



FINAL CA – NOV 2018
SUB: FINANCIAL REPORTING
 Topics: Amalgamation, Valuation of goodwill,
 Financial Reporting of financial institution,
 Value added statement.

Test Code – CF5
 Branch (MULTIPLE) (Date : 27.05.2018)
 (50 Marks)

Note: All questions are compulsory.

Question 1 (10 marks)

1. Basic Information:

Selling Co: X Ltd. **Date of Balance Sheet:** 31 March

Buying Co: Y Ltd. **Date of Amalgamation:** 31 March

Nature of Amalgamation: Purchase (Since consideration to Equity Shareholders is other than by Equity Shares also and assets are not taken over at book value)

2. Computation of Purchase Consideration:

Particulars	Rs.
(i) Calculation of goodwill:	
Average of 5 year profits (given)	30,100
Less: Normal Profit 8% of Capital + Reserves i.e. Rs.2,20,000	(17,600)
Super profit	12,500
Goodwill at 4 years purchase	50,000
(ii) Calculation of Purchase Consideration:	
Assets takeover	
Land and buildings	100,000
Plant and machinery	145,000
Debtors	65,000
Stock	55,000
	365,000
Less: Allowance at 10% of assets value	(36,500)
Balance Assets Value	328,500
Add: Goodwill as calculated above	50,000
Total value of Assets taken over	378,500
Less: Sundry Creditors less 5% discount	(76,000)
Net Purchase consideration	302,500

3. In the books of X Ltd. (Selling Company)

(a) Realisation a/c

Particulars	Rs.	Particulars	Rs.
To Goodwill	25,000	By Sundry creditors	80,000
To Land and buildings	100,000	By X Ltd.	302,500
To Plant and machinery	145,000	By Shareholders (Loss Trfd)	9,500
To Debtors	65,000		
To Stock	55,000		
To Bank	2,000		
	392,000		392,000

(b) Bank a/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	34,000	By Realisation a/c - Expenses	2,000
To Y Ltd.	150,000	By 10% Debentures	100,000
		By Loan from Bank	40,000
		By Sundry Shareholders	42,000
	184,000		184,000

(c) Sundry Shareholders a/c

Particulars	Rs.	Particulars	Rs.
To Preliminary expenses	16,000	By Share Capital a/c	200,000
To Realisation a/c (Loss Trfd)	9,500	By General Reserve a/c	20,000
To Shares in Y Ltd. - Settlement	152,500		
To Bank	42,000		
	220,000		220,000

(d) Shares in Y Ltd.

Particulars	Rs.	Particulars	Rs.
To X Ltd.	152,500	By Sundry Shareholders a/c	152,500
	152,500		152,500

4. Journal entries in the books of Y Ltd.

Particulars		Debit (Rs.)	Credit (Rs.)
Business Purchase a/c To Liquidators of X Ltd. (Being purchase price agreed to be paid for the business of X Ltd.)	Dr.	302,500	302,500
Goodwill Land and buildings Plant and machinery Debtors Stock Reserve for discount on creditors To Provision for Doubtful Debts To Sundry Creditors To Business Purchase (Being assets and liabilities taken over from X Ltd.)	Dr. Dr. Dr. Dr. Dr. Dr.	50,000 90,000 130,500 65,000 49,500 4,000	6,500 80,000 302,500
Liquidators of X Ltd. To Bank To Equity Share Capital To Securities Premium (Being settlement of purchase consideration)	Dr.	302,500	150,000 122,000 30,500
Profit and loss a/c To Stock a/c (25,000 x 10,000 / 40,000) (Being unrealised profit on goods bought from X Ltd. still unsold)	Dr.	6,250	6,250
Creditors a/c To Debtors a/c (Being elimination of the amount owed by Y Ltd. to X Ltd.)	Dr.	20,000	20,000

Question 2 (10 marks)

1. Journal entries in the books of A Ltd.

(Rs. In crores)			
Particulars		Debit	Credit
Revenue Reseve a/c To Capital Redemption Reseve a/c (Being required amount transferred to Capital Redemption Reserve for redemption of Preferene Shares)	Dr.	75	75
12% Redeemable Preference Share Capital a/c To Preference Shareholders a/c (Being amount payable on redemption of preference shares)	Dr.	75	75
Preference Shareholders a/c To Bank a/c (Being amount paid to preference shareholders on redemption of shares)	Dr.	75	75
Securities Premium a/c To Capital Redemption Reseve a/c (Being required amount transferred from Securities Premium to Capital Redemption Reserve on account of Buy Back of Shares)	Dr.	5	5
Equity Share Capital a/c Premium on Buy Back a/c To Equity Shareholders a/c (Being amount payable on buy back of equity shares)	Dr. Dr.	5 20	25
Equity Shareholders a/c To Bank a/c (Being amount paid to equity shareholders on buy back of shares)	Dr.	25	25
Securities Premium a/c To Premium on Buy Back a/c (Being premium on buy back written off)	Dr.	20	20

2. Balance Sheet of A Ltd. as at 31 March 2015

	Particulars	Note No.	Rs. In crores
I. EQUITY AND LIABILITIES			
1 Shareholders' funds			
	(a) Share capital	1	20
	(b) Reserves and surplus - Securities Premium	2	280
2 Current liabilities			40
TOTAL			340
II. ASSETS			
1 Non-current assets			
	(a) Fixed assets		
	(i) Tangible assets	3	-
	(b) Non-current investments (Market Value Rs.400)		100
2 Current assets (340 - 75 - 25)			240
TOTAL			340

Notes to accounts:

Note 1: Share Capital

Particulars	Rs. In crores
Authorised:	
..... Equity Shares of Rs..... each	-
	-
Issued, subscribed and fully paid-up:	
2 crores Equity Shares of Rs.10 each, fully paid up (Company has redeemed 75 lacs, 12% Preference Shares of Rs.100 each and bought back 50 lacs, Equity Shares of Rs.10 each)	20
	20

Note 2: Reserves and Surplus

Particulars	Rs. In crores
(a) Capital reserve	15.00
(b) Capital Redemption Reserve (75 + 5)	80.00
(c) Revenue Reserve (260 - 75)	185.00
	280.00

Note 3: Tangible fixed assets

Particulars	Rs. In crores
Cost	100.00
Less: Accumulated depreciation	(100.00)
	-

3. Intrinsic Value:

Particulars	Rs. In crores	Rs. In crores
Investments	400	
Current assets	240	640
Less: Current liabilities		(40)
a. Net assets available to equity shareholders		600
b. No. of Equity Shares		2 crore
Therefore, Intrinsic value (a/b)		Rs.300

Question 3 (10 marks)

ABC Ltd.

Gross Value Added Statement for the year ended 31 March 2015

Particulars	Amount (Rs. In lacs)	Amount (Rs. In lacs)
Revenue:		
Sales	54,956	
Less: Excise duty	3,286	51,670
Less: Cost of bought in materials and services		
Operating costs (47,988-2,674)	45,314	
Interest on cash credit	592	(45,906)
Value added by manufacturing and trading activities		5,764
Add: Other income		178
Gross Value Added		5,942

Application of Gross Value Added

Particulars	Amount (Rs. In lacs)	Amount (Rs. In lacs)	%
To pay employees			
- Salaries, wages and other employee benefits		2674	45.00%
Tax expenses:			
-Tax expenses including deferred tax	544		
- Tax on dividend paid	135	679	11.43%
To pay providers of finance			
- Interest on debentures	980		
- Dividend paid	450	1,430	24.07%
To provide for expansion and maintenance			
- Depreciation	299		
- Transfer to fixed assets replacement reserves	250		
- Transfer to general reserves	500		
- Retained earnings	110	1,159	19.51%
Gross Value Applied		5,942	100%

Reconciliation of Gross Value Added and Profit before Tax

Particulars	Amount (Rs. In lacs)	Amount (Rs. In lacs)
Profit before Tax		1,989
Add:		
- Salaries, wages and other employee benefits	2674	
- Interest on debentures	980	
- Depreciation	299	3,953
Gross Value Added		5,942

Question 4 (10 marks)

W.N.1: Effect of foreign exchange rate difference in debtors:

Year	Rs. (in 000's)				
	1	2	3	4	5
Gain to be correctly considered (i) on re-statement [Debtors x (Year end rate - Entry rate)]	750	930	12,915	(1,440)	(1,230)
(ii) on collection of proceeds [Debtors x (Year end rate - Collection rate)]	-	500	5,270	(2,835)	8,640
Total profit to be considered (i) + (ii)	750	1,430	18,185	(4,275)	7,410
Less: Gain wrongly considered [Debtors x (Collection rate - Entry rate)]	-	(1,250)	(6,200)	(10,080)	(7,200)
Net effect on profit i.e. Increase / (Decrease)	750	180	11,985	(14,355)	210

W.N.2: Effect of differences in treatment of expenses and incomes:

Year	Rs. (in 000's)				
	1	2	3	4	5
Expenses:					
To be considered	87	14	25	54	
Actually considered		87	14	25	54
Net effect on profit i.e. Increase / (Decrease)	(87)	73	(11)	(29)	54
Incomes:					
To be considered	12	35	8	68	
Actually considered		12	35	8	68
Net effect on profit i.e. Increase / (Decrease)	12	23	(27)	60	(68)
Net effect of the above on profit i.e. Increase / (Decrease)	(75)	96	(38)	31	(14)

W.N.3: Computation of adjusted profits of past years:

Year	Rs. (in 000's)				
	1	2	3	4	5
Net profit after appropriation of dividend	1,910	1,850	2,240	2,015	2,525
Add: Proposed dividend @ 20% of Equity capital	3,000	3,000	3,600	3,600	3,600
Add: Tax expenses for the year (See note below)	5,320	3,700	6,300	5,700	6,100
Net profit before taxes	10,230	8,550	12,140	11,315	12,225
Adjustments:					
Effect of change in stock valuation (See note)					
- Reversal of LIFO	(121)	(131)	(142)	-	-
- Implementation of FIFO	(15)	21	54	-	-
Effect of change in the method of depreciation i.e. WDV less SLM	(98)	(85)	(100)	(90)	-
Effect of forex gain / (loss) in debtors	750	180	11,985	(14,355)	210
Effect of adjustments in expenses / incomes	(75)	96	(38)	31	(14)
Adjusted Profits before Tax	10,671	8,631	23,899	(3,099)	12,421

Notes:

1. Assuming the effect of stock adjustments given is on Profits, Credit in LIFO Method represents amount already credited to P&L a/c and therefore to be reversed. Likewise, Debit under FIFO Method represents amounts to be accounted, therefore, to be debited to P&L a/c.
2. Total tax expenses for the year will be reflected in the Provision for Taxation account. It is assumed that the balances given in the question reflect the balance for the relevant financial year after setting off the Advance Tax paid for that year. Hence, Total tax expenses = Advance tax + Balance in Provision for Taxation account.

W.N.4: Computation of Future Maintainable Profits

Particulars	Rs. (in 000's)
Simple Average of past 5 years Adjusted Profits before tax = FMP before tax $10,671 + 8,631 + 23,899 - 3,099 + 12,421$	10,504.60
5	
Less: Tax expenses at 34%	(3,571.564)
Future Maintainable Profits after Tax	6,933.04

Question 5 (10 marks)

Journal Entries in the books of fund

Date	Particulars		Rs.	Rs.
31.12.2010	Investment in X Ltd.'s shares A/c (5,000 x Rs. 40) Investment in Y Ltd.'s shares A/c (4,000 x Rs. 60) To Bank A/c (Being investment made in X Ltd. and Y Ltd.)	Dr. Dr.	200,000 240,000	440,000
31.3.2011	Revenue A/c [5,000 x Rs. (40-38)] To Provision for Depreciation A/c (Being provision created for the reduction in the value of X Ltd.'s shares)	Dr.	10,000	10,000
31.3.2011	Investment in Y Ltd.'s shares A/c [4,000 x Rs. (64-60)] To Unrealised Appreciation Reserve A/c (Being appreciation in the market value of Y Ltd.'s shares transferred to Unrealised Appreciation Reserve A/c)	Dr.	16,000	16,000
01.04.2011	Unrealised Appreciation Reserve A/c To Investment in Y Ltd.'s shares A/c (Being last year's unrealised appreciation reserve balance reversed at the beginning of the current year)	Dr.	16,000	16,000
30.6.2011	Bank A/c (5,000 x Rs. 37) Loss on disposal of Investment A/c To Investment in X Ltd.'s shares A/c (5,000 x Rs. 40) (Being shares of X Ltd. disposed off at a loss Rs. 15,000)	Dr. Dr.	185,000 15,000	200,000
30.6.2011	Provision for Depreciation A/c Revenue A/c To Loss on disposal of Investment A/c (Being net loss on disposal of X Ltd.'s shares charged to revenue account)	Dr. Dr.	10,000 5,000	15,000
30.6.2011	Bank A/c (4,000 x Rs. 67) To Investment in Y Ltd.'s shares A/c (4,000 x Rs. 60) To Revenue A/c (Being shares of Y Ltd. disposed off at a profit of Rs. 28,000)	Dr.	268,000	240,000 28,000
