FINAL CA – May 2018
Financial Reporting

Test Code – F5
Branch: Andheri Date: 10.12.2017

(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)

Calculation of Net Assets (3 marks)

	Good Ltd. (` in '000)		*Better Ltd. (` in '000)*	
Goodwill (given to be of nil value)				
Machines and Plant	510		195	
Other Fixed Assets	90		15	
	600			210
Add: 15% increase in price	90	690		
Current Assets				
Inventories		185	35	

(25 thousand x 25/ 125)			5	30
Debtors		100.50	35	
Less: Debtors considered bad			20	15
Prepaid expenses		24.50		2
Cash in Hand & Bank	178			25
Less: Payment of Dividend (10% of ` 800 thousand)	(80)	98		-
Value of Total Assets		1,098		282
Less : Liabilities				
Trade Payables		45		24
Provisions	95			12
Less: Dividend paid and adjusted in cash	(80)	15		
(assumed that proposed dividend was included in provisions)				
Value of Net Assets of the Company		1,038		246

Working Notes:
(3 marks)

1 Calculation of Intrinsic Value of Shares

	Good Ltd.	*Better Ltd.*
Net assets value as on 31.03.2017 (` *in '000)*	1,038	246
No. of shares of the company (*in '000)*	80	20
Intrinsic value per share	12.975	12.30

2. Calculation of Purchase Consideration

	Good Ltd.	*Better Ltd.*
Intrinsic value per share	12.975	12.30
Premium to be paid by Best Ltd.	5.00	3.00
Amount to be paid per share	17.975	15.30
No. of shareholders agreeing to amalgamation (*in '000)*	79.90	20
Total amount to be paid by Best Ltd. (` *in '000)*	1,436.202	306
		30,600
share (` 2 paid in cash)		
Total number of equity shares	1,74,220	
Payment to dissenting shareholders (100 shares x 22.98)	` 2.298 thousand	
Total purchase consideration (` *in '000)*	1,438.50	306.00

Entries in Books of Best Ltd.
(4 marks)

		(` *in '000)*	(` *in '000)*
Business Purchase A/c	Dr.	1,744.50	
To Liquidators of Good Ltd.			1,438.50
To Liquidators of Better Ltd.			306.00
(Being the purchase of Good Ltd. and Better Ltd.)			
Fixed Assets	Dr.	900.00	
Inventories	Dr.	215.00	

Debtors	Dr.	115.50	
Prepaid Expenses	Dr.	26.50	
Cash & Bank	Dr.	123.00	
Goodwill (balancing figure)	Dr.	460.50	
To Trade Payables			69.00
To Provisions			27.00
To Business Purchase A/c			1,744.50
(Being the assets and liabilities of the companies taken over at revalued values)			
Liquidators of Good Ltd.	Dr.	1,438.50	
Liquidators of Better Ltd.	Dr.	306.00	
To Equity Share Capital A/c			1,742.20
To Cash A/c			2.30
(Being payment made to liquidators of amalgamating companies)			
Amalgamation Adjustment Reserve	Dr.	24.00	
To Statutory Funds			24.00
(Being the statutory reserves of Good Ltd. and Better Ltd. taken by Best Ltd. with corresponding debit to Amalgamation Adjustment Reserve)			

Balance Sheet of Best Ltd. as on 31st March, 2017
(6 marks)

		Note No.	*` in '000*
Equity and liabilities			
Shareholders' Funds			
(a) Share Capital			1,742.20
(b) Reserves and Surplus			
Statutory Funds	24		
Amount Adjusted Reserve (24)			Nil
Non-Current liabilities			
Long-term borrowings			-
Current liabilities			
(a) Trade Payables			69
(b) Other Current liabilities			
(c) Short-term provisions			27
	Total		1,838.20
Assets			
Non-Current Assets			
Fixed Assets			
(i) Tangible Assets			900
(ii) Intangible Assets			460.50
Current Assets			
(a) Inventories			215
(b) Trade Receivables			115.50
(c) Cash and Bank Balances			120.70
(d) Short-term loans and advances			26.50

Total		1,838.20

Question 3 (9 marks)

Computation of Goodwill (3 marks)

	`
Capital Employed (W.N.1)	11,89,767
Average Profit (W.N.2)	2,65,097
Normal profit @ 20% on capital employed	2,37,953
Super profit	27,144
Goodwill at 2 years' purchase	54,288

Working Notes:

1. Capital Employed as on 31.3.2011 (3 marks)

	`	`
Machinery		3,00,000
Free hold properties		4,50,000
Vehicles		1,00,000
Furniture (W.N.3)		64,580
		9,14,580
Add: 15% Appreciation		1,37,187
		10,51,767
Trade investment		18,000
Stock in trade		2,00,000
Sundry debtors (4,00,000-40,000)		3,60,000
Cash at bank		60,000
		16,89,767
Less : Outside Liabilities:		
Sundry creditors	3,00,000	
Bank Loan	2,00,000	5,00,000
Net assets/capital employed		11,89,767

2. Future Maintainable Profit (2 marks)

	2008-09	2009-10	2010-11
	`	`	`
Reported profit	2,50,000	2,80,000	3,30,000
Add: Furniture purchased wrongly charged to revenue (net of tax)	10,000	-	-
	2,60,000	2,80,000	3,30,000
Less: Depreciation on furniture Purchased (net of tax)	(1,000)	(900)	(810)

	2,59,000	2,79,100	3,29,190
Less: Dividend on non trading investment* (net of tax)	9,000	9,000	9,000
	2,50,000	2,70,100	3,20,190
Less: Over valuation of stock (net of tax)	-	-	25,000
Provision for doubtful debts (net of tax)	-	-	20,000
	2,50,000	2,70,100	2,75,190

Future Maintainable Profit 7,95,290/3 = 2,65,097

3. Value of Furniture as on 31.3.2011 (1 mark)

	`	`
Furniture (Given in B/S) as on 31.3.2011		50,000
Add: Purchased on 1.4.2008	20,000	
Less: Depreciation @10% on WDV method	(2,000)	
WDV as on 31.3.2009		
Less: Depreciation @10% on WDV	(1,800)	
WDV as on 31.3.2010	16,200	
Less: Depreciation @10% on WDV	(1,620)	
WDV as on 31.3.2011		14,580
Total		64,580

Question 4 (16 marks)

Balance Sheet of Sick Ltd. as at 30th September 2011 (3 marks)

Liabilities	`	Assets		`
Share Capital:		Fixed Assets:	2,50,000	
5,320 Equity Shares of ` 50 each fully paid	2,66,000	Less: Depreciation	12,500	2,37,500
Reserve and Surplus:		Current Assets:		
Securities Premium	20,000	Stock (1,15,500-4,000)		1,11,500
Premium on issues of Debentures	18,180	Sundry Debtors (1,21,125 + 20,000)		1,41,125
General Reserve	28,625	Cash and Bank (Refer to note 5)		1,07,813
Profit and Loss A/c (Refer to note 4)	6,233			
Secured Loan:				
13% Debentures	90,900			
Current liabilities	1,68,000			
	5,97,938			5,97,938

Working Notes:

(i) Journal Entries (7 marks)

	Particulars	*Dr (`)*	*Cr (`)*
(i)	11% Cumulative Preference Share Capital A/c Dr.	2,00,000	
	To 13% Debentures A/c		1,81,800
	To Premium on issue of Debentures A/c		18,180
	To Cash		20
	(Being issue of 1,818, 13% Debentures of ` 100 each at a premium of 10% in exchange of ` 2,000, 11% cumulative preference shares of `100 each and fractional holdings was paid in cash)		
(ii)	Capital Reduction A/c Dr.	66,000	
	To Equity Share Capital		66,000
	(Being issue of 1,320,equity shares of ` 100 each ` 50 paid up in lieu of arrears of preference dividend for three years i.e. [{(11% of ` 2,00,000) x3} ÷ ` 50]		
(iii)	Equity Share Capital A/c Dr.	1,33,000	
	To Capital Reduction A/c		1,33,000
	(Being reduction of paid-up value or 5,320 equity shares of ` 100 each ` 50 paid-up to shares of ` 25 paid-up)		
	Equity share capital A/c Dr.	1,33,000	
	To Equity share capital (` 50)		1,33,000
	(Being the face value of equity shares reduced to ` 50 each)		
(iv)	Cash and Bank A/c Dr.	1,33,000	
	To Equity Share Capital A/c		1,33,000
	(Being call money on 5,320 equity shares @ ` 25 each received to make equity shares of ` 50 each fully paid-up)		
(v)	Capital Reduction A/c Dr.	78,875	
	To Goodwill		20,000
	To Investment		12,500
	To Fixed Assets A/c		40,000
	To Sundry Debtors A/c		6,375
	(Being the value of assets written down)		
(vi)	Stock A/c Dr.	10,500	
	To Capital Reduction A/c		10,500
	(Being the valve of stock written up)		
(vii)	General Reserve A/c Dr.	1,375	
	To Capital Reduction A/c		1,375
	(Being the debit balance of Capital Reduction Account transferred to General Reserve Account)		

(2)

Ledger Account

Capital Reduction Account (1 mark)

	`		`
To Equity Share Capital A/c	66,000	By Equity Share Capital A/c	1,33,000
To Assets A/c	78,875	By Stock A/c	10,500
		By General Reserve A/c	1,375
	1,44,875		1,44,875

(3) Balance Sheet after Internal Reconstruction (3 marks)

Liabilities	`	Assets	`
Share Capital:		Fixed Assets:	2,50,000
5,320 Equity shares of ` 50		Current Assets:	
each fully paid up	2,66,000	Stock in trade	
		(1,05,000 + 10,500)	1,15,500
Reserve & Surplus:		Sundry Debtors	
Securities Premium	20,000	(1,27,500- 6,375)	1,21,125
Premium on issue of		Cash and Bank	
Debentures	18,180	(50,000 +1,33,000 – 20)	1,82,980
General Reserve			
(` 30,000 - ` 1,375)	28,625		
Secured Loans:			
13% Debentures	1,81,800		
Current Liabilities	1,55,000		
	6,69,605		6,69,605

(4) In this question, result of half-yearly operations are not given but consequential figures after half-yearly operations are given. Based on these figures, profit figures can be worked out as follows: (1 mark)

Liabilities	`	Assets	`
Increase in Creditors	13,000	Increases in Cash & Bank	27,550
Debtors in Stock	48,000	Increase in Debtors	20,000
Increase in Depreciation	12,500		
Profit (Bal. fig.)	18,050		
	47,550		47,550

Capital Reduction A/c is used, when a liability is not represented by corresponding asset.

Total increase in profit	= ` 18,050
Less Interest on Debentures for ½ year	= (` 11,817)
Net Increase in profit	= ` 6,233

(5) Cash and Bank Account
(1 marks)

	`		`
To Balance b/d	1,82,980	By interest	11,817
To Increase	27,550	By Debentures	
		(1,81,800 + 2)	90,900
		By Balance c/d	1,07,813
	2,10,530		2,10,530

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