



## FINAL CA – May 2018

### Financial Reporting

Test Code – F58

Branch : Date: 11.02.2018

(50 Marks)

compulsory.

Note: *All questions are*

#### 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		<u>1,512</u>

#### Application of Value Added (3 marks)

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

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

$$1,512 \div 87 = 17.38$$

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	<u>26</u>	<u>(1,535)</u>
Profit before tax		930
Less: Provision for tax		<u>(280)</u>
Profit after tax		650
Appropriations:		
Dividend to ordinary shareholders		<u>(85)</u>
Retained Profit for the year (as calculated)		565
Retained Profit for the year (as given in the question)		<u>445</u>
Difference (assumed as transfer to reserves)		<u>120</u>

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

**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)		<u>397</u>	<u>303</u>

		1,914		1,377
<i>Less : Liabilities taken over:</i>				
13% Debentures (W.N.3)	41.67		23.33	
Trade payables	<u>165.00</u>	<u>(206.67)</u>	<u>75.00</u>	<u>(98.33)</u>
Net Assets taken over		1707.33		1,278.67
<i>Less: Purchase consideration (W.N.4)</i>		<u>(1,400)</u>		<u>(846)</u>
				432.6
Capital Reserve		<u>307.33</u>		<u>7</u>
Total capital reserve (307.33 + 432.67) = 740.00 lacs				

## 2. Calculation of Cash and Cash Equivalents

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

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

	X Ltd.	Y Ltd.
	` In lacs	` In lacs
<u>12.5</u>	41.67	
50 × 15		
<u>12.5</u>		23.33
28 × 15		

## 4. Computation of Purchase consideration (On Payment Basis)

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

## 5. Calculation of Securities Premium

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

Y Ltd. (21.75 lacs x ` 22 each)

478.5  
0  
1328.50

**Question 3 (9 marks)**

**Total value of business as on 31.03.2015 (2 marks)**

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

**Working Notes:**

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

	31.3.2013 <i>` in thousands</i>	31.3.2014 <i>` in thousands</i>	31.3.2015 <i>` in thousands</i>
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	<u>480</u>	<u>800</u>	<u>1,600</u>
	16,560	18,240	20,960
<i>Less:</i> Trade payables	<u>(2,400)</u>	<u>(3,200)</u>	<u>(4,000)</u>
	14,16	15,04	16,96
Closing Capital	0	0	0
<i>Add:</i> Opening Capital Employed	<u>14,640</u>	<u>14,160</u>	<u>15,040</u>
Total	<u>28,800</u>	<u>29,200</u>	<u>32,000</u>
Average Capital Employed	<u>14,400</u>	<u>14,600</u>	<u>16,000</u>

\*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 <i>` in thousands</i>	31.3.2014 <i>` in thousands</i>	31.3.2015 <i>` in thousands</i>
Future Maintainable Profit	1,680	2,480	3,280
<i>Less:</i> 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
		<u>2,800</u>	<u>3,520</u>	<u>4,240</u>
	Less: Normal Return @ 12.5% on ACE	<u>(1,800)</u>	<u>(1,825)</u>	<u>(2,000)</u>
(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  $\times$  5 = ` 8,225 thousands (1 mark)

#### Question 4 (16 marks)

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

Particulars	Note No.	(Rs.)
<b>I Equity and Liability</b>		
<b>1. Shareholders fund</b>		
a) Share capital	1	49,73,950
b) Reserves and Surplus	2	7,56,040
<b>2. Non-current liabilities</b>		
Long term borrowings		8,00,000
Current liabilities		<u>9,80,000</u>
Total		<u>75,09,990</u>
<b>II Assets</b>		
<b>Non-current Assets</b>		
Fixed Assets		
Tangible Assets(Rs.30,50,000+ Rs.7,30,000)		37,80,000
<b>Current Assets</b>		
a) Inventories		13,90,000
b) Trade receivables		17,20,000
c) Cash and Cash equivalentents		<u>6,19,990</u>
		<b><u>75,09,990</u></b>

#### Notes to Accounts: (2 marks)

		Rs.	Rs.
1.	<b>Share Capital</b> 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 )		<b>49,73,950</b>
2.	<b>Reserves and surplus</b>		

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)	<u>72,040</u>	7,56,040

**Working Notes:**

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

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

**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) A Ltd. in B Ltd.**

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

**(a) B Ltd. in A Ltd.**

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

**(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.

$$\text{Now, } a = \text{Rs.}47,88,000 + 1/5 \times b$$

$$B = \text{Rs.}9,42,000 + 1/5 \times a$$

By substituting the value of a in b , we get

$$b = \text{Rs.}9,42,000 + 1/5(\text{Rs.}47,88,000 + 1/5 \times b)$$

$$b = \text{Rs.}9,42,000 + 9,57,600 + b/25$$



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

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

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

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

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

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

**(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

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

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)	<u>10</u>
Value of 30,000 shares already held by A Ltd.	5,46,000
(30,000 shares x Rs.13.19)	<u>3,96,000*</u>
Total	<u>9,42,000</u>

\*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)	<u>96,000</u>

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		<u>        -</u>	<u>72,000</u>
		6,24,000	3,92,000
Less : Dividend Payment	3,60,000		
Dividend tax @10%	36,000		
Cash for fraction shares	<u>        10</u>	<u>(3,96,010)</u>	<u>        -</u>
Total bank balance		<u>2,27,990</u>	<u>3,92,000</u>
			<u>6,19,990</u>

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