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CA FINAL MAY 2017 EXAM

FINANCIAL REPORTING

Test Code - F M J 4 0 0 1

BRANCH - (MULTIPLE) (Date : 13.11.2016)

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Answer-1 :

1. Basic Information:

Selling Co: A Ltd. Date of Balance Sheet: 31 March 2015 Nature of Amalgamation: Purchase
(Since all assets are not taken over at book value)
Buying Co: B Ltd. Date of Amalgamation: 31 March 2015

(1 Mark)

2. Computation of Purchase Consideration:

Particulars	Rs.
Assets taken over	
Sundry assets	210,000
Loan to B Ltd.	30,000
Investment in B Ltd. (5,000 shares x Rs.11)	55,000
Current assets	100,000
Total assets	395,000
Less:	
7% Debentures	(108,000)
Other liabilities	(50,000)
Purchase Consideration	237,000

(2 Marks)

3. Payment of purchase consideration:

Particulars	Rs.
Total Purchase consideration	237,000
Cash (20,000 shares x Re.0.50)	10,000
Balance to be paid by issue of shares	227,000
Issue price	Rs.11
Therefore, no. of shares to be issued	20,636
Less: Shares held by A Ltd.	(5,000)
Shares to be issued to outsiders	15,636

(2 Marks)

Mode of payment:

Particulars	Rs.
Shares (15,636 x Rs.11)	171,996
Cash for fraction shares (0.363636 x Rs.11)	4
Cash (20,000 shares x Re.0.50)	10,000
	182,000

(2 Marks)

4. Payment to 10% Debenture Holders:

Particulars	Rs.
10% Debentures	100,000
Add: Premium @ 8%	8,000
	108,000
Issue price	Rs.90
Therefore, no. of debentures to be issued	1,200

(1 Mark)

5. In the Journal of A Ltd.

Particulars		Debit	Credit
Realisation a/c To Sundry Assets a/c To Loan a/c To Current assets a/c (Being assets transferred to Realisation a/c on sale of business to B Ltd.)	Dr.	340,000	210,000 30,000 100,000
7% Debentures a/c Creditors a/c To Realisation a/c (Being liabilities transferred to Realisation a/c on sale of business to B Ltd.)	Dr. Dr.	100,000 50,000	150,000
Equity Share Capital a/c Reserves a/c To Equity Shareholders a/c (Being Share Capital and Reserves transferred)	Dr. Dr.	200,000 40,000	240,000
Investment in Shares of B Ltd. a/c To Realisation a/c (Being investment in B Ltd. revalued)	Dr.	5,000	5,000
Equity Shares in B Ltd. a/c To Investment in Shares of B Ltd. a/c (Being investment in B Ltd. transferred)	Dr.	55,000	55,000
B Ltd. a/c To Realisation a/c (Being purchase consideration receivable from B Ltd.)	Dr.	182,000	182,000
Shares in B Ltd. a/c Cash a/c To B Ltd. a/c (Being the amount of purchase consideration received in shares and cash from B Ltd.)	Dr.	171,996 10,004	182,000
Equity Shareholders a/c To Realisation a/c (Being loss on account of absorption transferred)	Dr.	3,000	3,000
Equity Shareholders a/c To Shares in B Ltd. a/c To Cash a/c (Being amount payable to shareholders discharged)	Dr.	237,000	226,996 10,004

(9 x 0.25 = 2.25)

6. Books of A Ltd.

(a) Realisation a/c

Particulars	Rs.	Particulars	Rs.
To Sundry assets	210,000	By 7% Debentures	100,000
To Loan to B Ltd.	30,000	By Other liabilities	50,000
To Current assets	100,000	By Investment in Shares of B Ltd. (55,000 - 50,000)	5,000
		By B Ltd. (W.N.3)	182,000
		By Equity Shareholders (Bal. Fig.)	3,000
	340,000		340,000

(0.5 Marks)

(b) Equity Shareholders a/c

Particulars	Rs.	Particulars	Rs.
To Realisation a/c (Loss Trfd)	3,000	By Equity Share Capital a/c	200,000
To Shares in C Ltd. - Settlement	226,996	By Reserves a/c	40,000
To Cash a/c	10,004		
	240,000		240,000

(0.25 Marks)

(c) Investment in Shares of B Ltd. a/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By Shares in B Ltd.	55,000
To Realisation a/c	50,000		
	100,000		55,000

(0.25 Marks)

(d) B Ltd. a/c

Particulars	Rs.	Particulars	Rs.
To Realisation - Purchase	182,000	By Shares in C Ltd.	171,996
Consideration Due		By Cash a/c	10,004
	182,000		182,000

(0.25 Marks)

(e) Shares in B Ltd. a/c

Particulars	Rs.	Particulars	Rs.
To B Ltd. a/c	171,996	By Equity Shareholders a/c	226,996
To Investment in Shares of B Ltd. a/c	55,000		
	226,996		226,996

(0.25 Marks)

(f) Cash a/c

Particulars	Rs.	Particulars	Rs.
To B Ltd. a/c	10,004	By Equity Shareholders a/c	10,004
	10,004		10,004

(0.25 Marks)

7. Journal Entries in the books of B Ltd.

Particulars		Debit	Credit	
Business Purchase a/c To Liquidator of A Ltd. a/c (Being business purchased from A Ltd.)	Dr.	182,000	1,100,000	0.25
Sundry assets a/c Loan to A Ltd. Current assets a/c To Other liabilities a/c To 7% Debentures To Business Purchase Account a/c (Being incorporation of various assets and liabilities taken over from A Ltd. at agreed values)	Dr. Dr. Dr.	210,000 30,000 100,000	50,000 108,000 182,000	0.50
Liquidator of A Ltd. a/c To Equity share capital a/c (15,636 x Rs.10) To Securities Premium a/c (15,636 x Rs.1) To Cash a/c (Being discharge of purchase consideration to outside shareholders of A Ltd.)	Dr.	182,000	156,360 15,636 10,004	0.50
7% Debentures a/c Discount on issue of debentures a/c To 8% Debentures a/c (Being debentures issued)	Dr. Dr.	108,000 12,000	120,000	0.25
Loan from A Ltd. a/c To Loan to B Ltd. a/c (Being inter-company debt cancelled)	Dr.	30,000	30,000	0.25

8. Books of B Ltd.

(a) Business Purchase a/c

Particulars	Rs.	Particulars	Rs.	
To Liquidators of A Ltd.	182,000	BY Sundry assets	210,000	0.25
To 7% Debentures	108,000	By Loan to B Ltd.	30,000	
To Other liabilities	50,000	By Current assets	100,000	
	340,000		340,000	

(b) Liquidators of A Ltd. a/c

Particulars	Rs.	Particulars	Rs.	
To Equity share capital a/c (15,636 x Rs.10)	156,360	By Business Purchase a/c	182,000	0.25
To Securities Premium a/c (15,636 x Rs.1)	15,636			
To Cash a/c	10,004			
	182,000		182,000	

9. Balance Sheet of B Ltd. as at 31 March 2015 (after absorption)

Particulars	Note No.	Rs.
EQUITY AND LIABILITIES		
Shareholders' funds		
(a) Share capital	1	556,360
(b) Reserves and Surplus	2	115,636
Non-current liabilities		
(a) Long term borrowings - 8% Debentures		120,000
Current liabilities		
(a) Other liabilities (50,000 + 70,000)		120,000
TOTAL		911,996
ASSETS		
Non-current assets		
(a) Fixed assets		
(i) Tangible assets (2,10,000 + 5,00,000)		710,000
(b) Other non-current assets - discount on issue of debentures		12,000
Current assets (1,00,000 + 1,00,000 - 10,004 Cash paid)		
		189,996
TOTAL		911,996

(3 Marks)

Notes to accounts:

Note 1: Share Capital

Particulars	Rs.
Authorised:	
..... Equity Shares of Rs.10 each	-
	-
Issued, subscribed and fully paid-up:	
55,636 Equity Shares of Rs.10 each (All the above shares have been issued for consideration other than cash)	556,360
	556,360

Note 2: Reserves and Surplus

Particulars	Rs.
(a) Reserves	100,000
(b) Securities Premium	15,636
	115,636

Answer-2 :

Dr.		Book of S Ltd. Realisation Account		Cr.	
2000		Rs.	2000	Rs.	
Mar. 31	To Furniture	30,000	Mar. 31	By Bills Payable	10,000
	To Stock	2,70,000		By Sundry Creditors	80,000
	To Debtors	55,000		By P Ltd. (consideration)	3,00,000
	To Cash at Bank	75,000		By Equity Shareholders (loss)	70,000
	To Bills Receivable	30,000			
		4,60,000			4,60,000

Dr.		Equity Shareholders Account		Cr.	
2000		Rs.	2000	Rs.	
Mar. 31	To Realisation Account	70,000	Mar. 31	By Equity Share Capital	3,00,000
	To Equity Shares in P Ltd.	3,00,000		By Reserves	70,000
		3,70,000			3,70,000

(1 Mark)

Books of P Ltd.

(i) **In case of amalgamation in the nature of purchase :**
Journal

2000		Rs.	Rs.
Mar. 31	Business Purchase Account To liquidator of S Ltd. The consideration payable to Liquidator of S Ltd. for business purchased.	Dr. 3,00,000	3,00,000
" "	Furniture	Dr. 30,000	
	Stock	Dr. 2,70,000	
	Debtors	Dr. 55,000	
	Cash at Bank	Dr. 75,000	
	Bills Receivable	Dr. 30,000	
	To Bills Payable		10,000
	To Sundry Creditors		80,000
	To Business Purchase Account		3,00,000
	To Capital Reserve		70,000
Assets and liabilities taken over from S Ltd.,-the amount of Capital Reserve being the balancing figure.			
" "	Liquidator of S Ltd. To Equity Share Capital Account Amount of equity shares allotted at par to Liquidator of S Ltd. in discharge of the consideration.	Dr. 3,00,000	3,00,000
" "	Bills Payable Account To Bills Receivable Account Cancellation of inter-company owings in the form of bills.	Dr. 5,000	5,000
" "	Capital Reserve	Dr. 2,500	

To Stock	2,500
Elimination of unrealised profit in respect of unsold stock, (Rs. 12,500 x 25/125 = Rs. 2,500).	

“	“	Capital Reserve	Dr.	6,000	
		To Bank			6,000
Expenses of liquidation of S Ltd. met as per agreement.					

(3 Marks)

Balance Sheet of P Ltd. as at 31st March, 2000

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
Issued and Subscribed		Plant	6,50,000
Equity Share Capital	12,00,000	Furniture	1,05,000
(Of the above shares, shares of Rs. 3,00,000 have been allotted to vendors pursuant to a contract without payment being received in cash)		Current Assets, Loans and Advances	
Reserves and Surplus		(A) Current Assets	
Capital Reserve	61,500	Stock	5,72,500
Other Reserve	2,80,000	Debtors	2,11,000
Current Liabilities and Provision		Cash at Bank	1,83,000
(A) Current Liabilities		(B) Loans and Advances	
Bills Payable	40,000	Bills Receivable	45,000
Sundry Creditors	1,85,000		
(B) Provisions	Nil		
	17,66,560		17,66,500

(4 Marks)

(ii) In case of amalgamation in the nature of merger:

Journal

			Dr.	Cr
2000			Rs.	Rs.
Mar.	31	Business Purchase Account	Dr.	3,00,000
		To Liquidator of S Ltd.		3,00,000
The consideration payable to liquidator of S Ltd. for business purchased.				
“	“	Furniture	Dr.	30,000
		Stock	Dr.	2,70,000
		Debtors	Dr.	55,000
		Cash at Bank	Dr.	75,000
		Bills Receivable	Dr.	30,000
		To Bills Payable		10,000
		To Sundry Creditors		80,000
		To Reserves		70,000
		To Business Purchase Account		3,00,000
Incorporation of assets, liabilities and reserves pertaining to the business of S Ltd. takeover.				
“	“	Bills Payable Account	Dr.	5,000

	To Bills Receivable Account			5,000
	Cancellation of inter-company owings in the form of bills.			
“	“	Reserves	Dr.	2,500
		To Stock		2,500
	Elimination of unrealised profit in respect of unsold stock. (Rs. 12,500 x 25/125 = Rs. 2,500).			
“	“	Reserves	Dr.	6,000
		To Bank		6,000
	Expenses of Liquidation of S Ltd., net as per agreement.			
				(3 Marks)

Balance Sheet of P Ltd. as at 31st March, 2000

Liabilities	Rs.	Assets	Rs.	
Share Capital		Fixed Assets		
Issued and Subscribed:		Plant	6,50,000	
Equity Share Capital	12,00,000	Furniture	1,05,000	
(Of the above shares, shares of Rs, 3,00,000 have been allotted to vendors pursuant to a contract without payment being received in cash)		Current Assets, Loans and Advances		
Reserves and Surplus		(A) Current Assets		
Reserves	3,41,500	Stock	5,72,500	
Current Liabilities and Provisions		Debtors	2,11,000	
(A) Current Liabilities		Cash at Bank	1,83,000	
Bills Payable	40,000	(B) Loans and Advances		
Sundry Creditors	1,85,000	Bills Receivable	45,000	
(B) Provisions	Nil			
	17,66,500		17,66,500	
				(2 Marks)

Answer-3 :

W.N.1: Computation of Future Maintainable Profits:

Particulars	2011-12	2012-13	2013-14	2014-15
Profit before tax	4,100	2,725	3,200	3,060
Less: Income from non trade investments	(100)	(100)	-	-
Less: Special income due to fair	-	(150)	-	-
Add: Abnormal loss due to earthquake	-	-	75	-
Less: Revaluation of stock				(35)
Less: Bad debts				(20)
Less: Liability for damages				(5)
Adjusted net profit	4,000	2,475	3,275	3,000

(2 Marks)

Average adjusted net profits =	$\frac{4,000 + 2,475 + 3,275 + 3,000}{4}$	=	3,187.50
Less: Additional remuneration to directors			(70.00)
Adjusted net profit before tax			3,117.50
Less: Income tax @ 40%			(1,247.00)
Future Maintainable Profits			1,870.50

(1 Mark)

W.N.2: Effect of adjustments on 2014-15 taxation liability:

Reduction in 2014-15 Profit = Stock + Bad debts + Damages
= 35+20+5
= Rs.60 lakhs

Tax savings thereon at 35 % of Rs.60 lakhs = Rs.21 lakhs

Hence, revised provision for taxation for the year 2014-15 = Rs.110 lakhs (as per Books) - Rs. 21 lakhs = Rs.89 lakhs

(1 Mark)

W.N.3: Average Capital employed:

Particulars	Rs. (in lakhs)	Rs. (in lakhs)
Plant and machinery		4,780
Furniture and fixtures		1,090
Trade marks and patents		20
Stocks		1,230
Debtors		624
Cash and bank balances		1,415
Total assets		9,159
Less: External liabilities		
Trade payables	1,204	
Provision for tax	89	
Liability for damages	5	(1,298)
Closing capital employed		7,861
Less: 50% of adjusted post tax profits for the year (3,000 - 35% Tax) x 50%		(975)
Average capital employed		6,886

(2 Marks)

W.N.4: Computation of goodwill:

Particulars	Rs. (in lakhs)
Expected profit = Future Maintainable Profit as above	1,870.50
Less: Normal Profits = Normal Rate of Return x Average Capital Employed = 6,886 x 20%	(1,377)
Super Profit	493.50
Goodwill at 4 years purchase of super profits	1,974.00

(2 Marks)

Alternative method:

Alternatively, goodwill can be computed based on closing capital employed

Particulars	Rs. (in lakhs)
Expected profit = Future Maintainable Profit as above	1,870.50
Less: Normal Profits = Normal Rate of Return x Closing Capital Employed = 7,861 x 20%	(1,572.20)
Super Profit	298.30
Goodwill at 4 years purchase of super profits	1,193.20

Notes for students:

1. Computation of FMP
2. Adjustments on taxation liability

(2 Marks)

Answer-4 :

(i) Calculation of average capital employed : (Rupees in Lakhs)

	As at 31.3.2000	As at 31.3.2001
Current cost of fixed assets other than non-trading investments	2,200.0	2,532.8
Current cost of stock	670.0	750.0
Debtors	340.0	222.8
Cash and Bank	<u>92.5</u>	<u>100.0</u>
	3,302.5	3,605.6
Less: Term loans	370.5	330.0
Sundry creditors	70.0	96.0
Provision for Thx	<u>22.5</u>	<u>25.0</u>
Capital employed	<u>2,840.0</u>	<u>3,154.6</u>

$$\text{Average capital employed at current value} = \text{Rs. } \frac{2,840.0 + 3,154.6}{2} \text{ Lakh}$$

$$= \text{Rs. } 2,997.3 \text{ lakh}$$

(3 Marks)

(ii) Calculation of future maintainable profit: Rs. in lakhs

	Rs. in lakhs	Rs. In lakhs
Increase in profit and loss account, Rs.(175.0 - 120.0) lakh		55.0
Increase in general reserve, Rs. (850.0 - 800.0) lakh		50.0
Proposed dividend on 31.3.2001		<u>250.0</u>
Profit after tax		<u>355.0</u>
Tax rate = 50%		
Hence, pre-tax profit = Rs. 355 lakh x 100 / 50		710.0
Less: Non-trading income, 10% of Rs. 490 lakh	49.0	
Exchange loss on creditors, [1.2 lakh x (21.5 - 16.5)]		6.0
Government Subsidy	<u>120.0</u>	<u>175.0</u>
		535.0
Add: Exchange gain on debtors, (0.7 lakh x (21.5 - 17.5))	2.8	
R & D Costs	247.0	
Stock adjustments	<u>30.0</u>	<u>279.8</u>
	Rs. in lakhs	Rs. in lakhs
Adjusted pre-tax profit		814.8
Less: Tax @ 40%		<u>325.92</u>
Future maintainable profit		<u>488.88</u>

(3 Marks)

Valuation of Goodwill

(1)	Capitalisation Method	
	Capitalised Value of future maintainable profit (488.88 / 0.15)	3259.20
	Less : Average Capital Employed	<u>2997.30</u>
	Goodwill	<u>261.90</u>
(2)	Super Profit Method	
	Future Maintainable Profit	488.88
	Normal Profit @ 15% on average capital employed	<u>449.60</u>
	Goodwill	<u>39.28</u>

Under capitalisation method, the amount of goodwill is larger than the amount of goodwill computed under super profit method. In either case, the existence of goodwill cannot be doubted.

The director's contention cannot, therefore, be unacceptable.

(2 Marks)

Working Notes:

Rs. in lakhs .

(i)	Stock adjustments	
	Difference between current cost and historical cost of closing stock	150.0
	Difference between current cost and historical cost of opening stock	<u>120.0</u>
		<u>30.0</u>
(ii)	Debtor's adjustment	
	Foreign exchange debtors at the closing exchange rate (\$70,000 x 21.5)	15.05
	Foreign exchange debtors at the original exchange rate (\$70,000 x 17.5)	<u>12.25</u>
		<u>280</u>
(iii)	Creditor's adjustments	
	Foreign exchange creditors at the closing exchange rate (\$ 1,20,000 x 21.5)	25.80
	Foreign exchange creditors at the original exchange rate (\$ 1,20,000 x 168)	<u>19.80</u>
		<u>6.00</u>

(2 Marks)