PRIME ACADEMY
FINAL - 41st SESSION PROGRESS TEST
FINANCIAL REPORTING

No of Pages: 4 **Total Marks: 75**
Time Allowed: 2 Hrs

PART - A

1) M/s Kani has included interest and borrowing cost related to overdraft 45 crores while valuing the inventories. The CFO argues that it will form part of cost of inventories. As per AS 2 which of the following should be the alternative adopted by the company?
   a) Interest on bank o/d will not form part of inventory and therefore not to be included while valuing the inventory
   b) The interest cost will be included as a part of inventory
   c) The interest will be included only in the proportion of inventory amount on the total loan amount
   d) All of the above **(2 Mark)**

2) An unquoted investment is carried in the books at the cost of ₹ 2 lakhs. The published accounts of the unlisted company received in May 1998 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 20,000. Which of the following is more appropriate as per AS 13
   a) provision for diminution should be made to reduce the carrying amount of long term investments of ₹ 20,000
   b) Investment taken only at cost
   c) Investment are taken at market value basis
   d) Either b or c whichever is lower **(2 Mark)**

3) ICICI bank receives a gross of ₹ 1500 crores demand deposit from customer and withdrawn ₹ 1300 of demand deposits during the FY 2013-14. How will you classify such receipts and payments in the cash flow statement of ICICI and the manner of such presentation
   a) Operating activity on net basis (₹ 200 crores inflow)
   b) Operating activity on net basis (₹ 200 crores outflow)
   c) Financing activity on a total basis (₹ 1300 crores outflow)
   d) Investing activities on total basis (₹ 1500 crores inflow) **(3 Mark)**

4) During the year 2013-14 AD softex India ltd engaged in the following transactions

Salary expenses to key employees who are also principal owners	₹ 100000
Sales to affiliated enterprises	₹ 250000

   Which of the following would be disclosed as related party transactions in AD Softex
   a) Neither transaction
   b) ₹ 100000 transaction only
   c) ₹ 250000 transaction only
   d) Both transaction **(3 Mark)**

5) In a manufacturing process of Vijoy Limited, one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Detail of cost of production process is here under:

Item	Unit	Amount (Rs)	Output (unit)	Closing inventory as on 31.3.2015
Raw material	15,000	1,60,000	Mp1-6,250	800
Wages	-	82,000	Mp20-5,000	200
Fixed overhead	-	58,000	Bp-1,6000	-
Variable overhead	-	40,000	-	-

Average market price of MP1 and MP2 is INR 80 per unit and INR 50 per unit respectively; by-product is sold @ INR 25 per unit. There is a profit INR 5,000 on sale of by-product after incurring separate processing charges of INR 4,000 and packing charges of INR 6,000, INR 6,000 was realized from sale of scrap.

Calculate the value of closing inventory of MP1 and MP2 as on 31-03-2015. **(5 Marks)**

6) Bellhop LLC submits the following information pertaining to year 2014-2015. Using the data, you are required to find the ending cash and bank balances given an opening figure thereof was INR 1.55 million.

	₹ (in millions)
Additional shares issued	6.50
CAPEX (Capital expenditure)	9.90
Proceeds from assets sold	1.60
Dividends declared	0.50
Gain from disposal of assets	(1.20)
Net income	3.30
Increase in Accounts Receivable	1.50
Redemption of 4.5% debentures	2.50
Depreciation & Amortization	0.75

(5 Marks)

7) While preparing its final accounts for the year ended 31sMarch, 2015, a company made a provision for bad debts @ 5% of its total trade receivables. In the last week of February 2015, trade receivables for 2 lakhs had suffered heavy loss due to earthquake. The loss was not covered by any insurance policy. In April, 2015, the trade receivable became bankrupt. Can the company provide for full loss arising out of insolvency of trade receivable in the final accounts for year ended 31stMarch, 2015? **(5 Marks)**

PART – B

1) On 31stMarch, 2009, P Ltd. acquired 1,05,000 shares of Q Ltd. for INR 12,00,000. The Balance Sheet of Q Ltd. on that date was as under:

Liabilities	₹	Asset	₹
1,50,000 equity shares of INR 10 each fully paid	15,00,000	Fixed assets	10,50,000
Pre-incorporation profits	30,000	Current asset	6,45,000
Profit and Loss Account	60,000		
Trade payables	1,05,000		

On 31stMarch, 2015 the summarized Balance Sheets of two companies were as follows:

Liabilities	P Ltd. (₹)	Q Ltd. (₹)	Assets	P Ltd. (₹)	Q Ltd. (₹)
Equity shares of INR 10 each fully paid (before bonus issue)	45,00,000	15,00,000	Fixed Assets	79,20,000	23,10,000
Securities Premium	9,00,000	-	1,05,000equity shares in Q Ltd. at cost	12,00,000	-
Pre-incorporation profits	-	30,000	Current Assets	44,10,000	17,55,000
General reserve	60,00,000	19,05,000			
Profit and Loss A/C	15,75,000	4,20,000			
Trade payable	5,55,000	2,10,000			
	1,35,30,000	40,65,000		1,35,30,000	40,65,000

Directors of Q Ltd. made bonus issue on 31.3.2015 in the ratio of one equity share of INR 10 each fully paid for every two equity shares held on that date.

Calculate as on 31st March, 2015 (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases:

i. Before issue of bonus shares.
ii. Immediately after issue of bonus shares. It may be assumed that bonus shares were issued out of post-acquisition profits by using General Reserve.

Prepare a Consolidated Balance Sheet after the bonus issue. **(20 Marks)**

2) A Ltd. and B Ltd. were amalgamated on and from 1st April, 2014. A new company C Ltd. Was formed to take over the business of the existing companies. The summarized Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2014 are given below:

Liabilities	A Ltd. (₹In lakhs)	B Ltd. (₹ In lakhs)	Assets	A Ltd. (₹ In lakhs)	B Ltd (₹ In lakhs)
Share capital:			**Fixed assets:**		
Equity Shares of INR 100 each	800	750	Land and building	550	400
12% Preference shares of INR 100 each	300	200	Plant and machinery	350	250
			Investments	150	50
Reserves and Surplus:			Current Assets,		
Revaluation Reserve	150	100	Loans and		
General Reserve	170	150	Advances:		
Investment Allowance Reserve	50	50	Inventory	350	250
Profit and Loss Account	50	30	Trade receivable	300	250
Secured Loans:			Cash at bank	300	200
10% Debentures (INR 100 each)	60	30			
Current Liabilities and Provisions:					
Trade payables	420	190			
	2,000	1,500		2,000	1,500

Additional Information:

a) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of INR 100 each so as to maintain the same amount of interest.

b) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of INR 150 per share (face value of INR 100).

c) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ INR30 each, having a face value of INR 10 per share.

d) Investment allowance reserve is to be maintained for 4 more years

Prepare the Balance Sheet of C Ltd. as on 1st April, 2014 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. **(16 Marks)**

3)

a) S. Square Private Limited has taken machinery on lease from S.K. Ltd. The information is as under:
Lease term = 4 years
Fair value at inception of lease = INR 20,00,000
Lease rent = INR 6,25,000 p.a. at the end of year
Guaranteed residual value = INR 1,25,000
Expected residual value = INR 3,75,000
Implicit interest rate = 15%
Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.
Calculate the value of the lease liability as per AS19. **(6 Marks)**

b) P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd. How would you assess the situation from the viewpoint of AS 18 on Related Party Disclosures? **(8 Marks)**