Pinnacle Academy

Mock Tests for

May 2019 C A Final Examination

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[Solution is at the end with marking for self-assessment]

Time Allowed-1 hour & 30 minutes **Maximum Marks- 50**

Old Syllabus

FR Mock Test 1

9th March, 2019

Q 1 is compulsory.
Answer any 2 from the remaining.

Q 1

(a) The following information are obtained from the books of Sunrise Company Ltd. as on 21st April, 2018:

	Rs.
Capital	
10,000 Equity shares of Rs.10 each fully paid up	1,00,000
10,000 Equity shares of Rs.10 each, Rs.7.50 per share paid up	75,000
10,000 Equity shares of Rs.10 each, Rs.5 per share paid up	50,000
General reserve	1,35,000
Liabilities to Sundry Parties	55,000
Fixed assets less Depreciation	1,67,000
Commission on issue of shares	6,000
Preliminary Expenses	9,000
Floating Assets	2,33,000

It is estimated that the normal average profit less tax of the company will be maintained at Rs.34,000 and the expected rate for capitalization purpose is 8%. Calculate the value of each type of shares by the asset-backing method (exclusion goodwill) and also by the yield method.

(6 Marks)

(b) Capital structure of Define Ltd. is as under:

80,00,000 Equity shares of Rs.10 each:	Rs.800 lakhs
1,00,000 12% Preference shares of Rs.250 each:	Rs.250 lakhs
1,00,000 10% Debentures of Rs.500 each:	Rs.500 lakhs
Term Loans from Bank @ 10%:	Rs.450 lakhs

(Assessed answer papers shall be returned on 16th March, 2019)
[Question paper and solution shall be hosted on:
www.ashishlalaji.net]

Company's statement of profit and loss for the year showed retained profit after tax of Rs.100 lakhs after payment of preference dividend and equity dividend @ 20%. Tax rate is 40%. T-Bill yield is 6.5% p.a. and beta of company is 1.5. Long run market rate of return is 16.5%. Calculate Economic Value Added (EVA).

(6 Marks)

(c) A company has a capital base of Rs.1 crore and has earned profits to the tune of Rs.11 lakhs. The Return on Investment (ROI) of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by Rs.2.5 lakhs over and above the target profit. Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

(6 Marks)

Q 2

(a) From the following Profit & Loss Account of XYZ Ltd. prepare Gross Value Added Statement:

	Notes	**Amount (Rs. 000)**	**Amount (Rs. 000)**
Sales less return			21,350
Trading Profit	1		1,920
Less: Depreciation		302	
Interest	2	140	442
			1,478
Add: Other income			80
			1,558
Provision for tax	3		688
Profit after tax			870
Less: Extraordinary items	4		15
			855
Less: Proposed Dividend			340
Retained Profit			515

Notes:

1. Trading Profit is arrived at after charging the following:

Salaries, wages, etc. to employees	3,685
Directors' remuneration	360
Audit Fees	220
Hire of equipment	290

2. Interest figure is ascertained as below:

Interest paid on bank loans and overdraft	160	
Less: Interest Received	20	140

3. Extra-ordinary items are:

Loss of goods by fire	35	
Less: Surplus on sale of properties	20	15

4. Charge of taxation include a transfer of Rs.1,48,000 to the credit of deferred tax account

(8 Marks)

(b) Following are the balance sheets of A Ltd., B Ltd. and C Ltd.:

	A Ltd.	**B Ltd.**	**C Ltd.**
Equity shares of Rs.10 each fully paid	8,00,000	5,00,000	7,50,000
Securities Premium	80,000		
7 % Debentures	3,00,000		
Profit and Loss account	2,30,000	2,10,000	2,00,000
Current liabilities	2,80,000	1,80,000	2,10,000
Proposed dividend	1,00,000	50,000	------------
	17,90,000	9,40,000	11,60,000
Freehold Properties	6,60,000	2,90,000	3,30,000
Plant and Machinery	4,50,000	4,10,000	4,40,000
Investments			
40,000 shares in B Ltd.	4,70,000		
Current Assets	2,10,000	2,40,000	3,90,000
	17,90,000	9,40,000	11,60,000

You are required to value the shares of A Ltd. and C Ltd. based on following details:

(i) A Ltd.'s shares are quoted at Rs.14, but for the purpose of valuation, value is to be taken at higher of quoted or on the basis of balance sheet

(ii) C Ltd.'s shares, which are unquoted, are to be taken at higher of the value as on yield basis, or balance sheet. The future profits are estimated at Rs.1,05,000 subject to one-third to be retained for development purposes. Shares of similar companies yield 8 %.

(iii) Freehold properties of C Ltd. are to be taken at Rs.4,30,000.

(8 Marks)

Q 3 System Ltd. and HRD Ltd. shall be taken over by Internet Ltd. as on 1st April 2012. Their balance sheets as on 31st March 2012 are as follows:

(Rs. in '000s)

	System Ltd.	**HRD Ltd.**
Equity Share Capital (Rs.10)	150	140
9 % Preference Share Capital (Rs.100)	30	20
General Reserve	1.5	2
Profit and Loss Account	10	6
10 % Debentures	50	30
Creditors	25	15
Tax Provision	10.5	4
Long term liabilities to employees	30	28
Total	307	245
Building	60	50
Plant and Machinery	80	70
Investments	40	25
Debtors	45	35
Stock	36	40
Cash and Bank	40	25
Preliminary Expenses	6	---
Total	307	245

Additional Information:

i. Internet Ltd. is exclusively floated to take over System Ltd. and HRD Ltd.
ii. Purchase method is to be followed
iii. 50% debentures are to be converted into equity shares of Internet Ltd.
iv. Fixed assets of System Ltd. are to be appreciated by 10% and HRD Ltd. by 5%
v. 10 % Debtors of both the companies are expected to go bad
vi. Out of investments of System Ltd., 80 % is long term investments.
vii. Investment of HRD Ltd. represents 2,500 shares of System Ltd. at cost
viii. Preference shareholders shall be discharged by issuing equal number of 9% preference shares at par
ix. Equity shareholders of both the transferor companies are to be discharged by issuing equity shares of Rs.10 each of the new company at a premium of Rs.10 per share

Prepare balance sheet of Internet Ltd. as at 1st April 2012. Notes to balance sheet may be avoided.

(16 Marks)

Q 4 The Balance Sheet of Z Ltd. as at 31st March, 2003 is given below. In it, the respective shares of the company's two divisions namely S Division and W Division in the various assets and liabilities have also been shown.

(All amounts in crores of Rupees)

	S Division	W Division	Total
Fixed Assets:			
Cost	875	249	
Less: Depreciation	360	81	
Written-down value	515	168	683
Investments			97
Net Current assets:			
Current Assets	445	585	
Less: Current Liabilities	270	93	
	175	492	667
Financed by:			
Loan funds		15	417
Own funds:			
Equity share capital: shares of Rs.10 each			345
Reserves and surplus			685
			1,447

Loan funds included, inter alia, Bank Loans of Rs. 15 crore specifically taken for W Division and Debentures of the paid up value of Rs. 125 crore redeemable at any time between 1st October, 2002 and 30th September, 2003.

On 1st April 2003 the company sold all of its investments for Rs. 102 crore and redeemed all the debentures at par, the cash transactions being recorded in the Bank Account pertaining to S Division.

Then a new company named Y Ltd. was incorporated with an authorized capital of Rs. 900 crore divided into shares of Rs. 10 each. All the assets and liabilities pertaining to W Division were transferred to the newly formed company; Y Ltd. allotting to Z Ltd. 's shareholders its two fully paid equity shares of Rs. 10 each at par for every fully paid equity share of Rs. 10 each held in Z Ltd. as discharge of consideration for the division taken over.

Y Ltd. recorded in its books the fixed assets at Rs. 218 crore and all other assets and liabilities at the same values at which they appeared in the books of Z Ltd.

You are required to:

(i) Show the journal entries in the books of Z Ltd.

(ii) Prepare Z Ltd.'s Balance Sheet immediately after the demerger and the initial Balance Sheet of Y Ltd. (Notes in both cases need not be prepared).

(iii) Calculate the intrinsic value of one share of Z Ltd. immediately before the demerger and immediately after the demerger; and

(iv) Calculate the gain, if any, per share to the shareholders of Z Ltd. arising out of the demerger.

(16 Marks)

Best of Luck!

(Assessed answer papers shall be returned on **16th March, 2019)**

[Question paper and solution shall be hosted on:

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Old Syllabus

Solution of

CA Final FR Mock Test 1

Conducted on 9th March, 2019

Q 1

(a) Valuation of Shares as per Net Assets Method:

Fixed Assets	1,67,000
Floating Assets	2,33,000
	4,00,000
Less: Liabilities	55,000
	3,45,000
Add: Notional Call	
• 10,000 X 2.5	25,000
• 10,000 X 5	50,000
Revised Net Assets	4,20,000

Value per share

- Rs.10 paid up — 4,20,000 / 30,000 = Rs.14
- Rs.7.5 paid up — 14 – 2.5 = Rs.11.50
- Rs.5 paid up — 14 – 5 = Rs.9

Valuation of Shares as per Yield Method:

Return on equity = 34,000 / 2,25,000 = 15.11 %

Value per share

- Rs.10 paid up — 15.11 / 8 X 10 = Rs.18.89
- Rs.7.5 paid up — 15.11 / 8 X 7.5 = Rs.14.17
- Rs.5 paid up — 15.11 / 8 X 5 = Rs.9.44

(6 Marks)

(b) Determination of NOPAT:

PAT = Retained PAT + Preference Dividend + Equity Dividend
PAT = 100 + 30 + 160 = Rs.290 lakhs

PBT = PAT / 1 – t = 290 / 1 – 0.4 = Rs.483.33 lakhs

PBIT = PBT + Interest = 483.33 + 50 + 45 = Rs.578.33 lakhs

NOPAT = EBIT – Taxes = 578.33 – 40% = Rs.347 lakhs

(2 Marks)

Determination of Total Capital Employed (TCE):

Particulars	**Amount (Rs. in lakhs)**
Equity Capital	800
Preference Capital	250
Long Term Debt (500 + 450)	950
TCE	2,000

(1 Mark)

Solution prepared by CA. Ashish Lalaji

Determination of WACC (ko):
Ke = 6.5 + 1.5 (16.5 – 6.5) = 21.5 %
Ko = 21.5 (800) + 12 (250) + 10 (1 - .4) (950) / 2,000 = 12.95 %

(2 Marks)

Computation of EVA:
EVA = NOPAT – [TCE X WACC(%)] = 347 – (2,000 X 12.95%) = Rs.88 lakhs

(1 Mark)

(c) Capital Base = Rs.1,00,00,000

Actual Profit = Rs. 11,00,000

Target Profit @ 12.5% = Rs. 12,50,000

Expected Profit on employing the particular executive
= Rs.12,50,000 + 2,50,000 = Rs.15,00,000

Additional Profit = Expected Profit – Actual Profit
= 15,00,000 – 11,00,000 = Rs.4,00,000

Maximum bid price = 4,00,000 / 12.5 % = Rs.32,00,000

Maximum salary that can be offered = 12.5% of Rs.32,00,000 i.e., 4,00,000

Maximum salary can be offered to that particular executive up to the amount of additional profit i.e., Rs.4,00,000.

(6 Marks)

Q 2

(a) Determination of Cost of Bought-in materials and Services:

	Amount (Rs. in '000s)
Sales	21,350
Less: Trading Profit	1,920
Total Cost	19,430
Less:	
Salaries and Wages	3,685
Director's remuneration	360
Cost of bought-in materials and services	15,385

Gross Value Added Statement of XYZ Ltd. for the year ended 31st March 2014:

(Rs. in '000s)

VALUE ADDED	**Amount**	**Amount**
Sales less return		21,350
Less: Cost of bought-in materials and services		15,385
Value Added by manufacturing and trading activities		5,965
Add: Interest received	20	
Other income	80	100
Less: Extraordinary items		
Surplus on sale of properties	20	
Loss of goods by fire	(35)	(15)
Gross Value Added		6,050
VALUE APPLIED		
To Pay Employees:		
Salaries, wages and other benefits		3,685
To Pay Directors:		
Director's remuneration		360
To Pay Government:		
Income Tax (688 – 148)		540
To Pay Providers of Capital:		
Interest on loans and overdraft	160	
Proposed Dividend	340	500
To Provide for Maintenance and Expansion:		
Depreciation	302	
Transfer to Deferred Tax	148	
Retained Profit	515	965
		6,050

(2 + 6 = 8 Marks)

(b) Calculation of Value per share on "Balance sheet Basis"

	A Ltd. (Rs.)	B Ltd. (Rs.)	C Ltd. (Rs.)
Freehold Properties	6,60,000	2,90,000	4,30,000
Plant and Machinery	4,50,000	4,10,000	4,40,000
Investments			
40,000 shares in B Ltd. @ Rs.14.20 per	5,68,000		
share	2,10,000	2,40,000	3,90,000
Current Assets	40,000	------------	--------------
Dividend Receivable from B Ltd.	19,28,000	9,40,000	12,60,000
Less:	3,00,000		
7 % Debentures	2,80,000	1,80,000	2,10,000
Current liabilities	1,00,000	50,000	------------
Proposed dividend	12,48,000	7,10,000	10,50,000
	80,000	50,000	75,000
Number of shares	15.60	14.20	14.00
Value per share			

(4 Marks)

Valuation of shares of C Ltd. on yield basis:

Estimated annual future profit	1,05,000
Less: 1/3 retained for development	35,000
Distributable profits	70,000
Capitalisation rate	0.08
Capitalised value	8,75,000
No. of shares	75,000
Value per share	11.67

(2 Marks)

Value per share as per agreement:

A Ltd.:

Balance sheet value (Rs.15.60), or quoted price (Rs.14), whichever is higher i.e. Rs.15.60

B Ltd.:

Balance sheet value (Rs.14), or yield value (Rs.11.67), whichever is higher i.e. Rs.14

(2 Marks)

Q 3 Determination of number of equity shares to be issued by Internet Ltd.:

(Rs. in '000s)

	System Ltd.	HRD Ltd.
Building	66	52.50
Plant and Machinery	88	73.50
Investments	40	---
2,500 shares of System Ltd. @ Rs.11#	---	27.50
Debtors	40.50	31.50
Stock	36	40
Cash and Bank	40	25
Less:	310.50	250
10 % Debentures	50	30
Creditors	25	15
Tax Provision	10.5	4
Long term liabilities to employees	30	28
Net assets to shareholders	195	173
Less: Preference share capital	30	20

Net assets to equity shareholders	165	153
Less: Net assets of System Ltd. owned by HRD Ltd. (165 X 2.5 / 15)	27.50	-----
(a) Net assets owned by eligible outsiders	137.50	153
(b) Agreed issued price per share	20	20
(c) New equity shares issued by Internet Ltd.	6.875	7.65

 # IVPS of System Ltd.: 165 / 15 = Rs.11

(4 Marks)

Determination of Purchase Consideration:

(Rs. in '000s)

To Equity Shareholders:	
14,525 equity shares of Internet Ltd. @ Rs.20	290.50
To Preference Shareholders:	
500 9 % Preference shares of Internet Ltd. Rs.100	50.00
	340.50

(2 Marks)

Determination of Goodwill / Capital Reserve:

(Rs. in '000s)

Net assets taken over [195 + (173 – 27.5)]	340.50
Less: Purchase Consideration	340.50
	Nil

(1 Mark)

Settlement of Debentures:

50 % of Rs.80,000 i.e. Rs.40,000 shall be converted into equity shares @ Rs.20 i.e. 2,000 equity shares shall be issued.

(1 Mark)

Balance sheet of Internet Ltd. as on 1st April 2012

(Rs. in '000s)

I.	**Equity and Liabilities:**			
1.	**Shareholders' Funds:**			380.50
(A)	**Share Capital:**		215.25	
(i)	16,525 equity shares of Rs.10 each (All shares issued for consideration other than cash)	165.25		
(ii)	500 9 % Preference shares of Rs.100 each (All shares issued for consideration other than cash)	50.00		
(B)	**Reserves and Surplus:**			
	Securities Premium (16,525 X 10)		165.25	
2.	**Non-Current Liabilities:**			98.00
	10 % Debentures		40	
	Long term liabilities to employees		58	
3.	**Current Liabilities:**			54.50
	Creditors		40	
	Tax Provision		14.5	
	Total			533.00
II	**Assets:**			
1.	**Non Current Assets:**			312.00
A.	**Fixed Assets (Tangible):**		280.00	
	Building	118.50		
	Machinery	161.50		
B.	**Non Current Investments**		32.00	
2.	**Current Assets**			221.00
	Current Investments		8.00	
	Debtors		72.00	

Stock	76.00	
Cash and Bank	65.00	
		533.00

(8 Marks)

Q 4 (i) Journal entries in Books of Z Ltd.

Bank A/c	Dr.	102	
To Investments A/c			97
To P & L A/c			5
Debentures A/c	Dr.	125	
To Bank A/c			125
Current Liabilities A/c	Dr.	93	
Bank Loan A/c	Dr.	15	
Reserves A/c	Dr.	645*	
To Fixed Assets A/c			168
To Current Assets A/c			585

*** Loss on reconstruction**

(2 Marks)

(ii) Balance sheet of Z Ltd. after demerger

Equity and Liabilities		
Shareholders' Funds		390
Equity share capital: Shares of Rs.10 each	345	
Reserves and surplus [685 + 5 – 645]	45	
Non Current Liabilities		
Loan Funds [417 – 15 – 125]		277
Current Liabilities		270
		937
Assets		
Non Current Assets		
Fixed Assets – Tangible		
Cost	875	
Less: Depreciation	360	515
Current Assets [445 + 102 – 125]		422
		937

(4 Marks)

Balance sheet of Y Ltd.

Equity and Liabilities		695
Shareholders' Funds		
Equity share capital: Shares of Rs.10 each	690	
Capital Reserve*	5	
Non Current Liabilities		
Loan Funds		15
Current Liabilities		93
		803
Assets		
Non Current Assets		
Fixed Assets – Tangible		218
Current assets		585
		803

(4 Marks)

*** Determination of Capital Reserve:**

Fixed Assets		218
Current Assets		585
		883
Less: Bank Loans		15
Current Liabilities		93
Net Assets taken over	695	
Less: Purchase Consideration [34.5 X 2 i.e. 69 X 10]	690	
Capital Reserve		5

(2 Marks)

(iii) Calculation of Intrinsic Value per Share:

	Z Ltd. Before Demerger	Z Ltd. After Demerger	Y Ltd.
Fixed Assets	683	515	218
Net Current Assets	644	152	492
	1,327	667	710
Less: Loan Funds [*417 – 125]	292*	277	15
(a) Total Intrinsic Value	1,035	390	695
(b) No. of shares	34.5	34.5	69
(c) IVPS [a / b]	30	11.3	10.07

(2 Marks)

(iv) Calculation of gain per share for shareholders of Z Ltd.:

Value of 1 share in Z Ltd. after demerger	11.30	
Value of 2 shares in Y Ltd. [10.07 X 2]		20.14
		31.44
Less: Value of 1 share before demerger	30.00	
Gain per share		1.44

The gain is due to appreciation in the value of fixed assets by Y Ltd.
[218 – 168 i.e. 50 / 34.5 i.e. 1.44 (approx.)]

(2 Marks)

Solution prepared by CA. Ashish Lalaji