Solved Scanner Appendix

CA Final Gr. I

(Solution of November - 2014)

Paper - 1 Financial Reporting

Chapter - 1 : Accounting Standards & Guidance Notes

2014 - Nov [1] {C} (a), (b), (c), (d)

(a) Calculation of deferred tax assets and deferred tax liabilities.

	Particulars	**Deferred tax liability/asset (₹)**
1.	Depreciation (₹ 8,65,400 - ₹ 7,42,900 = ₹ 1,22,500× 35%)	42,875
2.	Provision for doubtful debts (₹ 54,300 × 35%)	(19,005)
3.	Share issue expenses (₹ 6,23,500 × 35%)	(2,18,225)
4.	Expenses disallowed under Income tax Act	Permanent difference
5.	Donation (₹ 2,00,000 × 50%) = ₹ 1,00,000	Permanent difference
∴	**Deferred tax Asset**	(1,94,355)

(b) ⇒ As per AS-17 - "Segment Reporting" a business segment or geographical segment should be identified as a reportable segment if:

- It's segment assets are 10% or more of the total assets of all segments.
- Further, segment assets do not include Income tax assets.

⇒ So, in the present case the % of each segment's asset to total assets excluding deterred tax assets is as under:

Segment	**A**	**B**	**C**
% of Asset	$\frac{1.85-0.5}{15}\times100$	$\frac{6.15-0.4}{15}\times100$	$\frac{7-0.30}{15}\times100$
	9%	38.33%	44.67%

⇒ So, only B and C are reportable segments as segment A does not have atleast 10% of the total assets.

⇒ So, the contention of the Accountant is wrong.

(c) ⇒ As per AS - 26 "Intangible assets" once the process has met the norms to be recognized as intangible assets all the expenditure incurred after that are capitalized expenditure incurred before that are charged to P&L A/c.

⇒ In the present case the expenditure of ₹ 16 lacs will be charged to P&L A/c for the year ending 31st March, 2013 and the cost of intangible asset as that date would be ₹ 24 lakhs (40-16).

⇒ For the year ending 31st March, 2014, the cost of intangible assets would be ₹ 94 lacs (24 + 70) as further expenditure would be capitalized.

⇒ Now As per AS - 28 impairment of asset would be recorded as the lowest of cost or market value.

⇒ In this case as the recoverable amount being ₹ 62 lacs less than its cost, as set would be impaired by 32 lakhs.

(d) Cash and cash equivalents:

		Amount (₹)
a.	Balance with banks	25,00,000
b.	Cheques and drafts on hand	–
c.	Cash on hand	–
d.	Axis Bank Ltd.'s deposit	10,00,000
e.	ICICI Bank's deposit	10,00,000

⇒ As per Revised Schedule VI Bank deposits with more than 12 months maturity shall be disclosed separately.

⇒ So in this case the above two bank deposits are having maturity period of more than 1 Year so they are disclosed separately.

2014 - Nov [7] (a), (b), (c), (d),(e)

(a) → As per AS-13 investments classified as long-term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary in the value of the investments, such reduction being determined and made for each investment individually, AS-13 states that indicators of the value of an investment are obtained by reference to its market value the investee's assets and results and the expected cash flows from the investment.

→ On these bases, the facts of given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long-term investment.

→ Futuristic and profitable business plans do not indicate always a profit.

→ So, JVR Limited's is contention is right. They should re-assess the carrying amount of its investments.

(b) → A derivative is a financial instrument or other contract with all three of the following characteristics:

- It's value changes in responses to a change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.
- It requires no initial net investment or an initial net investment or that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

(c) → As per AS-5, prior period item are income or expenses, which arise in current period as a result of error or omission in the preparation of financial statement of one or more prior periods.

→ In the present case stock was estimated to realized at ₹ 4 lacs, but actually it realized at ₹ 3 lacs only. So, this is not a prior period item because it wasn't of error or omission in the preparation of the financial statements.

→ It was a change in accounting estimate. So, difference of ₹ 1 lac being a change in accounting estimate will be debited as an expenditure in P&L A/c and the same being an extraordinary item. It will be disclosed separately.

(d) → As per AS-16 borrowing cost should be capitalised if borrowing cost is directly attributable to the acquisition, construction or production of qualifying asset. In other words, asset acquired must be qualifying asset and borrowing cost should be directly attributable to the acquisition construction or production of qualifying asset.

→ In the given question only construction of a shed of ₹ 10 lacs is a qualifying asset as per AS-16, other payments not for the qualifying asset.

Therefore, borrowing cost attributable to the construction of a shed should only be capitalised which will be equal to ₹ 40 lacs × 20% × 6/12 = ₹ 4 lacs × 10/40 = 1 lac.

So, interest to be capitalised = ₹ 1 lac

So, interest to be charged to P&L = ₹ 3 lacs

(e) → The action of the company is not justified in view of AS-12 "Accounting for Government Grants".

→ Where the Government Grants are of the nature of promoter contribution i.e. they are given with reference to the total investment in an undertaking or by way of promoters contribution towards its total capital outlay and no repayment is ordinary expected in respect thereof the grants are treated as **capital reserve**, which can be neither distributed as dividend nor considered as deterred income.

→ Therefore it is inappropriate to recognise Government Grants in the P&L statement, since they are not earned but represent an incentive provided by Government without related cost.

Chapter - 4 : Accounting for Corporate Restructuring
2014 - Nov [2]
Purchase consideration and shares to be issued.
Working Note 1:

Computation of agreed value of shares of H Ltd.

	Particulars	**(₹ in Crores) H Ltd.**
A.	Assets	330
B.	Liabilities	25
C.	Net Assets	305
D.	No. of equity shares in crores	2.5
E.	Agreed value per share (C/D)	₹ 122

Working Note :2 Purchase consideration:

a.	No. of equity shares outstanding in H Ltd.	2.5 Crores
b.	*Less*: Already held by S Ltd.	2.0 Crores
c.	No. of equity shares of outsiders	0.5 Crores
d.	Agreed value per share	₹ 122
e.	Purchase consideration(c ×d)	₹ 61
f.	Issue price per share of S Ltd.	₹ 100
g.	No. of shares to be allotted (e/f)	₹ 61 lacs shares

(II) **Journal Entry in the books of S Ltd.**

(**in Crores)**

Date	Particulars		Dr.	Cr.
1.	Business Purchase A/c	Dr.	61	
	To Liquidator for H Ltd.			61
	(Being purchase consideration payable to liquidator of H Ltd. for business purchased)			
2.	Fixed Assets	Dr.	40	
	Current Assets	Dr.	300	
	To Current Liabilities			200
	To 10% Debentures			25

	To Business Purchase		61
	To Investment in H Ltd. A/c		32
	To Capital Reserve		22
	(Being the assets and liabilities taken over from H Ltd.)		
3.	Liquidator of H Ltd. Dr.	61	
	To equity share capital A/c		6.10
	To share premium A/c		54.90
	(Being allotment of 61 lakhs equity shares of ₹ 10 at a premium of ₹ 90 per share)		
4.	10% Debentures A/c Dr.	25	
	To Investment in Debentures A/c		24
	To Capital Reserve A/c		1

(III) **Balance Sheet of S Ltd. as at 30th June, 2014**

(₹ **in Crores)**

	Particulars	Note	₹
I.	**Equity and Liabilities**		
	1. **Shareholder's Funds:**		
	a. Share capital	1	86.10
	b. Reserves and surplus	2	477.90
	2. Non - current liabilities		120.00
	3. Current liabilities (356 +200)		556.00
	Total		**1,240.00**
II.	**Assets:**		
	1. Non - current assets		
	• Fixed assets (100 + 40)		140.00
	2. Current assets (800 + 300)		1,100.00
	Total		**1,240.00**

Notes to the financial statements

1. **Share Capital:**

Particulars	₹
(a) Authorised	-----
(b) Issued, subscribed and fully paid up 8.61 Crore equity shares of ₹ 10 each. (of the above, 0.61 shares were issued as fully paid up for consideration other than cash)	86.10

2. **Reserves & Surplus:**

Particulars	₹
a. Capital Reserve (22 + 1)	23.00
b. Securities premium	54.90
c. Others	400.00
	477.90

Chapter - 5 : Consolidated Financial Statements of Group Companies

2014 - Nov [3]

Consolidated balance sheet of HIM Ltd. and its subsidiary SIM Ltd. as at 31st March, 2014

Particulars	Note	₹
I. Equity and Liabilities		
1. Shareholder's funds		
a. Share Capital	1	25,00,000
b. Reserves & Surplus	2	3,72,050
c. Minority Interest (W.N. 4)		2,71,500
2. Current Liabilities		
a. Trade Payable [4,55,000 +2,35,500]		6,90,500
b. Bills Payable [28,000 + 83,000 - 15,000]		96,000
c. Dividend Payable		2,50,000
Total		**41,80,050**

II. Assets		
1. Non - current Assets		
a. Fixed Assets		
(i) Tangible Assets [21,70,000 + 6,25,000]		27,95,000
(ii) Intangible Assets (W.N. 5)		22,300
2. Current Assets		
a. Inventories [4,80,000 + 3,19,200- $\left(\frac{1,45,000}{100}\times 25\right)$ 36,250]		7,62,950
b. Trade payables [1,80,000 + 1,64,000]		3,44,000
c. Bills Receivables [68,000 + 1,00,000 - 15,000]		1,53,000
d. Cash & bank [87,500 + 15,300]		1,02,800
Total		**41,80,050**

Notes to the financial statements

1. Share Capital:

Particulars	**₹**
a. Authorised	–
b. Issued, subscribed and fully paid up	25,00,000

2. Reserves & Surplus:

Particulars	**₹**
a. General Reserve	2,27,500
b. Surplus (W.N. 5) (1,03,950 + 40,600)	1,44,550
c. Unrealised	3,72,050

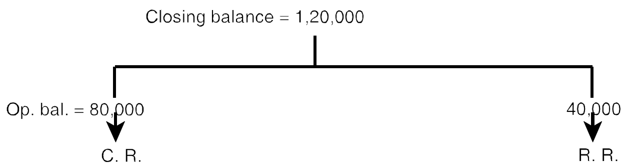
Working Notes:

1. Share holding pattern

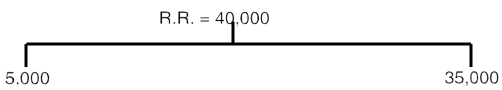
	No. of shares	% of holding
a. Him Ltd.		
1. 1st acquisition	3,480	60%
2. 2nd acquisition	580	10%
b. Minority Interest	1,740	30%
	5,800	100%

2. Analysis of profits (for 1st acquisition)

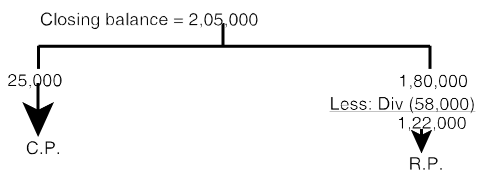
(a) General Reserve:



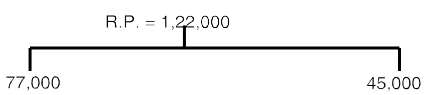
Incremental profit between 1st and 2nd acquisitions.



(b) Profit & Loss Account:



Incremental profit between 1st and 2nd acquisitions.



3. Apportionment of profit:

	Particulars	Pre-acquisition	Post acquisition	
		CP	RR	RP
a.	General Reserve	80,000	40,000	–
b.	Profit & Loss	25,000	–	1,22,000
c.	Total	1,05,000	40,000	1,22,000
d.	Minority interest	31,500	12,000	36,600
e.	HIM Ltd.	73,500	28,000	85,400
h.	Transfer her II acquisition			
	RR to C.P. [5,000×10%]	500	(500)	–
	RP to C.P. [77,000×10%]	7,700	–	(7,700)
	Total	81,700	27,500	77,700

4. Minority interest:

(i) Equity Share Capital	1,74,000
(ii) Capital Profit	31,500
(iii)Revenue Profit	36,600
(iv) Revenue Reserve	12,000
(v) Dividend	17,400
	2,71,500

5. Cost of control:

a.	Cost of investment		5,10,000
	Less: Share of net assets		
	⇒ Share capital	4,06,000	
	⇒ Capital profits	81,700	(4,87,700)
	Goodwill/(Capital Reserve)		22,300

6. Reserves for consolidated Balance Sheet

		G. R.	P&L
a.	Opening balance	2,00,000	3,12,500
b.	Share from SIM Ltd.	27,500	77,700
c.	Unrealised profit		(36,250)
d.	Dividend paid		2,50,000
e.	Dividend Received		40,600
		2,27,500	1,44,550

Chapter - 6 : Accounting & Reporting of Financial Instruments

2014 - Nov [4] (b)

1.	**Present value of investment**	5,65,000
	[20,000×50% = 10,000×100×0.565]	
2.	**Present value of interest**	
	10,000×100×9%×½ = 45,000×2.353 (W.N.1)	1,05,885
	Value of liability	6,70,885

Proceed of the issue (10,000×100)	10,00,000
Less: Liability component	(6,70,885)
Value of equity component	3,29,115

The other 50% Non-convertible debenture are irrelevant to this calculations as they do not have an option of conversion.

Working Note-1:

As interest is paid half-yearly PV will be considered for half of the year i.e. 5% for 6 years.

Chapter - 7 : Share Based Payments

2014 - Nov [4] (a)

Expense to be recognised each year:

	Particulars	31.03.2012	31.03.2013	31.03.2014
A.	No. of employees stock option expected to satisfy vesting conditions	94,000 [1,00,000 - 6,000]	88,500 [94,000-5,500]	85,500 [88,500 - 3,000]
B.	Fair value of options expected to vest [A×20]	18,80,000	17,70,000	17,10,000
C.	Cumulative fair value	18,80,000×½	17,70,000×2/3	17,10,000 × 3/3
	to be recognised till date	= 9,40,000	= 11,80,000	= 17,10,000
D.	Cumulative fair value already recognised	0	9,40,000	11,80,000
E.	Expense to be recognised for the period	9,40,000	2,40,000	5,30,000

Journal Entries

Date	Particulars		Dr.	Cr.
31.03.2012	Employee Compensation expense A/c	Dr.	9,40,000	
	To Stock options outstanding A/c			9,40,000
	[Being expense recognised for the year]			
31.03.2013	Employee Compensation expense A/c	Dr.	2,40,000	
	To Stock option outstanding A/c			2,40,000
	[Being expense recognised for the year]			

31.03.2014	Employee Compensation expense A/c Dr.	5,30,000	
	To Stock option outstanding A/c		5,30,000
	[Being expense recognised for the year.]		
31.03.2014	Bank A/c Dr.	34,00,000	
	Stock option outstanding A/c	17,00,000	
	To Share capital A/c		8,50,000
	To Security premium A/c		42,50,000
	[Being shares issued to employees @ shares per against excercise of their options]		
31.03.2014	Stock option outstanding A/c Dr.	10,000	
	To General reserve A/c		10,000
	[Being unexercised option amount transferred to GR]		

Chapter - 11 : Valuation of Shares & Business

2014 - Nov [5]

Fair value of shares:

Valuation of shares	Net Assets Method
(a) Net tangible assets	28.870
(b) *Add*: Goodwill	8.204
(c) Assets for equity shareholders	37.074
(d) No. of shares	12,000
(e) Value per share	₹ 308.95 per share

Working Note:

W.N.-1: Net tangible Assets

A. Assets

(i) Tangible Assets [14+12.5%]	15.75
(ii) Inventories	10.68
(iii) Other current assets	6.29

B	*Less*: Liabilities	
	Current liabilities	3.85
	Net trading Assets	28.87
	Less: ½ of current year's profit [5.15×50%]	2.58
	Capital employed	3,600

W. N.-2: Future maintainable profit

	2012	**2013**	**2014**
Profit	2.64	5.95	8.25
+ transfer to reserve (W.N.4)	2.60	0.90	1.25
+ PAT	5.24	6.85	9.50
PBT (A/70 ×100)	7.49	9.79	13.57
Less: Adjustments			
Depreciation	(0.12) [12×10%×10%]	(0.13) [13×10%×10%]	(0.175) [14×12.5%×10%]
Stock (W.N..5)			
OP Stock		(0.04)	(1.13)
CL Stock	0.04	1.13	2.17
(B) PBT	7.41	10.75	14.44
PAT (B-30%)	5.19	7.53	10.10

Average = $\frac{5.19 + 7.53 + 10.10}{3} = 7.61$

PAT	5.19	7.53	10.10
+ Goodwill written off		1	1
	5.19	8.53	11.10
Less: Opening balance	(2.18)	(2.64)	(5.95)
	3.01	5.89	5.15

Average = $\frac{3.01 + 5.89 + 5.15}{3} = 4.68$

It is assumed that profit includes opening balance also.

W.N.- 3: Valuation of goodwill

(a)	Capital employed (W.N.1)	26.29
(b)	NRR	10%
(c)	Normal profit (a×b)	2.630
(d)	fmp (W.N. 2)	4.680
(e)	Super profit (d-c)	2.051
(f)	No. of years of purchase	4
(g)	Goodwill	8.204

W.N. - 4: Transfer to Reserve

	O.P.	**2012**	**2013**	**2014**
G.R.	4.25	6.85	7.75	9.00
increase		2.6	0.90	1.25

W.N. - 5:

Year	**2012**	**2013**	**2014**
CL Stock	6.32	8.47	10.68
-Old Stock	(6.28)	(7.34)	(8.51)
	0.04	1.13	2.17

Chapter - 12 : Statements of Value Addition

2014 - Nov [6] (a)

Economic value added

E.V.A. = Net operating profit after tax (W.N.1) − Cost of capital employed (W.N.2)

= 492.200 - 325.248

= ₹ 166.952 lakhs

W.N. 1: Net operating profit after tax

→ EPS ₹ 16 per shares

→ No. of shares (400 lacs/₹ 10) = 40 lacs shares

Total Earnings = 40 lacs shares × ₹ 16 = ₹ 640 lacs

	(₹ in lacs)
→ Earnings available for distribution	= ₹ 640.00
→ + Preference dividend (Note 1)	= 30.00
Profit after tax	670.00

PAT	=	670.00
Less: Income from Non-trade investment		
[140×10%] = 14-30%	=	9.80
	=	660.20
Operating profit = 660.20 - 168.00 (Interest)	=	492.20

W.N. - 2:

Cost of capital	**Employed (in lacs)**	**Weightage ×cost**	**= WACC**
15% Debentures	1,600	0.66×10.5% = [15.30%]	= 0.0693
15% Preference share capital	200	0.08×15%	= 0.0120
Equity capital	620	0.26×20.41%	= 0.0531
	2,420	1	0.1344
			= 13.44%

W.N. - 3:

R.f + β (Rm - Rf)

= 9.85 + 1.65 (16.25 - 9.85)

= 9.85 + 10.56

= 20.41%

→ Cost of capital = 2,420 × 13.44% = ₹ 325.248

Chapter - 13 : Human Resource Reporting

2014 - Nov [6] (b)

Lev & Schwartz (1971) model
Skilled Employee
Average age 65 years

Year	**Salary**	**PVIF**	**PV**	**No. of employee**	
1	75,000	0.8696	65,220		
2	75,000	0.7562	56,715		
3	75,000	0.6576	49,320		
			1,71,255	× 40	= 68,50,200

Unskilled Employee
Average Age 63 Years

Year	Salary	PVIF	PV		No. of employee
1	50,000	0.8696	43,480		
2	50,000	0.7562	37,810		
			81,290	× 50	= 40,64,500

Value of human resources = 68,50,200 + 40,64,500 = 1,09,14,700

Shuchita Prakashan (P) Ltd.
25/19, L.I.C. Colony, Tagore Town,
Allahabad - 211002
Visit us: www.shuchita.com

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