined is not material, the company can follow some other method of accounting for settlement allowances.

#### Question 6

- (a) XYZ Ltd., with a turnover of Rs.35 lakhs and borrowings of Rs.10 lakhs during any time in the previous year, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2008. Advise the management the exemptions that are available as per Companies (AS) Rules, 2006. If XYZ is a partnership firm is there any other exemptions additionally available. (8 Marks)
- (b) Briefly explain any two of the following terms:
- (i) IFRS
  - (ii) NACAS
  - (iii) Convergence of Accounting Standards with IFRS. (2x4= 8 Marks)

#### Answer

- (a) XYZ Ltd. is a small and medium sized enterprise (SME) company as per Companies (AS) Rules, 2006. The following relaxations and exemptions are available.
1. AS 3 "Cash Flow Statements" is not mandatory.
  2. AS 17 "Segment Reporting" is not mandatory.
  3. SMEs are exempt from some paragraphs of AS 19 "Leases".
  4. SMEs are exempt from disclosures of diluted EPS (both including and excluding extraordinary items).
  5. SMEs are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique under AS 28 "Impairment of Assets".

6. SMEs are exempt from disclosure requirements of paragraphs 66 and 67 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets".
7. SMEs are exempt from certain requirements of AS 15 "Employee Benefits".
8. Accounting Standards 21, 23, 27 are not applicable to SMEs.

If XYZ is not a company, it will be treated as a level III enterprise instead of level II enterprise; XYZ Ltd. will be exempt from requirements of AS 18 "Related Party Disclosures" and AS 24 "Discontinuing Operations".

- (b) (i) IFRS: The term IFRS refers to the International Financial Reporting Standards issued by International Accounting Standard Board (IASB). It also encompasses the International Accounting Standards (IAS) issued by the International Accounting Standard Committee (IASC). Interpretations of IASs and IFRSs are developed by the International Financial Reporting Interpretations Committee (IFRIC). IFRIC is the new name for the Standing Interpretations Committee (SIC) approved by the IASC Foundation Trustees in March 2002. IFRS includes these interpretations also.
- (ii) NACAS: Under Section 210 A of the Companies Act 1956, the Central Government, by notification, has constituted a committee to advise the Central Government on the formulation of accounting policies and accounting standards for adoption by companies or class of companies specified under the Act. Based on the recommendations of NACAS, the Central Government has notified AS 1 to AS 7 and AS 9 to AS 29 in Dec. 2006 in the form of Companies (Accounting Standards) Rules, 2006.
- (iii) Convergence of Accounting Standards with IFRS: In general, convergence of Accounting Standards (AS) with International Financial Reporting Standards (IFRS) means to achieve harmony with IFRS. The term convergence can be considered as "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national AS are in convergence with IFRS". IAS I require financial statements to comply with all requirements of IFRS. This does not mean that IFRS should be adopted word by word. The local standard setters can add disclosure requirements or can remove some requirements which do not create non compliance with IFRS. Thus, convergence with IFRS means adoption of IFRS with exceptions wherever necessary.