FINAL CA – May 2018
Financial Reporting
Test Code – F21
Branch : Borivali Date: 21.12.2017

(50 Marks)

*Note: **All** questions are compulsory.*

Question 1 (9 marks)

Value Added Statement of Pradeep Ltd.
for the period ended on 31.3.2016
(2 1/2 marks)

		(` in lakhs)
Sales (net) (2,500 – 35)		2,465
Less: Cost of Bought in Materials and Services:		
Raw material consumed (180 + 714 – 240)	654	
Printing and stationary	24	
Auditors' remuneration	15	
Rent paid	172	
Other expenses	88	(953)
Value added by manufacturing and trading activities		1,512

Application of Value Added
(3 marks)

		(` in lakh)	(` in lakh)	%
To	Pay Employees:			
	Wages and salaries	352		
	Employees state insurance	32		
	Provident fund contribution	26	410	27.12
	Income-tax		280	18.52
To	Pay Providers of Capital:			
	Interest on borrowings	40		
	Dividend	85	125	8.27
To	Provide for maintenance and expansion of the company:			
	Depreciation	132		
	Transfer to reserve (assumed) (balancing figure)	120		
	Retained profit	445	697	46.09
			1,512	100

Value Added Per Employee = Value Added/ No. of Employees (1/2 mark)

1,512 \ 87 = 17.38

Average Earnings Per Employee = Average Earnings of Employee / No. of Employees

410/87 = 4.71

(1/2 mark)

Sales Per Employee = Sales / No. of Employees(1/2 mark)

2,465 / 87 = 28.33

Note: There is a missing figure in the question of ` 120 lakhs which has been assumed as 'transfer to reserves' in the above solution. However, one may assume some other item like either excise duty or manufacturing expenses etc. and may solve accordingly.

For verification of missing figure, summarised Profit and Loss Account for the year ended 31st March, 2016 has been prepared for better understanding, though not required in the question.

Summarised Profit & Loss Account for the year ended 31.3.2016 (2 marks)

		Amount (` in lakhs)
Income		
Sales		2,465
Less: Expenditure		
Raw material consumed	654	
Auditors' remuneration	15	
Rent paid	172	
Other expenses	88	
Depreciation	132	
Interest on Borrowings	40	
Wages and Salaries	352	
Employees State Insurance	32	
Provident Fund Contribution	26	(1,535)
Profit before tax		930
Less: Provision for tax		(280)
Profit after tax		650
Appropriations:		
Dividend to ordinary shareholders		(85)
Retained Profit for the year (as calculated)		565
Retained Profit for the year (as given in the question)		445
Difference (assumed as transfer to reserves)		120

Question 2 (16 marks)

Balance Sheet of XY Ltd.

As on 31st March, 2015 (7 marks)

Particulars	*Note No.*	*(` in lacs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	927.50
(b) Reserves and Surplus	2	2060.41
(2) Non-Current Liabilities		
Long-term borrowings	3	65.00
(3) Current Liabilities		
Trade payables	4	240.00
Total		3,292.91
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	5	1,377
(2) Current assets		
(a) Inventories	6	599
(b) Trade Receivables	7	615
(c) Cash & Cash equivalents	8	701.91
Total		3,292.91

Notes to Accounts (4 marks)

	(` in lacs)	*(` in lacs)*
1. Share Capital		
Authorised share capital		
70 lacs Equity shares @ ` 10 each		700
4 lacs 15% Preference shares @ ` 100 each		400
		1,100
Issued share capital		
52.75 lacs Equity Shares of ` 10 each	527.50	
4 lacs 15% Preference shares of 100 each	400.00	927.50

(Out of the above 51.75 lacs Equity shares and 4 lacs Preference shares are issued for consideration other than cash)

2. Reserves and surplus			
Capital Reserve (W.N.1)		740.00	
Securities Premium (W.N.5)		1,328.50	
Profit and Loss A/c (Incorporation expenses)		(8.09)	2,060.41
3. Long Term Borrowings			
15% Debentures of ` 100 each			
X Ltd.		41.67	
Y Ltd.		23.33	65.00
4. Trade payables			
X Ltd.		165.00	
Y Ltd.		75.00	240.00
5. Tangible assets			
Land & Building			
X Ltd.		517.00	
Y Ltd.		330.00	847.00
Plant & Machinery			
X Ltd.		310.00	
Y Ltd.		220.00	530.00
			1,377.00
6. Inventories			
X Ltd.		345.00	
Y Ltd.		254.00	599.00
7. **Trade Receivables**			
X Ltd.		345.00	
Y Ltd.		270.00	615.00
8. **Cash and Cash equivalents**			
X Ltd. (W.N.2)		397.00	
Y Ltd. (W.N.2)		303.00	700.00
XY Ltd.			
Received from subscribers of shares		10.00	
Less: Incorporation expenses paid	(8.09)	1.91	
		701.91	

Note: As per AS 26 preliminary expenses are charged to Profit and loss account in the year in which it is incurred. Accordingly, the treatment for incorporation expense has been done .

Working Note (5 marks)

1. Calculation of Capital Reserve on amalgamation

			(` in lacs)
		X Ltd.	*Y Ltd.*
Assets taken over:			
Land and Building	(470 x 110%)	517	330
Plant and Machinery		310	220
Inventory		345	254
Trade receivables		345	270
Cash and Bank (W.N.2)		397	303
		1,914	1,377

Less : Liabilities taken over:				
13% Debentures (W.N.3)	41.67		23.33	
Trade payables	165.00	(206.67)	75.00	(98.33)
Net Assets taken over		1707.33		1,278.67
Less: Purchase consideration (W.N.4)		(1,400)		(846)
Capital Reserve		307.33		432.67
Total capital reserve (307.33 + 432.67) = 740.00 lacs				

2. Calculation of Cash and Cash Equivalents

	X Ltd. *` in lacs*	*Y Ltd.* *` in lacs*
Balance as per Balance Sheet	355.00	251.00
Less: Payment for unsecured loans	(25.00)	-
Add: Receipt from sale of investments	67.00	52.00
	397.00	303.00

3. Calculation of 15% Debentures issued by XY Ltd. to

	X Ltd. ` In lacs	Y Ltd. ` In lacs
$50 \times \frac{12.5}{15}$	41.67	
$28 \times \frac{12.5}{15}$		23.33

4. Computation of Purchase consideration (On Payment Basis)

		(` in lacs)	
		X Ltd.	*Y Ltd.*
(1)	15% Preference Shares:		
	(4.20/3) x 2 = 2.80 lacs shares @ ` 125 each	350	
	(1.80/3) x 2 = 1.20 lacs shares @ ` 125 each		150
2.	Equity Shares:		
	(4 × 7,50,000) = 30,00,000 equity shares @ ` 35 each	1050	
	(3 × 7,25,000) = 21,75,000 equity shares @ ` 32 each		696
		1,400	846

5. Calculation of Securities Premium

	` in lacs
15% Preference Shares issued at premium of ` 25 each   (4 lacs x `25 each)	100
Equity Shares issued to - X Ltd. (30 lacs x ` 25 each)	750
Y Ltd. (21.75 lacs x ` 22 each)	478.50

	1328.50

Question 3 (9 marks)

Total value of business as on 31.03.2015 (2 marks)

	` in thousands
Closing Capital Employed as on 31.3.2015	16,960
Less: Goodwill appearing in the Balance Sheet as purchased Goodwill	(2,400)
Add: Goodwill	8,225
Total Value of Business	22,785

Working Notes:

1. **Calculation of Average Capital Employed (3 marks)**

	31.3.2013 ` *in thousands*	31.3.2014 ` *in thousands*	31.3.2015 ` *in thousands*
Purchased Goodwill*	4,000	3,200	2,400
Tangible Assets	7,200	8,000	8,800
Inventories	4,800	5,600	6,400
Trade Receivables	80	640	1,760
Cash & Cash Equivalents	480	800	1,600
	16,560	18,240	20,960
Less: Trade payables	(2,400)	(3,200)	(4,000)
Closing Capital	14,160	15,040	16,960
Add: Opening Capital Employed	14,640	14,160	15,040
Total	28,800	29,200	32,000
Average Capital Employed	14,400	14,600	16,000

*Since the goodwill has been purchased, it is taken as a part of Capital employed. However, writing off of the goodwill is an extra-ordinary item, therefore not considered while calculating Future Maintainable Profit.

18. **Valuation of Goodwill (2 marks)**

Future Maintainable Profit

		31.3.2013 ` *in thousands*	31.3.2014 ` *in thousands*	31.3.2015 ` *in thousands*
	Future Maintainable Profit	1,680	2,480	3,280
	Less : Opening Profit	(480)	(560)	(640)
	Add: Appreciation of closing inventory	800	800	800

		Less: Appreciation of opening inventory	-	(800)	(800)
		Add: Transferred to General Reserve	800	800	800
		Goodwill written off		800	800
			2,800	3,520	4,240
		Less: Normal Return @ 12.5% on ACE	(1,800)	(1,825)	(2,000)
	(ii)	Super Profit	1,000	1,695	2,240

(iii) Average super profit = (1000+1695+2240)/3 = 1645 thousands **(1 marks)**

(iv) **Value of Goodwill** at five years' purchase

= ` 1,645 thousands × 5 = ` 8,225 thousands **(1 mark)**

Question 4 (16 marks)

Balance Sheet of A Ltd. (after absorption of B Ltd.) as on 31st March,2015 (2 marks)

Particulars	Note No.	(Rs.)
I Equity and Liability		
1. Shareholders fund		
a) Share capital	**1**	49,73950
b) Reserves and Surplus	**2**	7,56,040
2. Non –current liabilities		
Long term borrowings		8,00,000
Current liabilities		9,80,000
Total		75,09,990
II Assets		
Non-current Assets		
Fixed Assets		
Tangible Assets(Rs.30,50,000+ Rs.7,30,000)		37,80,000
Current Assets		
a) Inventories		13,90,000
b) Trade receivables		17,20,000
c) Cash and Cash equivalents		6,19,990
		75,09,990

Notes to Accounts: (2 marks)

		Rs.	Rs.
1.	**Share Capital** 4,97,395 Equity Shares of Rs.10 each fully paid (out of which 47,395 shares were allotted to vendors for consideration other than cash)		**49,73,950**
2.	**Reserves and surplus**		
	General Reserve	**4,46,000**	
	Profit and loss account	**2,38,000**	

	(Rs.6,34,000- Rs.3,60,000-Rs. 36,000)		
	Securities premium reserve (47,395 shares x Rs.1.52)	72,040	7,56,040

Working Notes:

(1) Computation of Net Assets(excluding inter-company investments) (2 marks)

	A Ltd.	B Ltd.
	Rs.	Rs.
Total Assets		
Assets Excluding invest	57,84,000	20,50,000
Dividend receivable	-	72,000
(A)	57,84,000	21,22,000
External Liabilities		
Current Liabilities	6,00,000	3,80,000
Proposed dividend	3,60,000	-
Dividend distribution tax@10%	36,000	-
10% Debentures	-	8,00,000
(B)	9,96,000	11,80,00
Net Assets(A) –(B)	47,88,000	9,42,000

Note: (1) **Dividend distribution tax has been calculated without grossing up.**

(2) Since the Preference Shares of B Ltd. Do not have priority over the payment of capital and dividend ,they have to be treated at par with the equity shares .Both types of shares have the same paid up value.

(2). In view of the above , the proration of shareholding in B Ltd. Is worked out , as follows: **(2 marks)**

(a) $\mathbf{A\ Ltd.\ in\ B\ Ltd.}$

$$\frac{\text{Number of shares held by B Ltd.}}{\text{Total numberof Euity and Prefernce Shares of B Ltd.}} = \frac{30{,}000}{1{,}00{,}000 + 50{,}000} = \frac{1}{5}$$

(a) $\mathbf{B\ Ltd.\ in\ A\ Ltd.}$

$$\frac{\text{Number of shares held by B Ltd.}}{\text{Total numberof Euity A Ltd.}} = \frac{90{,}000}{4{,}50{,}000} = \frac{1}{5}$$

(3)Calculation of intrinsic value of shares:(2 marks)

Let ‘a’ be the intrinsic value of shares of A Ltd. And ‘b’ be the intrinsic value of Shares of B Ltd.

Now, a =Rs.47,88,000 +1/5 x b

B =Rs.9,42,000+1/5 x a

By substituting the value of a in b , we get

b =Rs.9,42,000 + 1/5(Rs.47,88,000 +1/5 x b)

b =Rs.9,42,000 + 9,57,600 + b/25

$\frac{24\text{ b}}{25}$ =Rs.18,99,600

$$b = \frac{\text{Rs.}18{,}99{,}600 \times 25}{24}$$

$$b = \text{Rs.}\ 19{,}78{,}750$$

$$a=\text{Rs.}47{,}88{,}000 + \frac{19{,}78{,}750}{5} = \text{Rs.}51{,}83{,}750$$

Intrinsic value of shares of A. Ltd. $= \frac{\text{Rs.}51{,}83{,}750}{4{,}50{,}000} = 11.52$

Intrinsic value of shares of B. Ltd. $= \frac{\text{Rs.}19{,}78{,}750}{1{,}00{,}000+50{,}000} = \text{Rs.}13.19$

(4)Calculation of Purchase Consideration : (2 marks)

No. of shares held by outside shareholders of B Ltd.

=1,00,000 -30,000 +50,000 = 1,20,000

Intrinsic value of shares = 1,20,000 x Rs. 13.19 per share

= 15,82,800

Shares to be issued on the basis of Intrinsic value of shares

$= \frac{\text{Rs.}15{,}82{,}800}{\text{Rs.}11.52}$ =1,37,395.83 shares

Less :Shares already held by A Ltd. =90,000.00 shares

Number of shares to be issued = 47,395.83 shares

(5) Total Purchase price**(1 mark)**

	Rs.
Additional shares in A.Ltd.(47,395 shares of Rs.11.52)	5,45,990
Cash for fractional shares(0.83 x Rs.11.52)	10
Value of 30,000 shares already held by A Ltd.	5,46,000
(30,000 shares x Rs.13.19)	3,96,000*
Total	9,42,000

*Approximate figure has been considered.

(6) General Reserve **(1 mark)**

	Rs.
As per balance sheet	3,50,000
Add: Appreciation in the of shares held B Ltd.	
(Rs.3,96,000 –Rs.3,00,000)	96,000
Closing balance	4,46,000

(7) Bank Balance**(2 marks)**

		A Ltd.	B Ltd.
		Rs.	**Rs.**
As per balance sheet		6,24,000	3,20,000
Dividend received		-	72,000
		6,24,000	3,92,000
Less : Dividend Payment	3,60,000		
Dividend tax @10%	36,000		
Cash for fraction shares	10	(3,96,010)	-
		2,27,990	3,92,000
Total bank balance			6,19,990

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