Question 1 is compulsory and attempt any 5 out of remaining 6 questions

Question 1:

(A)

An employee, Darshan, has joined a company PQR Ltd. in the year 2014. The annual emoluments of Darshan as decided is Rs. 15,52,303.

The company also has a policy of giving a lump sum payment of 25% of the last drawn salary of the employee for each completed year of service, if the employee retires after completing minimum 5 years of service. The salary of the Darshan is expected to grow @ 10% per annum.

The company has inducted Darshan in the beginning of the year and it is expected that he will complete the minimum five-year term before retiring.

What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined-Benefit Obligation? Also calculate service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1) **(5 marks)**

(B)

To comply with listing requirements and other statutory obligations Quaker Ltd. prepares interim financial reports at the end of each quarter. The company has brought forward losses of Rs. 700 lakhs under Income Tax Law, of which 90% is eligible for set off as per the recent verdict of the Court, that has attained finality. No Deferred Tax Asset has been recognized on such losses in view of the uncertainty over its eligibility for set off. The company has reported quarterly earnings of Rs. 700 lakhs and Rs. 300 lakhs respectively for the first two quarters of Financial year 2013-14 and ·anticipates a net earning of Rs. 800 lakhs in the coming half year ended March 2014 of which Rs. 100 lakhs will be the loss in the quarter ended Dec. 2013. The tax rate for the company is 30% with a 10% surcharge. You are required to calculate the amount of Tax Expense to be reported for each quarter of financial year 2013-14. **(5 marks)**

(C)

Himalaya Ltd. which is in a business of manufacturing and export of its product. Sometimes, back in 2014, the Government put restriction on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth of Rs. 4,000 lakhs for Rs. 6,000 lakh at the end of the year 2010. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on straight line basis. When Government put the restriction at the end of 2014, the company recognised the impairment loss by determining the recoverable amount of assets for Rs. 2,720 lakh. In 2016 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at Rs. 3,420 lakh.

Required:

(i) Calculation and allocation of impairment loss in 2014.

(ii) Reversal of impairment loss and its allocation as per AS 28 in 2016. **(5 marks)**

(D)

On 1st January, 2011, Santa Ltd. sold equipment for Rs. 6,14,460. The carrying amount of the equipment on that date was Rs. 1,00,000. The sale was a part of the package under which Banta Ltd. leased the asset to Santa Ltd. for ten years term. The economic life of the asset is estimated as 10 years. The minimum lease rents payable by the lessee has been fixed at Rs. 1,00,000 payable annually beginning from 31st December, 2011. The incremental borrowing interest rate of Santa Ltd. is estimated at 10% p.a. Calculate the net effect on the Statement of profit and loss in the books of Santa Ltd. **(5 marks)**

Question 2:

(A)

Sea Ltd. has lent a sum of Rs. 10 lakhs at 18% per annum for 10 years. The loan had a fair value of Rs. 12,23,960 at the effective interest rate of 13%. To mitigate prepayment risks but at the same time retaining control over the loan, Sea Ltd. transferred its right to receive the principal amount of the loan on its maturity with interest, after retaining rights over 10% of principal and 4% interest that carries fair value of Rs. 29,000 and Rs. 1,84,620 respectively. The consideration for the transaction was Rs. 9,90,000. The interest component retained included a 2% fee towards collection of principal and interest that has a fair value of Rs. 65,160. Defaults, if any, are deductible to a maximum extent of the company's claim on principal portion. You are required to show the Journal Entries to record derecognition of the loan. **(10 marks)**

(B)

Find out leverage effect on Goodwill from the following information:

(i)	Average capital employed (Equity Approach)	Rs. 11,50,000
(ii)	Future Maintainable Profit on equity fund (After Tax)	Rs. 1,80,000
(iii)	10% Long-term Loan	Rs. 4,50,000
(iv)	Tax rate	40%
(v)	Normal rate of return:	
	On equity capital employed	15%
	On long-term capital employed	12%

(6 marks)

Question 3:

Following is the Extract of Balance sheet of M/s Sunny Ltd. and Money as on 31.03.2013:

Balance Sheet Extract as on 31.03.2013		
	Sunny Ltd.	Money Ltd.
	Rs.	Rs.
Authorised Share Capital	15,00,000	5,00,000
Equity Share Capital of Rs. 10 each fully paid	8,00,000.00	2,00,000.00
General Reserve	1,10,000.00	45,000.00
Profit & Loss Account	42,000.00	18,000.00
Statutory fund	16,000.00	8,000.00
Trade Payables	45,000.00	24,000.00
Provisions	95,000.00	12,000.00
	11,08,000.00	**3,07,000.00**
Goodwill	20,000.00	0.00

Machines & Plant	5,10,000.00	1,95,000.00
Other fixed Assets	90,000.00	15,000.00
Current Assets		
Inventories	1,85,000.00	35,000.00
Debtors	1,00,500.00	35,000.00
Prepaid expenses	24,500.00	2,000.00
Cash in Hand & Bank	1,78,000.00	25,000.00
	11,08,000.00	**3,07,000.00**

The two companies have entered into a scheme of Amalgamation and a new company Z Ltd. is formed. The Amalgamation is to take place in the following manner :

(1) For the purpose of Amalgamation a new Company Z is to be formed with a authorized Share Capital of 2,50,000 equity shares off Rs. 10 each.

(2) Z Ltd. to issue fully paid shares to the shareholders of Sunny Ltd. and Money Ltd., at a price of Rs. 5 and Rs. 3 above the intrinsic value of the shares respectively.

(3) The scheme of amalgamation was not supported by 100 shareholders of Sunny Ltd., and had to be paid Rs. 10 per share above intrinsic value as consideration. The amount of the dissenting shareholders was borne by Z Ltd.,

(4) Fixed Assets of Sunny Ltd., were last revalued in the year 2009 after which there has been an increase of 15% in the values, while assets of Money Ltd. have not shown any change in prices. The current assets of Money Ltd., include Debtors of Rs. 20,000/- which are considered bad.

(5) Money Ltd.'s Stock-in-trade as on 31.03.2013 includes stock of Rs. 25,000 purchased from Sunny Ltd., at a profit of 25% on cost price.

(6) The Statutory Fund of the companies is to be maintained by Z Ltd. for a period of 3 years.

(7) Sunny Ltd. had declared dividend of 10% on 31.03.2013 which has still not been paid.

(8) Goodwill shown in books of Sunny Ltd., was considered to be worthless.

(9) All the assets of the companies are taken over by Z Ltd. at the revalued amounts. Liabilities have to be paid in full.

Calculate the purchase consideration paid by Z to the shareholders of both the companies and prepare the Balance Sheet of Z Ltd., as per Schedule III after the Amalgamation.

(Notes to Balance Sheet need not form part of the answer.) **(16 Marks)**

Question 4:

On 31st March, 2016 the balance sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	**H Ltd.**	**S Ltd.**
	(Rs. in lakhs)	**(Rs. in lakhs)**
Share capital:		
Authorized	15,000	6,000
Issued and subscribed:		
Equity shares of Rs. 10 each fully paid up	12,000	4,800
General reserve	2,784	1,380
Profit and loss account	2,715	1,620

Bills payable	372	160
Sundry creditors	1,461	854
Provision for taxation	855	394
Proposed dividend	1,200	-
	21,387	**9,208**
Assets:	**H Ltd.**	**S Ltd.**
	(Rs. in lakhs)	**(Rs. in lakhs)**
Land and buildings	2,718	-
Plant and machinery	4,905	4,900
Furniture and fittings	1,845	586
Investment in shares in S Ltd.	3,000	-
Stock	3,949	1,956
Debtors	2,600	1,363
Cash and Bank Balances	1,490	204
Bills Receivables	360	199
Sundry Advances	520	-
	21,387	**9,208**

The following information is also provided to you:

(a) H Ltd. purchased 180 lakhs shares in S Ltd. on 1st April, 2015 when the balances to General Reserve and Profit and Loss Account of S Ltd. stood at Rs. 3,000 lakhs and Rs. 1,200 lakhs respectively.

(b) On 4th July, 2015, S Ltd. declared a dividend of @ 20% for the year ended 31st March, 2015. H Ltd. credited the dividend received to its profit and loss account.

(c) On 1st November, 2015, S Ltd. issued, 3 fully paid-up shares for every 5 shares held, as bonus shares, out of balances to its General Reserve as on 31st March, 2015.

(d) On 31st March, 2016 all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only Rs. 45 lakhs of these acceptances in hand, the rest having been endorsed in favour of its creditors.

(e) On 31st March, 2016, S Ltd.' s stock included goods which it had purchased for Rs. 100 lakhs from H Ltd. which made a profit @ 25% on cost.

Prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2016. Workings should form part of your answer. **(16 Marks)**

Question 5:

(A)

On 1st April, 2016, QA Ltd. purchased 10 Lakhs options to acquire shares in KS Ltd., a listed entity. The Company paid Rs. 0.25 per option which allows the Company to purchase shares in KS Ltd. for a price of Rs. 2 per share. The exercise date for the option was 31st December, 2016. On 31st December, 2016, when the market value of a share in KS Ltd. was Rs. 2.6 per share, the Company exercised all its options to acquire shares in KS Ltd.

In addition to the purchase price, the Company has also incurred directly attributable cost of Rs. 1,00,000 for purchase of 10 lakhs shares in KS Ltd. The Company has classified these shares as trading portfolio. However, the Company has not disposed of any of the shares in KS Ltd. between 31st December, 2016 to 31st March, 2017.

The market value of the shares of KS Ltd. as on 31st March, 2017 is Rs. 2.90 per share.

Suggest the accounting treatment in the books of QA Ltd. on the above arrangement and transaction of acquisition of shares in KS Ltd. **(8 marks)**

(B)

At the beginning of year 1, an enterprise grants 300 options to each of its 1,000 employees. The contractual life of option granted is 6 years.

Other relevant information is as follows:

Vesting Period	3 years
Exercise Period	3 years
Expected Life	5 years
Exercise Price	Rs.50
Market Price	Rs.50
Expected forfeitures per year	3%

The option granted vest according to a graded schedule of 25% at the end of the year 1, 25% at the end of the year 2, and the remaining 50% at the end of the year 3.

You are required to calculate total compensation expenses for the options expected to vest and cost and cumulative cost to be recognised at the end of all the 3 years assuming that expected forfeiture rate does not change during the vesting period when,

(i) The fair value of these options, computed based on their respective expected lives, are Rs.10, Rs.13, Rs.15 per options, respectively.

(ii) The intrinsic value of the options at the grant date is Rs. 6 per options. **(8 marks)**

Question 6:

(A)

DISA & Co. has provided the following information:

	(Rs. in lacs)
Equity Share Capital (Rs. 10 each)	400
15% Preference Share Capital (Rs. 10 each)	200
Reserves and Surplus	220
15% Debentures	1600
10% Non-trade Investments (Nominal Value Rs. 100 lacs)	140
Land and Building held as Investment	20
Advance given for Purchase of Plant	10
Capital Work in Progress	30
Underwriting Commission (not written off)	20
Earnings per share	16
Tax rate	30%
Beta factor	1.65
Market rate of return	16.25%
Risk free rate	9.85%

Calculate Economic Value Added by the company. **(8 Marks)**

(B)

BSP Rock is a SEBI Registered Mutual Fund which made its maiden N.F.O (New Fund Offer) on 10th April, 2017 of Rs. 10 face value per unit. Subscription was received for 90 lakhs units. An underwriting arrangement was also entered into with Stable Capital Markets Ltd. that agreed to underwrite the entire NFO of 100 lakh units on a commission of 1.5%.

Out of the monies received Rs. 892.50 lakhs was invested in various capital market instruments. The marketing expenses for the N.F.O amounted to Rs. 11.25 lakhs. During the financial year ended March 2018 the Fund sold securities having cost of *Rs.*127.25 lakh (FV Rs. 54.36 lakhs) for *Rs.* 141.25 lakhs. The fund in turn purchased securities for Rs. 130 lakhs. The management expenses of the fund are regulated by SEBI stipulations which state that the same shall not exceed 0.25% of the average funds invested during the year. The actual amount spent towards management expenses was Rs. 2.47 lakhs of which Rs. 47,000 was in arrear. The dividends earned on the investments held amounted to Rs. 2.51 lakhs of which a sum of Rs. 25,000 is yet to be collected. The fund distributed 80% of realized earnings. The closing market value of the portfolio was Rs. 1120.23 lakhs

You are required to determine the closing per unit NAV of the fund. **(8 marks)**

Question 7:

(A)

ABC Pvt. Ltd. is engaged in the business of manufacturing of PP Fabrics. The company had imported 16 second hand machineries on January 8, 2018 for $ 4,40,000. The company had paid the full amount due to the vendor on the next day and gain arising from the same is capitalized in the books of accounts.

On January 9, 2018, the company borrowed 60% (i.e. $ 2,64,000 @ Rs. 63.5 per $) of the amount due by way of buyer's credit, payable on July 9, 2018. Total interest for the borrowing period was $ 3,056.

Upto March 31, 2018, out of the 16 machines only 8 machines were put to use by the company. The company capitalized the interest cost of 16 machines as per the provisions of AS 16 "Borrowing Costs". The company opted to exercise para 46A of AS 11 wherein it capitalizes the exchange differences. The company had booked notional loss as on March 31, 2018 on the buyer's credit amounting to Rs. 4,43,520 [i.e. 2,64,000 x (65.18 - 63.5)] and the company had recognized the same in the statement of profit & loss.

Further, the company has incurred actual loss as at July 3, 2018 on account of rollover of such buyer's credit.

Whether the treatment given by company on March 31, 2018 is as per AS 11?

If not, what is the treatment of notional loss of Rs. 4,43,520 in the books of accounts?

Whether the company is required to capitalise the notional gain / loss of Rs. 4,43,520 proportionately as at 31/03/2018 for 8 Machines which were not put to use as at March 31, 2018?

Whether the company need to capitalize the actual loss incurred in FY 2018 - 2019 for 8 machines which were not put to use? **(6 marks)**

(B)

S Ltd., a mobile phone manufacturing company, has hired a Marketing Consultancy Firm for doing research. The market consultancy firm provided data relating to Mobile phone industry for the next 6 years. It gave the following observations and projections:

(i) The market size in terms of basic sales of mobiles was estimated at Rs. 10,000 crores in the last year. This includes roughly 15% of locally manufactured mobiles. Market share of this segment is expected to increase by 0.4 % every year over a period of 6 years. Chinese imports accounted for 30% of the business last year. This is expected to increase by 0.3% every year over a period of 6 years. The other large companies accounted for roughly 40% of the business value last year, which is expected to go down by 0.5% every year over a period of 6 years, due to expansion of S Ltd.'s product portfolio.

(ii) The mobile industry in the target area is expected to grow at 8% p.a. for the next three years and thereafter at 10% p.a. over the subsequent three years.

(iii) The company is in the process of developing a new technology, which will start yielding results in one year's time and increase its profitability by 2 % from its existing 10%.

You are asked to calculate the Brand Value of S Ltd. under Market Oriented Approach, at the discount rate of 10%.

Discount Factor

Year	1	2	3	4	5	6
Discount Factor	0.909	0.826	0.751	0.683	0.621	0.564

(10 marks)