Roll No. .... **NOV 2010**

Total No. of Questions – **7**

Total No. of Printed Pages – **8**

Time Allowed – **3** Hours

Maximum Marks – **100**

NPT

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 has not opted for Hindi medium, his answers in Hindi will not be valued.

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.

Marks

1. (a) Night Ltd. sells beer to customers; some of the customers consume the beer in the bars run by Night Limited. While leaving the bars, the consumers leave the empty bottles in the bars and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders. Keeping this in view : **5**

   (i) Decide whether the stock of empty bottles is an asset of the company ;

   (ii) If so, whether the stock of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS-2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income' ?

   (b) AS-4 prescribes that adjustments to assets and liabilities are required for events occurring after the Balance Sheet date that provide additional information materially affecting the determination of the amount relating to conditions existing at the Balance Sheet date-generally called adjusting events. "Proposed Dividend" is shown and adjusted in the Balance Sheet even if it is not an adjusting event as per AS-4 because it is proposed by the Board of Directors of the company after the Balance Sheet date. **5**

   Keeping this in view, is it not violation of AS-4 to show proposed dividends as current liabilities and provisions ? Comment.

Marks

(c) Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 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 ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-2009. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-10 and declared dividends of ₹ 60,000 on 12-06-2010. **5**

Calculate the carrying amount of investment in :

(i) Separate financial statement of Bright Ltd. as on 31-03-10;

(ii) Consolidated financial statement of Bright Ltd., as on 31-03-10;

(iii) What will be the carrying amount as on 30-6-2010 in consolidated financial statement ?

(d) An asset does not meet the requirements of environment laws which have been recently enacted. The asset has to be destroyed as per the law. The asset is carried in the Balance Sheet at the year end at ₹ 6,00,000. The estimated cost of destroying the asset is ₹ 70,000. How is the asset to be accounted for ? **5**

2. Softex Ltd. announced a Stock Appreciation Right (SAR) on 01-04-07 for each of its employees. The scheme gives the employees the right to claim cash payment equivalent to an excess of market price of company shares on exercise date over the exercise price of ₹ 125 per share in respect of 100 shares, subject to a condition of continuous employment of 3 years. The SAR is exercisable after 31-03-2010 but before 30-06-10. **16**

The fair value of SAR was ₹ 21 in 2007-08, ₹ 23 in 2008-09 and ₹ 24 in 2009-10. In 2007-08 the company estimated that 2% of its employees shall leave the company annually. This was revised to 3% in 2008-09. Actually 15 employees left the company in 2007-08, 10 left in 2008-09 and 8 left in 2009-10. The SAR therefore actually vested in 492 employees on 30-06-2010 ; when SAR was exercised the intrinsic value was ₹ 25 per share.

Show the provision for SAR account by fair value method. Is this provision a liability or equity ?

Marks

3. Air Ltd., a listed company, entered into an expansion programme on 1st October, 2009. On that date the company purchased from Bag Ltd. its investments in two Private Limited Companies. The purchase was of **16**

(a) the entire share capital of Cold Ltd.

and

(b) 50% of the share capital of Dry Ltd.

Both the investments were previously owned by Bag Ltd. After acquisition by Air Limited, Dry Ltd. was to be run by Air Ltd. and Bag Ltd. as a jointly controlled entity.

Air Ltd. makes its financial statements upto 30th September each year. The terms of acquisition were :

Cold Ltd.

The total consideration was based on price earnings ratio (P/E) of 12 applied to the reported profit of ₹ 20 lakhs of Cold Ltd. for the year 30 September, 2009. The consideration was settled by Air Ltd. issuing 8% debentures for ₹ 140 lakhs (at par) and the balance by a new issue of ₹ 1 equity shares, based on its market value of ₹ 2.50 each.

Dry Ltd.

The market value of Dry Ltd. on first October, 2009 was mutually agreed as ₹ 375 lakhs. Air Ltd. satisfied its share of 50% of this amount by issuing 75 lakhs ₹ 1 equity shares (market value ₹ 2.50 Each) to Bag Ltd.

Air Ltd. has not recorded in its books the acquisition of the above investments or the discharge of the consideration.

The summarized statements of financial position of the three entities at 30th September, 2010 are :

₹ in Thousands

	Air Ltd.	Cold Ltd.	Dry Ltd.
Assets			
Tangible Assets	34,260	27,000	21,060
Inventories	9,640	7,200	18,640
Debtors	11,200	5,060	4,620
Cash	–	3,410	40
Total Assets	**55,100**	**42,670**	**44,360**
Liabilities			
Equity capital :			
₹ 1 Each	10,000	20,000	25,000
Retained earnings	20,800	15,000	4,500
Trade and other payables	17,120	5,270	14,100
Overdraft	1,540	–	–
Provision for taxes	5,640	2,400	760
	55,100	**42,670**	**44,360**

The following information is relevant.

(a) The book values of the net assets of Cold Ltd. and Dry Ltd. on the date of acquisition were considered to be a reasonable approximation to their fair values.

(b) The current profits of Cold Ltd. and Dry Ltd. for the year ended 30th September, 2010 were ₹ 80 lakhs and ₹ 20 lakhs respectively. No dividends were paid by any of the companies during the year.

(c) Dry Ltd., the jointly controlled entity, is to be accounted for using proportional consolidation, in accordance with AS-27 "Interests in joint venture".

(d) Goodwill in respect of the acquisition of Dry Ltd. has been impaired by ₹ 10 lakhs at 30th September, 2010. Gain on acquisition, if any, will be separately accounted.

Prepare the consolidated Balance Sheet of Air Ltd. and its subsidiaries as at 30th September, 2010.

Marks

4. The following are the Balance Sheets of X Ltd. and Y Ltd. as on 31st December 2009. **16**

Amount in ₹

	X Ltd.	Y Ltd.
Assets		
Fixed Assets	7,00,000	2,50,000
Stock	2,40,000	3,20,000
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
Cash at Bank	1,10,000	40,000
Investments in :		
6000 share of Y Ltd.	80,000	
5000 share of X Ltd.		80,000
	15,50,000	**9,00,000**
Liabilities		
Share Capital :		
Equity share of ₹ 10 each	6,00,000	3,00,000
10% preference share of ₹ 10 each	2,00,000	1,00,000
Reserve and Surplus	3,00,000	2,00,000
12% Debentures	2,00,000	1,50,000
Sundry Creditors	2,20,000	1,25,000
Bills payable	30,000	25,000
	15,50,000	**9,00,000**

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.

After the above transactions are given effect to X Ltd. will absorb Y Ltd. on the following terms :

(i) 8 equity shares of ₹ 10 each will be issued by X Ltd. at par against 6 shares of Y Ltd.

(ii) 10% preference share of Y Ltd. will be paid off at 10% discount by issue of 10% preference shares of ₹ 100 each of X Ltd. at par.

Marks

(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) ₹ 30,000 to be paid by X Ltd. to Y Ltd. for liquidation expenses.

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

Prepare :

(a) A statement of purchase consideration payable by X Ltd.

(b) A Balance Sheet of X Ltd. after its absorption of Y Ltd.

5. (a) From the following information, calculate the value of a share if you want to 8

(i) buy a small lot of shares ;

(ii) buy a controlling interest in the company.

Year	Profit (₹)	Capital Employed (₹)	Dividend (%)
2007	55,00,000	3,43,75,000	12
2008	1,60,00,000	8,00,00,000	15
2009	2,20,00,000	10,00,00,000	18
2010	2,50,00,000	10,00,00,000	20

The market expectation is 12%.

(b) On February 1, 2009, Future Ltd. entered into a contract with Son Ltd. to receive the fair value of 1000 Future Ltd.'s own equity shares outstanding as on 31-01-2010 in exchange for payment of ₹ 1,04,000 in cash i.e. ₹ 104 per share. The contract will be settled in net cash on 31-01-2010. 8

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

(i) Fair value of forward on 01-02-2009 Nil

(ii) Fair value of forward on 31-12-2009 ₹ 6,300

(iii) Fair value of forward on 31-01-2010 ₹ 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 Future Ltd.

Marks

6. (a) On 1st April, 2008 Sigma Ltd. issued 6% Convertible debentures of face value of ₹ 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 ₹ 1,85,400. Find out the debt portion (Debenture amount). The present value of ₹ 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as : 8

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

(b) (i) What is the meaning of 'valuation of liabilities' ? 8

(ii) State the purpose of valuation of liabilities in financial accounting and reporting.

(iii) How is liability determined in the case of a finance lease ?

7. Answer any **four** of the following : 4×4 =16

(a) M/s TS Ltd. has entered into a contract by which it has the option to sell its specified asset to NB Ltd. for ₹ 100 lakhs after 3 years whereas the current market price is ₹ 150 lakhs. Company always settles account by delivery. What type of option is this ? Is it a financial instrument ? Explain with reference to the relevant accounting standard.

(b) Assam Ltd. purchased an oil well for $ 100 million. It estimates that the well contains 250 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 10,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6 ?

Marks

(c) X Ltd. sold its building to Mini Ltd. for ₹ 60 lakhs on 30-09-2009 and gave possession of the property to Mini Ltd. However, documentation and legal formalities are pending. Due to this, the company has not recorded the sale and has shown the amount received as an advance. The book value of the building is ₹ 25 lakhs as on 31st March, 2010. Do you agree with this treatment ? If you do not agree, explain the reasons with reference to the accounting standard.

(d) Southern Tower Ltd. purchased a plant from M/s. Tatamaco Ltd. on 30-09-2008 with a quoted price of ₹ 180 lakhs. Tatamaco offer 3 months credit with a condition that discount of 1.25% will be allowed if the payment were made within one month. VAT is 12.5% on the quoted price. Company incurred 2% on transportation costs and 3% on erection costs of the quoted price. Preoperative cost amounted to ₹ 1.50 lakhs. To finance the purchase of the machinery, company took a term bank loan of ₹ 125 lakhs at an interest rate of 14.50% per annum. The machine was ready for use on 30-12-2008 ; however, it was put to use only on 01-04-2009.

(i) Find out the original cost.

(ii) Suggest the accounting treatment for the cost incurred during the period between the date the machine was ready for use and the actual date the machine was put to use.

(e) S. Square Private Limited has taken machinery on lease from S.K. Ltd. The information is as under :

Lease term	= 4 years
Fair value at inception of lease	= ₹ 20,00,000
Lease rent	= ₹ 6,25,000 p.a. at the end of year
Guaranteed residual value	= ₹ 1,25,000
Expected residual value	= ₹ 3,75,000
Implicit interest rate	= 15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Calculate the value of the lease liability as per AS-19.