Roll No. .... MAY 2012

FINAL
GROUP-I PAPER-1
FINANCIAL REPORTING

Total No. of Questions – **7** Total No. of Printed Pages – **12**

Time Allowed – **3** Hours Maximum Marks – **100**

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Answer to questions are to be given only in English except in case of candidates who have opted for Hindi Medium. Answers in Hindi of any candidate who has not opted for Hindi Medium shall not be valued.

Question No. **1** is compulsory.

Candidates are also 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 answer.

Marks

1. (a) 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 ₹ 45 to the US dollar while the rate as on 31st March, 2012 is ₹ 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 showing the amount of exchange difference as per prevailing Accounting Standards. **4×5 =20**

(b) Acute Ltd is the owner of a CGU (Cash Generating Unit) block of assets whose current carrying cost is ₹ 999 lakhs. The company, after a detailed study by its technical team, has assessed the present recoverable amount of this CGU block of assets at ₹ 555 lakhs. The value of the block of assets as per the Income tax Records is ₹ 777 lakhs. The Board of Directors of the company have issued a signed statement confirming that the impairment in the value of the CGU is only a temporary phenomenon which is reversible in subsequent periods and also assuring virtual certainty of taxable incomes in the foreseeable future. You are required to show Deferred Tax workings as per Accounting Standards in force, given the tax rate of 30% plus 10% surcharge thereon. The depreciation rate for tax purposes is 15% and that per books is 13.91%.

Marks

(c) PRZ & Sons Ltd. are Heavy Engineering contractors specializing in construction of dams. From the records of the company, the following data is available pertaining to year ended 31st March, 2012. Using this data and applying the relevant Accounting Standard you are required to :

(i) Compute the amount of profit/loss for year ended 31st March, 2012.

(ii) Arrive at the contract work in progress as at the end of financial year 2011-12.

(iii) Determine the amount of revenue to be recognized out of the total contract value.

(iv) Work out the amount due from / to customers as at year end.

(v) List down relevant disclosures with figures as per relevant Accounting Standard.

	(₹ Crore)
Total Contact Price	2,400
Work Certified	1,250
Work pending certification	250
Estimated further cost to completion	1,750
Stage wise payments received	1,100
Progress payments in pipe line	300

(d) On 30-6-2011, X Limited incurred ₹ 3,00,000 net loss from disposal of a business segment. Also on 31-7-2011, the company paid ₹ 80,000 for Property taxes assessed for the calendar year 2011. How should the above transactions be included in determination of net income of X Limited for the six months interim period ended on 30-9-2011?

2. The Balance Sheets of A Limited and its subsidiaries B Limited and C Limited as on 31-3-2011 were as follows : 16

₹ in lakhs

	A ₹	B ₹	C ₹
Investments :			
1,00,000 shares in B Ltd.	100	–	–
80,000 shares in C Ltd.	200	–	–
Other Assets	700	600	500
	1,000	**600**	**500**
Share Capital :			
Shares of ₹ 100 each	400	100	100
Reserves and Surplus	400	300	200
Liabilities	200	200	200
	1,000	**600**	**500**

A Limited acquired shares in B Limited in April 2008 when B Limited was formed with Share Capital of ₹ 100 lakhs.

A Limited acquired shares in C Limited in April 2008 when C Ltd. had share Capital of ₹ 100 lakhs and Reserves and surplus of ₹ 100 lakhs.

The group amortises goodwill on consolidation on a SLM basis over a period of 5 years. A full year's amortisation is provided if the goodwill exists for more than 6 months.

On 1st April, 2011 A Limited sold 40000 shares of C Limited for cash consideration of ₹ 150 lakhs. The Balance sheets of the companies for the year 2011-12 were as follows :

(1) Balance Sheet as on 31-3-2012

	A	B	C
		₹ in lakhs	
	₹	₹	₹
Investments at cost :			
1,00,000 shares in B Ltd.	100	–	–
40,000 shares in C Ltd.	100	–	–
Other Assets	1,000	800	700
	1,200	**800**	**700**
Share Capital	400	100	100
Reserves and Surplus	550	420	280
Liabilities	250	280	320
	1200	**800**	**700**

(2) Profit and Loss A/c for the year ended 31-3-2012

	A	B	C
		₹ in lakhs	
	₹	₹	₹
Profit before tax	150	180	120
Tax	50	60	40
Profit after tax	100	120	80
Extraordinary items	50	–	–
Profit after tax	150	120	80
Reserves & Surplus-Beginning	400	300	200
Reserves & Surplus – End	550	420	280

Prepare for A Limited, group Balance Sheets as on 31-3-2011 and as on 31-3-2012.

Mark

3. The Shareholders of Sunrise Ltd decided on a corporate restructuring exercise necessitated due to economic recession and a slump in business. From the audited statements as on 31-03-2010 and the information supplied, you are requested to prepare : 16
   (i) Balance Sheet after the completion of the restructuring exercise,
   (ii) The capital reduction account,
   (iii) The cash account of the entity.

Balance Sheet of Sunrise Ltd as on 31-03-2010

Liabilities		₹	Assets		₹
Share Capital			Fixed Assets		
30,000 Equity Shares (₹ 10 each)		3,00,000	Trade Marks and Patents		1,10,000
40,000 8% Cumulative Preference Shares (₹ 10 each)		4,00,000	Goodwill at cost		36,100
			Freehold Land		1,20,000
			Freehold Premises		2,44,000
Reserve and Surplus			Plant and Equipment		3,20,000
Share Premium Account		10,000	Investment (Marked to Market)		64,000
Profit and Loss Account		(1,38,400)	Current Assets		
Secured Borrowings :			Inventories :		
9% Debentures (₹ 100)	1,20,000		Raw materials and packing materials	60,000	
Accrued Interest	5,400	1,25,400	Finished goods	16,000	76,000
Current Liabilities			Trade receivables		1,20,000
Creditors		1,20,000			
Deferred Vat Payable		50,000			
Temporary Bank Overdraft		2,23,100			
		10,90,100			**10,90,100**

Note : Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines :

(1) The Authorized capital of the Company to be re-fixed at ₹ 10 Lakhs (Preference Capital ₹ 3 Lakhs and Equity Capital ₹ 7 Lakhs both ₹ 10/- shares each).

(2) The Preference shares are to be reduced to ₹ 5 each and equity share reduced by ₹ 3 per share. Post reduction, both classes of shares to be re-consolidated into ₹ 10 shares.

Marks

(3) Trade Investments are to be liquidated in open market.

(4) One fresh equity share of ₹ 10 to be issued for every ₹ 40 of preference dividends in arrears (ignore taxation).

(5) The Share Premium is to be fully utilized to meet the reconstruction programme.

(6) The debenture holders took over freehold land at ₹ 2,10,000 and settled the balance after adjusting their dues.

(7) Unprovided contingent Liabilities were settled at ₹ 54,000 and a pending insurance claim receivable settled at ₹ 12,500 on condition that claim will be immediately settled.

(8) The Intangible assets were all to be written off along with ₹ 10,000 worth obsolete packing material and 10% of the receivables.

(9) Expenses for the Scheme were ₹ 10,000.

(10) Remaining cash available as a result of the above transactions is to be utilised to pay off the bank overdraft to that extent.

(11) The Equity shareholders agree that they will bring in cash to liquidate the balance outstanding on the overdraft account and also agree that sufficient funds will be bought in to bring up the net working capital, after completing the re-structuring exercise, to ₹ 2 Lakhs. The Equity Shares will be issued at par for this purpose.

4. The following was the abridged Balance Sheet of X Co. Ltd, as at 31st March, 2012. **16**

Liabilties	₹	Assets	₹
Capital :			
Authorised : 10,000 equity shares of ₹ 100 each	10,00,000	Plant and Machinery at depreciated value	8,60,000
Issued and Paid up :		Land	7,00,000
8,000 equity shares of ₹ 100 each, fully paid up	8,00,000	Current Assets	8,00,000
		Patents, trade marks and copyrights	6,00,000
Reserve and Surplus :			
General Reserve 5,00,000			
Share premium 4,00,000			
Profit and Loss 3,60,000	12,60,000		
11% Debentures secured against the assets of the Co.	5,00,000		
Sundry Creditors	4,00,000		
	29,60,000		**29,60,000**

 Marks

The Company ran two district departments utilizing the trademarks and copyrights owned and generated by it. The assets and liabilities of one of the departments as on the date of Balance Sheet were :

	₹
Plant and Machinery	4,00,000
Land (used for business)	2,00,000
Current assets	2,00,000
Trademarks and copyrights	3,50,000
	11,50,000
Sundry Creditors	2,50,000
	9,00,000

Due to managerial constraints, X is unable to develop this department. An overseas buyer is interested to acquire this department and after due diligence, offers a consideration of ₹ 20,00,000 to the company for transfer of business. The buyer offered to discharge the purchase consideration immediately after 31st March, 2012, in the following manner :

(i) Issue of equity shares of the buyer's company for ₹ 10,00,000 at a premium of 20% over the face value; and

(ii) Payment of the balance consideration in £ sterling. The exchange rate agreed upon is ₹ 80 per £ sterling. This amount will be retained in London, till the actual take over of the business is done by the buyer.

   (a) expenses to put through the transaction come to ₹ 8,00,000 initially to be incurred by X but to be shared equally by the parties.

   (b) the balance value of trademarks, copyrights and patents left with X does not enjoy any market value and has to be written off.

   (c) the value of the balance of land in X's possession will be taken at its market value in the books of accounts. Such a value, determined by an approved valuer, is 200 percent of the book value.

   (d) the parties agree that the date of legal ownership of the transferred business shall be 31st March, 2012, though certain formalities may have to be gone through and agree that the actual transfer to the buyer will be effected before 30th April, 2012.

   X Co. Ltd to carry on the business in the normal course and account for the profits of the transferred department to the foreign buyer. X made a net profit of ₹ 2,40,000 from the whole business for April, 2012; 40 percent of the net profit related to the business of the transferred department.

Marks

(e) the shares of the overseas buyer's company were quoted on the London Stock Exchange and on 30th April, 2012 were quoted at 95 percent of their face value.

(f) the cash received by X at London was remitted by it to its Indian banking account on 30th April 2012 when the rupee-sterling rate was ₹ 75 per UK sterling pound.

Draw the Balance Sheet of X Co. Ltd as at 30th April, 2012, after the transfer of the business to the overseas buyer.

5. (a) As point of staff welfare measures, Y Co. Ltd has contracted to lend to its employees sums of money at 5 percent per annum rate of interest. The amounts lent are to be repaid alongwith the interest in five equal annual instalments. The market rate of interest is 10 percent per annum. 8

Y lent ₹ 16,00,000 to its employees on 1st January, 2011.

Following the principles of recognition and measurement as laid down in AS 30, you are required to record the entries for the year ended 31st December, 2011 for the transaction and also calculate the value of the loan initially to be recognised and the amortised cost for all the subsequent years.

For purposes of calculation, the following discount factors at interest rate of 10 percent may be adopted.

At the end of year

1	.909
2	.827
3	.751
4	.683
5	.620

(b) Hindusthan Corporation Limited (HCL) has been consistently preparing Value Added Statement (VAS) as part of Financial Reporting. The Human Resource department of the Company has come up with a new scheme to link employee incentive with 'Value Added' as per VAS. As per the scheme an Annual Index of Employee cost to Value Added annual (% of employee cost to Value Added rounded off to nearest whole number) shall be prepared for the last 5 years and the best index out of results of the last 5 years shall be selected as the 'Target Index'. The Target Index percentage shall be applied to the figure of 'Value Added' for a given year and the target employee cost ascertained. Any saving in the actual employee cost for the given year compared to the target employee cost will be rewarded as 'Variable incentive' to the extent of 70% of the savings. From the given data, you are requested to ascertain the eligibility of 'Variable Incentive' for the year 2011-2012 of the employees of the HCL. 8

Marks

Value added statement of HCL for Last 5 years (₹ lakhs)

Year	2006-07	2007-08	2008-09	2009-10	2010-11
Sales	3,200	3,250	2,900	3,800	4,900
Less :					
Bought Out Goods and Services	2,100	2,080	1,940	2,510	3,200
Value added	1,100	1,170	960	1,290	1,700

Application of Value Added

	2006-07	2007-08	2008-09	2009-10	2010-11
To Pay Employees	520	480	450	600	750
To Providers of Capital	160	170	120	190	210
To Government Tax	210	190	220	300	250
For Maintenance and expansion	210	330	170	200	490

Summarized Profit and Loss Account of the HCL for 2011-2012 **(₹ in lakhs)**

Sales		5,970
Less :		
Material Consumed	1,950	
Wages	400	
Production Salaries	130	
Production Expenses	500	
Production Depreciation	150	
Administrative Salaries	150	
Administrative Expenses	200	
Administrative Depreciation	100	
Interest	150	
Selling and Distribution Salaries	120	
Selling Expenses	350	
Selling Depreciation	120	4,320
Profit		1,650

Marks

6. (a) NRPL (Nuclear Reactors Private Limited) is engaged in the business of design and construction of nuclear reactors that are supplied exclusively to the Atomic Energy Department The core component of such reactors is out sourced by NRPL from FIL (Fusion Industrials Ltd) the sole manufacturer of this item. NRPL wants to gain leadership in this industry and seeks to take over FIL. NRPL estimates that its Goodwill in the industry will increase by a minimum of ₹ 300 crores consequent on the acquisition. NRPL has made the following calculation of the economic benefits presently available and that foreseen as a result of the acquisition. 12

(i) Projected Cash Flows of NRPL for the next 5 years :

Year	1	2	3	4	5
Cash flow (₹ in Crores)	1,000	1,500	2,000	2,500	3,000

(ii) Projected Cash Flow of FIL for the next 5 years :

Year	1	2	3	4	5
Cash flow (₹ in Crores)	400	400	600	800	1,000

(iii) Audited Net worth of FIL

	₹
Fixed Assets	2,000
Investments (Non Trade)	1,000
Current Assets	1,000
Total	4,000
Current Liabilities	1,000
Net Worth	3,000

(iv) Other Information :

(a) 10 % of the Fixed Assets of FIL will not be required in the event of the acquisition and the same has ready buyers for ₹ 100 Crore.

(b) Current Assets include surplus stocks of ₹ 20 crore that can realise ₹ 30 Crore.

(c) Investments have a ready market for ₹ 1,500 Crore.

(d) The Current Liabilities are to be paid off immediately ; ₹ 510 Crores are payable on account of a compensation claim awarded against FIL, which has been treated as a contingent liability in the accounts *on which 20* percent was provided for.

Marks

(v) NRPL has estimated the combined cash flows post merger as under :

Year	1	2	3	4	5
Cash flow (₹ in Crores)	1,500	2,000	2,500	3,000	3,500

You are required to advise NRPL the maximum value it can pay for take over of FIL ; also show the current valuation of FIL as a 'Stand Alone' entity. The Discount rate of 15% is advised appropriate, values for which are given below :

Year	P.V.
1	0.870
2	0.756
3	0.658
4	0.572
5	0.497

(b) The following information (as of 31-03-2012) is supplied to you by M/s Fox Ltd — 4

			(₹ in crore)
(i)	Profit after tax (PAT)		205.90
(ii)	Interest		4.85
(iii)	Equity Share Capital	40.00	
	Accumulated surplus	700.00	
	Shareholders fund	740.00	
	Loans (Long term)	37.00	
	Total long term funds		777.00
(iv)	Market capitalization		2,892.00

Additional information :

(a)	Risk free rate	12.00 percent
(b)	Long Term Market Rate (Based on BSE Sensex)	15.50 percent
(c)	Effective tax rate for the company	25.00 percent
(d)	Beta (β) for last few years	

Year	
1	0.48
2	0.52
3	0.60
4	1.10
5	0.99

Using the above data you are requested to calculate the Economic Value Added of Fox Limited as on 31st March, 2012.

Marks

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

(a) Bellhop LLC submits the following information pertaining to year 2011. Using the data, you are required to find the ending cash and Bank balances given an opening figure thereof was ₹ 1.55 million.

	(₹ millions)
Additional shares issued	6.50
CAPEX (Capital expenditure)	9.90
Proceeds from Assets sold	1.60
Dividends declared	0.50
Gains from disposal of Assets	(1.20)
Net Income	3.30
Increase in Accounts Receivable	1.50
Redemption of 4.5% debentures	2.50
Depreciation & Amortization	0.75

(b) From the information furnished you are required to compute the Basic and Diluted EPS (earnings per share) for accounting year 01-04-2011 to 31-03-2012 and adjusted EPS for the year 01-04-2010 to 31-03-2011.

Net profit for year ended 31-03-2011	₹ 75,50,000
Net profit for year ended 31-03-2012	₹ 1,00,25,000
No. of Equity shares as on 01-04-2011	50,00,250
Bonus issue on 01-01-2012	1 share for every 2 held
No. of 12% Convertible Debentures of ₹ 100 each issued on 01-01-2012	1,00,000
Conversion Ratio of Debentures	10 shares per debenture
Tax Rate	30 percent

(c) X Limited was making provisions upto 31-3-2011 for non-moving stocks based on no issues for the last 12 months. Based on a technical evaluation the company wants to make provisions during the year 31-3-2012 in the following manner :

Total value of stock ₹ 3 crores.

Provision required based on 12 months ₹ 8 lakhs.

Provision required based on technical evaluation ₹ 7.50 lakhs.

Does this amount to change in accounting policy ?

Can the company change the method of provision ?

(d) X Limited began construction of a new plant on 1st April 2011 and obtained a special Loan of ₹ 8 lakhs to finance the construction of the plant. The rate of interest on loan was 10 percent per annum.

The expenditure that was made on the project of plant construction was as follows :

		₹
1-4-2011	–	10,00,000
1-8-2011	–	24,00,000
1-1-2012	–	4,00,000

The Company's other outstanding non specific loan was ₹ 46,00,000 at an interest of 12 percent per annum.

The construction of the plant was completed on 31-3-2012. You are required to calculate the amount of interest to be capitalized as per the provision of AS-16 of the borrowing cost (including cost)

(e) X Limited on 1-1-2012 had made an investment of ₹ 600 lakhs in the equity shares of Y limited of which 50% is made in the long term category and the rest as temporary investment. The realisable value of all such investment on 31-3-2012 become ₹ 200 lakhs as X limited lost a case of copy right. How will you recognize the reduction in financial statements for the year ended on 31-3-2012.
