

Total No. of Questions – 7

Total No. of Printed Pages – 12

Time Allowed – 3 Hours

Maximum Marks – 100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium, answers in Hindi, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any FIVE questions from the remaining SIX questions.

Working Notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

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1. (a) From the given information, you are required to compute the deferred tax assets and deferred tax liability for Ramanujam Limited as on 31st March 2014. The tax rate applicable is 35%. 4×5
=20
- (i) The company has charged depreciation of ₹ 7,42,900/- in its books of accounts while as per income-tax computation, the depreciation available to the company is ₹ 8,65,400/-.

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- (ii) The company has made provision for doubtful debts for ₹ 54,300/- during the year.
- (iii) The company has debited share issue expenses of ₹ 6,23,500/- which will be available for deduction under the Income-tax Act from the next year.
- (iv) The expense of ₹ 7,84,500/- has been charged to profit and loss account which are disallowed under the Income-tax Act.
- (v) The company has made donation of ₹ 2,00,000/- which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law.
- (b) ABC Limited has three segments viz. A, B and C. The total assets of the company is ₹ 15 Crores. The assets of Segment A is 1.85 crores, Segment B is 6.15 Crores and Segment C is ₹ 7.00 Crores. Assets of each segment include deferred tax assets of ₹ 0.50 Crores in A, ₹ 0.40 Crores in B and ₹ 0.30 Crores in C. The accountant of ABC Limited contends that all segments are reportable segments. Based on segment assets criteria, determine the veracity of the contention of the accountant.
- (c) Sunny Limited is developing a new production process. During the financial year ended 31st March 2013, the company has incurred total expenditure of ₹ 40 lacs on the process. On 1st December, 2012, the process has met the norms to be recognized as 'intangible assets' and the expenditure incurred till that date is ₹ 16 lacs. During the financial year ending on 31st March 2014, the company has further incurred ₹ 70 lacs. The recoverable amount as on 31st March 2014 of the process is estimated to be ₹ 62 lacs. You are required to work out :

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- (i) Expenditure to be charged to profit and loss account for the financial year ending on 31st March 2013 and 31st March 2014. (ignore depreciation)
- (ii) Carrying amount of the 'Intangible asset' as at 31st March 2013 and 31st March 2014.
- (d) XYZ Limited is having the following Fixed Deposit Receipts :

	Date of FDR	Maturity Date	Amount ₹
Axis Bank Limited	01-Jan-14	30-Apr-15	10,00,000
Punjab National Bank	01-Jan-14	30-Jun-14	15,00,000
State Bank of India	28-Feb-14	30-May-14	10,00,000
ICICI Bank	31-Jan-13	31-Jan-15	10,00,000

Prepare 'Notes' to accounts showing the above deposits in accordance with the requirements of Revised Schedule VI.

2. The Summarised Balance Sheets of 'S' Limited and 'H' Limited as on 30th June 2014 were as follows : **16**

₹ in Crores

	S Limited		H Limited	
Equity and Liabilities				
Equity Share Capital		80		25
Reserves and Surplus		400		75
10%, 25,00,000 Debentures of ₹ 100 each		—		25
Non-Current Liabilities				
Other Liabilities		120		—
Current Liabilities		356		200
Total Liabilities		956		325

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Assets				
Fixed Assets (At Cost)	200		75	
Less : Depreciation	100	100	50	25
Investments in 'H' Limited				
2 Crores Equity shares of ₹ 10 each at Cost	32			
10%, 25,00,000 Debentures of ₹ 100 each at Cost	24	56	—	—
Current Assets		800		300
Total Assets		956		325

In a duly approved scheme of absorption, 'S' Limited took over the assets of 'H' Limited at an agreed value of ₹ 330 Crores and the liabilities were taken over at book value. Other Shareholders of 'H' Limited were allotted equity shares in 'S' Limited at a premium of ₹ 90 per share in satisfaction of their claim. 'S' Limited valued the Fixed assets taken over at ₹ 40 Crores and all other assets and liabilities were recorded at book value. The scheme of absorption was completed on 1st July 2014.

You are required to :

- Pass necessary Journal entries in the books of 'S' Limited to record the transactions.
- Prepare the Balance Sheet of 'S' Limited after absorption in the Revised Schedule VI format along with Notes to accounts.

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3. 'HIM' Limited is a company carrying on the business of beauty products and is having a subsidiary 'SIM' Limited. Their Balance-sheets as on 31st March 2014 were as under :

Equity and Liabilities	HIM Limited	SIM Limited
	₹	₹
Shareholders' Funds		
Share Capital	25,00,000	5,80,000
Reserves and Surplus		
General Reserves	2,00,000	1,20,000
Profit and Loss Account	3,12,500	2,05,000
Current Liabilities		
Trade Payable	4,55,000	2,35,500
Bills Payable	28,000	83,000
Total Liabilities	34,95,500	12,23,500
Assets		
Fixed Assets		
	21,70,000	6,25,000
Non-Current Assets		
Investments		
4060 Shares in SIM Limited	5,10,000	—
Current Assets		
Inventories	4,80,000	3,19,200
Trade Payable	1,80,000	1,64,000
Bills Receivable	68,000	1,00,000
Cash and Bank Balances	87,500	15,300
	34,95,500	12,23,500

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HIM Limited has also given the following information :

- (i) HIM Limited has acquired the shares in SIM Limited in two lots on two different dates. The relevant information at the time of acquisition of shares was as under :

No. of shares acquired	Balance in General Reserves	Balance in Profit and Loss account
I st acquisition 3480	80,000	25,000
II nd acquisition 580	85,000	1,02,000

- (ii) Bill Receivable of HIM Limited includes ₹ 15,000/- being acceptance from SIM Limited.
- (iii) Both the companies have declared dividends of 10% for the year ended on 31st March 2014, but it has not been provided in the books of accounts.
- (iv) SIM Limited's inventory includes stock of ₹ 1,45,000/- purchased from HIM Limited. HIM Limited sells goods at mark up of 25% on its Cost.
- Prepare the consolidated Balance Sheet of HIM Limited along with 'Notes' to accounts.

4. (a) Virtual Limited granted on 1st April 2011, 1,00,000 Employees' Stock Options at ₹ 40, when the market price was ₹ 60/-. These options will vest at the end of year 1, if the earning of Virtual Limited is more than 15% or it will vest at the end of the year 2, if the average earning of two years is more than 12% or lastly it will vest at the end of third year, if the average earning of 3 years will be 9% or more. 6000 unvested options lapsed on 31st March 2012. 5500 unvested options lapsed on 31st March 2013 and finally 3000 unvested options lapsed on 31st March 2014. 12

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The earnings of Virtual Limited was as follows:

Year ended on	Earning in %
31.3.2012	13%
31.3.2013	9%
31.3.2014	7%

Employees exercised for 85000 stock options which vested in them at the first opportunity and the balance options were lapsed. Pass necessary journal entries and show the necessary working.

- (b) Adventure Limited issued 20,000, 9% convertible debentures of ₹ 100 each at par at the beginning of the year. The debentures are of 6 years term. The interest will be paid half yearly. The debenture-holders have the option to get 50% of the debentures converted into 2 ordinary shares at the end of 3rd year. The debenture holders who do not opt for conversion will be paid 50% of their face value at the end of year 3. The balance non-convertible portion will be repaid at 10% premium at the end of term of the debenture. At the time of issue, the prevailing market interest rate for similar debt without convertibility option is 10% 4

Present Value of annuity is as under

Period	1-3	4-6	7-12
Annuity factor @ 10%	2.487	1.868	2.459
Annuity factor @ 5%	2.723	2.353	3.787

Present value of ₹ 1 at the end of 3 years at 10% and 5% is 0.565 and 0.747 respectively. Present value of ₹ 1 at the end of 6 years at 10% and 5% is 0.317 and 0.557 respectively.

Compute the liability component and equity component and pass necessary journal entries recognizing the issue of debentures.

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5. The majority shareholders of MSL Limited desire to sell their holding to Influx Funds. The following information has been provided by MSL Limited :

Particulars	₹ in lacs		
	2012	2013	2014
Equity and Liabilities			
12000 Equity Shares of ₹ 100 each	12.00	12.00	12.00
General Reserve	6.85	7.75	9.00
Profit and Loss Account	2.64	5.95	8.25
Current Liabilities	6.80	5.45	3.85
	<u>28.29</u>	<u>31.15</u>	<u>33.10</u>
Assets			
Tangible Assets	12.00	13.00	14.00
Intangible Assets			
Goodwill	6.30	5.30	4.30
Current Assets			
Inventories	6.28	7.34	8.51
Other Current Assets	3.71	5.51	6.29
	<u>28.29</u>	<u>31.15</u>	<u>33.10</u>

- (i) The valuation of the tangible assets has been done by a professional valuer and increase of 10% in year 2011-12 and 2012-13 and 12.5% in 2014 is estimated over the given book value.
- (ii) The inventories have been valued at ₹ 6.32 lacs as on 31st March 2012, ₹ 8.47 lacs as on 31st March 2013 and ₹ 10.68 lacs as on 31st March 2014.

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- (iii) The company has been charging depreciation @ 10% p.a.
- (iv) The balance of Profit and Loss account and General Reserve on 1st April 2011 was ₹ 2.18 lacs and ₹ 4.25 lacs respectively.
- (v) Tax rate was 30% in all the years.
- (vi) The goodwill shall be revalued based on 4 years purchase of average super profits of last three years.
- (vii) The normal expectation in the industry is 10%.

Calculate the fair value of shares of MSL Limited.

6. (a) DISA & Co. has provided the following information :

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	₹
	In lacs
Equity Share Capital (₹ 10 each)	400
15% Preference Share Capital (₹ 10 each)	200
Reserves and Surplus	220
15% Debentures	1600
10% Non-trade Investments (Nominal Value ₹ 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
Earning per Share ₹	16
Tax Rate	30%

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Beta Factor	1.65
Market rate of return	16.25%
Risk Free Rate	9.85%

Calculate Economic Value Added by the company.

- (b) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model :

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	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement age	75,000	50,000
(ii) Age of retirement	68 years	65 years
(iii) Discount rate	15%	15%
(iv) No. of employees in the group	40	50
(v) Average age	65	63

7. Answer any **FOUR** of the followings :

- (a) JVR Limited has made investments of ₹ 97.84 Crores in equity shares of QSR Limited in pursuance of Joint Venture agreement in 2001-02. The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to re-assess the carrying amount of its investment in QSR Limited and wish to provide for diminution in value of investments. However, QSR Limited has a futuristic and profitable business plans and projection for the coming years. Discuss whether the contention of JVR Limited to bring down the carrying amount of investment in QSR Limited is in accordance with Accounting Standard.

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(b) What is a derivative? Define with reference to AS-30, Financial Instruments : Recognition and Measurement.

(c) Finished Goods costing ₹ 10 lacs were damaged due to flood in July 2013. These goods were included in Closing Stock as on March 31, 2014 at an estimated realizable value of ₹ 4.00 lacs.

These goods could be ultimately sold for ₹ 3 lacs only in August 2014. The difference of ₹ 1 lac was debited as 'prior period' expenditure in financial year 2014-15. As an auditor, please comment in the light of provisions of accounting standards.

(d) XYZ Limited acquired a bank loan of ₹ 40 lacs on interest rate of 20% per annum on 1 July 2013. The said loan was utilized by the company for three transactions as under :

(i) Construction of factory shed ₹ 10,00,000

(ii) Purchase of Plant and Machinery ₹ 25,00,000

(iii) Balance loan was unallocated

and used generally for the

purpose of business

The accountant of the company has charged the total interest to the Profit and Loss account. Comment in view of provisions of AS-16.

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- (e) Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested ₹ 80 Crores in the eligible investments. The company is eligible for the subsidy and has received ₹ 20 crores from the government in February 2014. The company wants to recognize the said subsidy as its income to improve the bottom line of the company. Do you approve the action of the company in accordance with the Accounting Standard ?
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