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

Total No. of Questions—6] [Total No. of Printed Pages—7

Time Allowed—3 Hours Maximum Marks—100

NSG

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, his answers in Hindi will not be valued.

Answer **all** the questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

Marks

1. (a) Mr. A bought a forward contract for three months of US \$ 1,00,000 on 1st December at 1 US \$ = Rs. 47.10 when exchange rate was US \$ 1 = Rs. 47.02. On 31st December when he closed his books, exchange rate was US \$ 1 = Rs. 47.15. On 31st January, he decided to sell the contract at Rs. 47.18 per dollar. Show how the profits from contract will be recognised in the books. 4×5 =20

(b) Sun Ltd. has entered into a sale contract of Rs. 5 crores with X Ltd. during 2009-10 financial year. The profit on this transaction is Rs. 1 crore. The delivery of goods to take place during the first month of 2010-11 financial year. In case of failure of Sun Ltd. to deliver within the schedule a compensation of Rs. 1.5 crore is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of the 2009-10 financial year. As on Balance Sheet date (31.3.2010), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

(i) Should Sun Ltd. provide for contingency as per AS-29 ?

(ii) Should provision is measured as the excess of compensation to be paid over the profit ?

(c) Rainbow Limited borrowed an amount of Rs. 150 crores on 1.4.2009 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. The weighted average cost of capital is 13% p.a. The accountant

Marks

of Rainbow Ltd., capitalised interest of Rs. 19.50 crores for the accounting period ending on 31.3.2010. Due to surplus fund out of Rs. 150 crores, an income of Rs. 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

(d) Y Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is Rs. 200 lakhs and Rs. 400 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by Rs. 10 lakhs. Assuming tax rate of 40%, find out the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.

2. (a) While closing its books of account as on 31.12.2009 a non-banking finance company (NBFC) has its advances classified as under : 4

	Rs. in lakhs
Standard assets	10,000
Sub-standard assets	1,000
Secured portion of doubtful debts	
— Upto one year	160
— One year to three year	70
— More than three years	20
Unsecured portion of doubtful debts	90
Loss assets	30

Calculate the provision to be made against advances by NBFC as per prudential norms.

(b) Comforts Ltd. granted Rs. 10,00,000 loan to its employees on January 1, 2009 at a concessional interest rate of 4% per annum. Loan is to be repaid in five equal annual instalments alongwith interest. Market rate of interest for such loan is 10% per annum. Following the principles of recognition and measurement as laid down in AS-30—'Financial instruments : Recognition and measurement', record the entries for the year ended 31st December, 2009 for the loan transaction, and also calculate the value of loan initially to be recognised and amortised 12

Marks

cost for all the subsequent years. The present value of Re. 1 receivable at the end of each year based on discount factor of 10% can be taken as :

Year end	1	0.9090
	2	0.8263
	3	0.7512
	4	0.6829
	5	0.6208

3. The draft Balance Sheet of three companies W, H, O, as at 31.3.2010 is as under : 16

		Rs. in thousands	
Assets	W	H	O
Fixed assets	697	648	349
Investments			
1,60,000 shares in H	562	—	—
80,000 shares in O	184	—	—
Cash at bank	101	95	80
Trade receivables	386	321	251
Inventory	495	389	287
Total	2,425	1,453	967
Liabilities			
Share capital	600	200	200
(Nominal value Re. 1 per share)			
Reserves	1,050	850	478
Trade payables	375	253	189
Debentures	400	150	100
Total	2,425	1,453	967

You are given the following information :

(a) W purchased the shares in H on 13.10.2005 when the balance in reserves was Rs. 500 thousands.

Marks

(b) The shares in O were purchased on 11.5.2005 when the balance in reserves was Rs. 242 thousands.

(c) The following dividend have been declared but not accounted for before the accounting year end :

W — Rs. 65 thousands
H — Rs. 30 thousands
O — Rs. 15 thousands

(d) Included in inventory figure of O is inventory valued at Rs. 20 thousands which had been purchased from W at cost plus 25%.

(e) Goodwill in respect of the acquisition of H has been fully written off.

(f) On 31.3.2010 H made bonus issue of one share for every share held. This had not been accounted in the Balance Sheet as on 31.3.2010.

(g) Included in trade payables of W is Rs. 18 thousands to O, which is included in trade receivables of O.

Prepare Consolidated Balance Sheet of W as at 31.3.2010.

4. The following are the Balance Sheets of Cat Ltd. and Bat Ltd. as on 31.3.2010 : 16

Rs. (in thousands)

Liabilities	Cat Ltd.	Bat Ltd.
Share Capital :		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	800	—
10% debentures	500	—
Loans from Banks	250	450
Bank overdrafts	—	50
Sundry creditors	300	300
Proposed dividend	200	—
Total	4,050	1,800
Assets		
Tangible assets/fixed asset	2,700	850
Investments (including investments in Bat Ltd.)	700	—
Debtors	400	150
Cash at bank	250	—
Accumulated loss	—	800
Total	4,050	1,800

Marks

Bat Ltd. has acquired the business of Cat Ltd. The following scheme of merger was approved :

(i) Banks agreed to wiave the loan of Rs. 60 thousands of Bat Ltd.

(ii) Bat Ltd. will reduce its shares to Rs. 10 per share and then consolidate 10 such shares into one share of Rs. 100 each (new share).

(iii) Shareholders of Cat Ltd. will be given one share (new) of Bat Ltd. in exchange of every share held in Cat Ltd.

(iv) Proposed dividend of Cat Ltd. will be paid after merger to shareholders of Cat Ltd.

(v) Sundry creditors of Bat Ltd. includes Rs. 100 thousands payable to Cat Ltd.

(vi) Cat Ltd. will cancel 20% holding of Bat Ltd. investment, which was held at a cost of Rs. 250 thousands.

Pass necessary entries in the books of Bat Ltd. and prepare Balance Sheet after merger.

5. The Balance Sheet of D Ltd. on 31st March, 2009 is as under : 16

Liabilities	Rs.	Assets	Rs.
12,500 shares of Rs. 100		Goodwill	10,00,000
each fully paid	1,25,00,000	Building	80,00,000
Bank overdraft	46,50,000	Machinery	70,00,000
Creditors	52,75,000	Stock	80,00,000
Provision for taxation	12,75,000	Debtors (all considered	
Profit and loss account	53,00,000	good)	50,00,000
Total	2,90,00,000	Total	2,90,00,000

In 1989, when the company started its activities the paid up capital was the same. The Profit/Loss for the last five years is as follows :

2004-2005 Loss (13,75,000), 2005-2006 Profit Rs. 24,55,000, 2006-2007 Profit Rs. 29,25,000, 2007-2008 Profit Rs. 36,25,000, 2008-2009 Profit Rs. 42,50,000.

Income-tax rate so far has been 40% and the above profits have been arrived at on the basis of such tax rate., From 2008-2009, the rate of Income-tax should be

Marks

taken at 45%. 10% dividend is 2005-2006, 2006-2007 and 15% dividend in 2007-2008 and 2008-2009 has been paid. Market price of this share on 31st March, 2009 is Rs. 125. With effect from 1st April, 2009, the Managing Directors remuneration will be Rs. 20,00,000 instead of Rs. 15,00,000. The company has secured a contract from which it can earn an additional Rs. 10,00,000 per annum for the next five years.

Calculate the value of goodwill at 3 years purchase of super profit. (For calculation of future maintainable profits weighted average is to be taken)

6. (a) From the following information, determine the possible value of brand as per potential earning model : 4

	Rs. in lakhs
(i) Profit After Tax (PAT)	Rs. 2,500
(ii) Tangible fixed assets	Rs. 10,000
(iii) Identifiable intangible other than brand	Rs. 1,500
(iv) Weighted average cost of capital (%)	14%
(v) Expected normal return on tangible assets weighted average cost (14%) + normal spread 4%	18%
(vi) Appropriate capitalisation factor for intangibles	25%

(b) Hero Ltd. was registered on 1st April, 2008. It raised its capital as under : 12

(i) Issued 2,00,000 equity shares at Rs. 10 each	Rs. 20,00,000
(ii) 12.5% debenture of Rs. 100 each	Rs. 2,00,000

This money was invested as under :

Equipments	Rs. 16,00,000
(Useful life 10 years with nil scrape value)	
Goods purchased for resale at Rs. 200 per unit	Rs. 6,00,000

Marks

Goods purchased were entirely sold upto 31st January, 2009, for Rs. 10,00,000. All the sale proceeds were collected except Rs. 60,000 as on 31st March, 2009. Goods sold were replaced at a cost of Rs. 7,20,000 at the rate of Rs. 240 per unit. Creditors outstanding as on 31.3.2009 was Rs. 40,000.

The replaced goods remained entirely in stock on 31.3.09. The replacement cost as at 31.3.09 was considered to be Rs. 280 per unit. Replacement cost of equipments was Rs. 20,00,000 as at 31.3.09, considering depreciation on straight line basis.

Prepare Profit and Loss account and Balance Sheet on replacement cost (entry value) basis.