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PAPER – 1 : FINANCIAL REPORTING

Question No.1 is compulsory.

Answer any five questions from the remaining six questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Question 1

(a) P Ltd. has three business segments which are FMCG, Batteries and Sports Equipment. The Battery segment has been consistently underperforming and P Ltd. after several discussions with Labour unions have finally decided on closure of this segment. Under the agreement with the Labour Union the employees of the Battery Segment will earn no further benefit as the arrangement is a curtailment without settlement wherein the employees of the discontinued segment will continue to receive benefits for services rendered when the segment was functioning. As a result of the curtailment, the company's obligations that were arrived on the basis of actuarial valuations before the curtailment have come down. The following information is also furnished:

- (i) The value of gross obligations before the curtailment calculated on actuarial basis was ₹ 4,000 lakhs.
- (ii) The value of Unamortized past service costs is ₹ 100 lakhs.
- (iii) The Curtailment will bring down gross obligations by ₹ 500 lakhs and P Ltd. anticipates a proportional decline in the value of unamortized past service costs also.
- (iv) The Fair Value of plan assets on date is estimated at ₹ 3,250 lakhs.

You are required to calculate the gain from curtailment and also show the liability to be recognized in the Balance Sheet of P Ltd. after the curtailment.

(b) To comply with listing requirements and other statutory obligations Quaker Ltd. prepares interim financial reports at the end of each quarter. The company has brought forward losses of ₹ 700 lakhs under Income Tax Law, of which 90% is eligible for set off as per the recent verdict of the Court, that has attained finality. No Deferred Tax Asset has been recognized on such losses in view of the uncertainty over its eligibility for set off. The company has reported quarterly earnings of ₹ 700 lakhs and ₹ 300 lakhs respectively for the first two quarters of Financial year 2013-14 and anticipates a net earning of ₹ 800 lakhs in the coming half year ended March 2014 of which ₹ 100 lakhs will be the loss in the quarter ended Dec. 2013. The tax rate for the company is 30% with a 10% surcharge. You are required to calculate the amount of Tax Expense to be reported for each quarter of financial year 2013-14.

- (c) B Ltd. entered into an agreement on 1st March, 2013 to buy computer spares from S Ltd. at prevailing market price for ₹ 1200 lakhs on which S Ltd. made a profit of 20% and received full advance payment. The transaction was concluded on 15th March, 2013. On the same day S Ltd. agrees to buy on 15th Sept., 2013 the same goods from B Ltd. at 20% over cost. The 20% mark up compensates B Ltd. for its inventory holding costs till sale date. You are required to show how both the buyer and seller account for the above transaction in the year 2012-13 explaining in brief the justification for your treatment and also draft the Notes on Account on disclosure if any required in the annual accounts of year ended 31st March, 2013.
- (d) Vintage Ltd. has been in the business of sale of Vintage Wines for the last 12 years and is an extremely cash rich company. In FY 2011-12 the Board of the company decided to venture into new areas of business and identified the activity of acquiring Vintage Properties such as old Bungalows, Heritage buildings and the like at prime locations and after carrying out renovation and refurbishment of the same to let out these properties on lease to willing parties. The new business was commenced as a separate division of the company in FY 2012-13 during which the company managed to identify 19 such properties of which 17 were acquired and 9 given on lease. Being the initial year of operations and also since some of the lease arrangements were entered into at the fag end of the year the income from leasing was only a paltry amount. After the acquisition of the properties as aforesaid very attractive offers for sale of 14 of the properties were received. Vintage Ltd. after negotiation accepted 12 of the offers and sold these 12 properties making large profits in the bargain. The accountant of Vintage Ltd. has accounted the acquisition and disposals of properties as 'Purchases' and 'Sales' in the Profit & Loss account of the Property Division and treated the lease incomes as part of the other income of the company. The contention of the accountant of Vintage Ltd., was that since a majority of the properties were disposed off within a short span of time, the properties are to be considered as stock in trade only. Further since the lease income was insignificant it does not become the main source of income and hence considered as part of other income. You are required to examine the correctness of the contentions of the accountant of Vintage Ltd. considering the relevant Accounting Standards and provisions of Revised Schedule VI of Companies Act, 1956.

(4 x 5 =20 Marks)

Answer

- (a) Gain from curtailment

	(₹) in lakhs
Reduction in gross obligation (12.5% of 4,000)	500.00
Less: Proportion of unamortised past service cost(12.5% of ₹ 100)	<u>(12.50)</u>
Gain from curtailment	<u>487.50</u>

The liability to be recognised after curtailment in the balance sheet of P Ltd. is estimated as under:

	₹
Reduced gross obligation (₹ 4,000 less ₹ 500)	3,500.00
Less: Fair value of plan assets	<u>(3,250.00)</u>
	250.00
Less: Unamortised past service cost (87.5% of ₹ 100)	<u>(87.50)</u>
Liability to be recognised in the balance sheet	<u>162.50</u>

- (b) Estimated tax liability on annual income = [Income ₹1,800 lakhs less b/f losses ₹ 630 lakhs (90% of 700)] x 33%
- = 33% of ₹ 1,170 lakhs = ₹ 386.10 lakhs

As per Para 29(c) of AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

Thus, estimated weighted average annual income tax rate = ₹ 386.10 lakhs divided by ₹ 1,800 lakhs=21.45%

Tax expense to be recognised in each quarter	₹ in lakhs
Quarter I – ₹ 700 lakhs x 21.45%	150.15
Quarter II – ₹ 300 lakhs x 21.45%	64.35
Quarter III – (₹ 100 lakhs) x 21.45%	(21.45)
Quarter IV – ₹ 900 lakhs x 21.45%	<u>193.05</u>
	<u>386.10</u>

- (c) In this case S Ltd. concurrently agrees to repurchase the same goods from B Ltd. at a later date. Also, the repurchase price is predetermined and covers B Limited's purchasing and holding costs. Hence, the transaction between S Limited and B Limited on 15th March, 2013 should be accounted for as financing transaction rather than as sale. The resulting cash inflow of ₹ 1,200 lakhs is not revenue as per AS-9 'Revenue Recognition'.

Journal entries in the books of S Limited

		₹ in lakhs		
15.3.2013	Bank A/c	Dr.	1,200	
	To Advance from B Limited A/c			1,200
	(Being amount received from B Ltd. as per sale and repurchasing agreement)			

31.3.2013	Financing Charges A/c To Advance from B Ltd. A/c (Financing charges 20% of ₹ 1200 lakhs for 1/2 month i.e. $240 \times 0.5/6$)	Dr.	20	20
31.3.2013	Profit and Loss A/c To Financing charges (Being amount transferred to profit and loss account)	Dr.	20	20

Disclosure in the Balance Sheet

1 Balance Sheet of S Limited as on 31.3.2013 (Extract)

	(₹) in lakhs
Assets (Under the head "Current Assets")	
Short-term loans and advances	
Goods lying with B Limited (under sale and repurchase agreement)	<u>1,000*</u>
Liabilities (under the head "Secured Loans")	
Advance from B Limited	1,200
Add: Accrued finance charges	<u>20</u>
	<u>1,220</u>

2. Notes to accounts:

- (a) Goods lying with B Limited costing ₹ 1,000 lakhs to be repurchased after 6 months at ₹ 1,440 lakhs.
- (b) Goods sold to B Limited for ₹ 1,200 lakhs (cost ₹ 1,000 lakhs) on repurchase agreement. The difference between sale price and repurchase price is treated as financing charges and allocated proportionately in the current accounting period.

Journal entries in the Books of B Limited

₹ in lakhs

15.3.2013	Advance from B Limited A/c To Bank A/c (Being amount paid to S Ltd. as per sale and repurchase agreement)	Dr.	1,200	1,200
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* 20% profit on cost price has been considered in the sale transaction between B Ltd. and S Ltd. on 1st March, 2013.

31.3.2013	Accrued Finance Income A/c To Finance income (Financing charges 20% of ₹1200 lakhs for 1/2 month i.e. $240 \times 0.5/6$)	Dr.	20	20
31.3.2013	Financing Income A/c To Profit and Loss A/c (Being financing charges received transferred to profit and loss account)	Dr.	20	20

Disclosure in the Balance Sheet

1. Balance sheet of B Ltd. as on 31.3.2013 (An Extract)

Assets (Under the head 'Current Assets')

Short-term loans and advances

Advance to S Ltd. (Under sale and repurchase agreement) - ₹ 1,200 lakhs

Accrued Finance income - ₹ 20 lakhs

(This advance is fully secured by goods of S Ltd. Market value of ₹ 1,200 lakhs lying with company as security)

2. Notes to Account

₹ 1,200 lakhs paid to S Limited against the sale and repurchase agreement against the security of goods of S Limited whose market value is ₹ 1,200 Lakhs.

The transaction being in the nature of a financing arrangement is not recognized as a sale and hence the excess of repurchase price over sale price amounting to ₹ 240 lakhs have been treated as Finance charges allocated proportionately between accounting periods 2012-13 and 2013-14. The value of the computer spares lying with B Ltd. on Balance Sheet date is considered as part of the company's inventory held as security for the Financing obligation.

- (d) As per para 3 of AS 2 "Valuation of Inventories", inventories are assets that are (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services. The properties acquired by Vintage Ltd. Should not be construed as stock in trade in spite of the fact that they are being sold within a short span of time.

As per the definition of Fixed asset given in para 6 of AS 10, a fixed asset is one which is held with the intention of being used for the purpose of producing goods or services and is not held for sale in the normal course of business. In the given question the acquisition of the heritage properties is done by the company with

the intention to provide the service of leasing of such properties. Hence the intention of the company was to use such property for generating revenue for the company by leasing out such properties. The sale of 12 properties can't be considered as part of normal business operations of the company. Hence the treatment of the properties as 'Stock-in- Trade' is incorrect as the properties are to be considered only as Fixed Assets of the company. The purchase and sale in short span of time to make huge profit will require disclosure as per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'. The lease income from these properties will be considered as main business income and cannot be considered as part of other income. Such income will be disclosed under the head Revenue from operations.

Thus the contentions of the accountant regarding accounting the acquisition and sale of these properties as sale and purchase, treating them as stock in trade, considering lease income as other income are incorrect in line with provisions of relevant accounting standards.

Question 2

Following is the Extract of Balance sheet of M/s Sunny Ltd. and Money as on 31.03.2013:

Balance Sheet Extract as on 31.03.2013		
	Sunny Ltd.	Money Ltd.
	₹	₹
Authorised Share Capital	15,00,000	5,00,000
Equity Share Capital of ₹ 10 each fully paid	8,00,000.00	2,00,000.00
General Reserve	1,10,000.00	45,000.00
Profit & Loss Account	42,000.00	18,000.00
Statutory fund	16,000.00	8,000.00
Trade Payables	45,000.00	24,000.00
Provisions	95,000.00	12,000.00
	11,08,000.00	3,07,000.00
Goodwill	20,000.00	0.00
Machines & Plant	5,10,000.00	1,95,000.00
Other fixed Assets	90,000.00	15,000.00
Current Assets		
Inventories	1,85,000.00	35,000.00
Debtors	1,00,500.00	35,000.00
Prepaid expenses	24,500.00	2,000.00

Cash in Hand & Bank	1,78,000.00	25,000.00
	11,08,000.00	3,07,000.00

The two companies have entered into a scheme of Amalgamation and a new company Z Ltd. is formed. The Amalgamation is to take place in the following manner :

- (1) For the purpose of Amalgamation a new Company Z is to be formed with a authorized Share Capital of 2,50,000 equity shares of ₹ 10 each.
- (2) Z Ltd. to issue fully paid shares to the shareholders of Sunny Ltd. and Money Ltd., at a price of ₹ 5 and ₹ 3 above the intrinsic value of the shares respectively.
- (3) The scheme of amalgamation was not supported by 100 shareholders of Sunny Ltd., and had to be paid ₹ 10 per share above intrinsic value as consideration. The amount of the dissenting shareholders was borne by Z Ltd.,
- (4) Fixed Assets of Sunny Ltd., were last revalued in the year 2009 after which there has been an increase of 15% in the values, while assets of Money Ltd. have not shown any change in prices. The current assets of Money Ltd., include Debtors of ₹ 20,000/- which are considered bad.
- (5) Money Ltd.'s Stock-in-trade as on 31.03.2013 includes stock of ₹ 25,000 purchased from Sunny Ltd., at a profit of 25% on cost price.
- (6) The Statutory Fund of the companies is to be maintained by Z Ltd. for a period of 3 years.
- (7) Sunny Ltd. had declared dividend of 10% on 31.03.2013 which has still not been paid.
- (8) Goodwill shown in books of Sunny Ltd., was considered to be worthless.
- (9) All the assets of the companies are taken over by Z Ltd. at the revalued amounts. Liabilities have to be paid in full.

Calculate the purchase consideration paid by Z to the shareholders of both the companies and prepare the Balance Sheet of Z Ltd., as per revised Schedule VI after the Amalgamation. (Notes to Balance Sheet need not form part of the answer.) (16 Marks)

Answer

Calculation of Net Assets	Sunny Ltd.		Money Ltd.	
Goodwill (given to be of nil value)				
Machines and Plant	5,10,000		1,95,000	
Other Fixed Assets	<u>90,000</u>		<u>15,000</u>	
	6,00,000			2,10,000
Add: 15% increase in price	<u>90,000</u>	6,90,000		
Current Assets				

Inventories and debtors		1,85,000	35,000	
Less: Loading on Stock (25,000 x 25/ 125)			<u>5,000</u>	30,000
Debtors		1,00,500	35,000	
Less: Debtors considered bad			<u>20,000</u>	15,000
Prepaid expenses		24,500		2,000
Cash in Hand & Bank	1,78,000			25,000
Less: Payment of Dividend (10% of ₹ 8,00,000)	<u>(80,000)</u>	<u>98,000</u>		-
Value of Total Assets		10,98,000		2,82,000
Less : Liabilities				
Trade Payables		45,000		24,000
Provisions	95,000			12,000
Less: Proposed dividend paid and adjusted in cash (assumed that proposed dividend was included in provisions)	<u>(80,000)</u>	15,000		
Value of Net Assets of the Company		10,38,000		2,46,000

Working Notes:

1 Calculation of Intrinsic Value of Shares

	Sunny Ltd.	Money Ltd.
Net Assets value as on 31.03.2013	10,38,000.00	2,46,000.00
No. of shares of the Company	80,000.00	20,000.00
Intrinsic Value of shares	12.975	12.30

2. Calculation of Purchase Consideration

	Sunny Ltd.	Money Ltd.
Intrinsic Value of Shares	12.975	12.30
Premium to be paid by Z Ltd.	5.00	3.00
Amount to be paid per share	17.975	15.30
No. of shareholders agreeing to amalgamation	79,900	20,000
Total amount to be paid by Z Ltd.	14,36,202	3,06,000

No. of shares to be issued by Z Ltd. ₹ 10 per share (₹ 2 paid in cash)	1,43,620	30,600
Total number of equity shares	1,74,220	
Payment to dissenting shareholders	22.98	
Total payment	2,298	
Total purchase consideration	14,38,500	3,06,000

Entries in Books of Z Ltd.

	₹	₹
Business Purchase A/c	1,744,500	
To Liquidators of Sunny Ltd.		14,38,500
To Liquidators of Money Ltd		3,06,000
(Being the purchase of Sunny Ltd and Money Ltd.)		
Fixed Assets	9,00,000	
Inventories	2,15,000	
Debtors	1,15,500	
Prepaid Expenses	26,500	
Cash & Bank	1,23,000	
Goodwill (balancing figure)	4,60,000	
To Trade Payables		69,000
To Provisions		27,000
To Business Purchase A/c		17,44,500
(Being the assets and liabilities of the companies taken over at revalued values)		
Liquidators of Sunny Ltd.	14,38,500	
Liquidators of Money Ltd.	3,06,000	
To Equity Share Capital		17,42,200
To Cash		2,300
Amalgamation Adjustment A/c	24,000	
To Statutory Funds		24,000
(Being the statutory reserves of Sunny and Money Ltd.)		

Balance Sheet of Z Ltd. as on 31st March, 2013

	Note No.	₹
<u>Equity and liabilities</u>		
Shareholders' Funds		
(a) Share Capital	1	17,42,200
(b) Reserves and Surplus	2	
Statutory Funds		24,000
<u>Non-Current liabilities</u>		
(a) Long-term borrowings		-
<u>Current liabilities</u>		
(b) Trade Payables	3	69,000
(c) Other Current liabilities		
(d) Short-term provisions	4	27,000
	Total	<u>1,862,200</u>
Assets		
<u>Non-Current Assets</u>		
(a) Fixed Assets		
(i) Tangible Assets	5	9,00,000
(ii) Intangible Assets	6	4,60,500
(b) Amalgamation Adjustment Account	7	24,000
<u>Current Assets</u>		
(a) Inventories	8	2,15,000
(b) Trade Receivables	9	1,15,500
(c) Cash and Bank Balances	10	1,20,700
(d) Short-term loans and advances	11	26,500
	Total	<u>18,62,200</u>

Question 3

- (a) Kush Ltd. announced a Share Based Payment Plan for its employees who have completed 3 years of continuous service, on 1st of April, 2010. The plan is subject to a 3 year vesting period. The following information is supplied to you in this regard :
- (i) The eligible employees can either have the option to claim the difference between the exercise price of ₹ 144 per share and the market price in respect of the

share on vesting date in respect of 5,000 shares or such employees are entitled to subscribe to 6,000 shares at the exercise price.

- (ii) Any shares subscribed to by the employees shall carry a 3 year lock in restriction. All shares carry face Value of ₹ 10.
- (iii) The Current Fair Value of the shares at (ii) above is ₹ 60 and that in respect of freely tradeable shares is higher by 20%.
- (iv) The Fair Value of the shares not subjected to lock in restriction at the end of each year increases by a given % from its preceding value as under:

% of Increase	Year 2010-11	Year 2011-12	Year 2012-13
	6	10	15

You are required to draw up the following accounts under both options:

- (I) Employee Compensation Account,
- (II) Provision for Liability Component Account,
- (III) ESOP Outstanding Account (10 Marks)

- (b) Sea Ltd. has lent a sum of ₹ 10 lakhs @ 18% per annum for 10 years. The loan had a Fair Value of ₹ 12,23,960 at the effective interest rate of 13%. To mitigate prepayment risks but at the same time retaining control over the loan. Sea Ltd. transferred its right to receive the Principal amount of the loan on its maturity with interest, after retaining rights over 10% of principal and 4% interest that carries Fair Value of ₹ 29,000 and ₹ 1,84,620 respectively. The consideration for the transaction was ₹ 9,90,000. The interest component retained included a 2% fee towards collection of principal and interest that has a Fair Value of ₹ 65,160. Defaults if any are deductible to a maximum extent of the company's claim on Principal portion. You are required to show the Journal Entries to record derecognition of the Loan. (6 Marks)

Answer

Working Notes:

- (a) 1. Computation of Fair values.

Fair value of shares subject to Lock in as on 1 st April, 2010	₹ 60/-
% of increase in Fair Value of shares not subjected to Lock in	20%
Fair Value as on 1 st April, 2010 of Shares not subjected to lock in (60+20%)	₹ 72/-
% increase over previous value in respect of Fair Value on 31.03.2011	6%
Fair Value of Shares not subjected to Lock in restriction on 31.03.2011 (72 + 6%)	₹ 76.32

% increase over previous value in respect of Fair Value on 31.03.2012	10%
Fair Value of Shares not subjected to Lock in restriction on 31.03.2012 (76.32 + 10%)	₹ 83.95
@ increase over previous value in respect of Fair Value on 31.03.2013	15%
Fair Value of Shares not subjected to Lock in restriction on 31.03.2013 (83.95 + 15%)	₹ 96.54

2. Expense to be recognized in respect of Equity Component

Fair Value under Equity Settlement Option (6,000 x ₹ 60/-)	3,60,000
Less: Fair Value under Cash Settlement (Liability Component) option (5,000 x ₹ 72)	3,60,000
Equity Component	Nil
Expenses to be recognized each year for Equity Component	Nil

3. Expenses to be recognized for Liability Component

	2011-11	2011-12	2012-13
Number of Shares (A)	5000	5000	5000
Fair Value at the end of each year (B)	76.32	83.95	96.54
Fair Value of Liability Component (Ax B)	<u>3,81,600</u>	<u>4,19,750</u>	<u>4,82,700</u>
Expenses to be recognized*	<u>1,27,200</u>	<u>1,52,633</u>	<u>2,02,867</u>

*Expenses to be recognized each year has been calculated on the basis:

$$\frac{\text{Fair Value} \times \text{No. of years Expired}}{\text{Vesting Period}} - \text{Expenditure recognised till previous year}$$

Employee Compensation Account

Dr. Year		₹	Year		Cr. ₹
2010-11	To Provision for Liability (W.N. 3)	<u>1,27,200</u>	2010-11	By Profit & Loss A/c	<u>1,27,200</u>
2011-12	To Provision for Liability (W.N. 3)	<u>1,52,633</u>	2011-12	By Profit & Loss A/c	<u>1,52,633</u>
2012-13	To Provision for Liability (W.N. 3)	<u>2,02,867</u>	2012-13	By Profit & Loss A/c	<u>2,02,867</u>

Provision for Liability Component Account

Dr. Year		₹	Year		Cr. ₹
2010-11	To Balance c/d	<u>1,27,200</u>	2010-11	By Employees Compensation A/c	<u>1,27,200</u>
2011-12	To Balance c/d	2,79,833	2011-12	By Balance c/d	1,27,200
				By Employees Compensation A/c	<u>1,52,633</u>
		<u>2,79,833</u>			<u>2,79,833</u>
2012-13	To Balance c/d	4,82,700	2012-13	By Balance c/d	2,79,833
				By Employees compensation A/c	<u>2,02,867</u>
		<u>4,82,700</u>			<u>4,82,700</u>

If Employee opts for Cash settlement

Provision for Liability Component Account

Year	Particulars	₹	Year	Particulars	₹
2013-14	To Bank (5000 x ₹ 96.54)	4,82,700	2013-14	By Balance c/d	4,82,700

If employee opts for Equity Settlement

Provision for Liability Component Account

Year	Particulars	₹	Year	Particulars	₹
2013-14	To ESOP outstanding A/c	4,82,700	2013-14	By Balance c/d	4,82,700

ESOP Outstanding Account

Year		₹	Year		₹
2013-14	To Equity Share Capital A/c (6000 x ₹ 10)	60,000	2013-14	By Provision for Liability Component A/c	4,82,700
	To Securities Premium A/c	12,86,700		By Bank (6,000 x ₹ 144)	8,64,000
		<u>13,46,700</u>			<u>13,46,700</u>

(b) (i) Calculation of securitized component of loan

		₹	₹
Fair Value			12,23,960
Less: Principal strip receivable (fair value)		29,000	
Less: Interest strip receivable (fair value)	1,19,460		
Less: Value of service asset (fair value)	65,160	<u>1,84,620</u>	<u>2,13,620</u>
			<u>10,10,340</u>

(ii) Appointment of carrying amount in the ratio of fair values:

	Fair value (₹)		Appointment (₹)
Securitized component of loan	10,10,340	$\frac{10,10,340 \times 10,00,000}{12,23,960}$	8,25,468
Principal strip receivable	29,000	$\frac{29,000 \times 10,00,000}{12,23,960}$	23,694
Interest strip receivable	1,19,460	$\frac{1,19,460 \times 10,00,000}{12,23,960}$	97,601
Servicing asset	65,160	$\frac{65,160 \times 10,00,000}{12,23,960}$	<u>53,237</u>
			<u>10,00,000</u>

(iii) Entries to record the derecognition of the Loan

		₹	₹
Bank A/c	Dr.	9,90,000	
To Loan A/c			8,25,468
To Profit & Loss A/c			1,64,532
(Being entry for securitization of 90% principal with 14% interest)			
Interest strip a/c	Dr.	97,601	
Servicing asset A/c	Dr.	53,237	
Principal strip A/c	Dr.	23,694	
To Loan A/c			1,74,532
(Being entry for interest, servicing asset and principal strips received)			

Question 4

From the Balance Sheets of CAT Ltd. and RAT Ltd. as on 31.03.2013 furnished below, read with supplementary information hereunder, you are required to prepare Consolidated Balance Sheet of CAT Ltd. as at 31st March, 2013

Liabilities	Cat	Rat	Assets	Cat	Rat
	₹	₹		₹	₹
Equity Shares (₹100)	24,00,000	2,25,000	Fixed Assets (Tangible)	38,61,650	17,50,000
9% Cumulative Preference Shares (₹100)	-	20,25,000	Investments in RAT Ltd.	23,51,250	-
Profit & Loss Account	29,10,000	2,60,000	Current Assets	1,87,500	18,60,000
12% Secured Debentures	-	6,50,000			
Creditors (Trade)	10,90,400	4,50,000			
	64,00,400	36,10,000		64,00,400	36,10,000

Supplementary Information:

- (1) CAT Ltd. was formed on the First of April, 2012 with an Authorized Capital of 3,00,000 Equity Shares of ₹10 each. On 1st April, 2012 it acquired from the open market 9,000 equity shares in RAT Ltd. at ₹13 per share. On 1st of August 2012 CAT Ltd. made a further acquisition of 4,950 Equity shares in RAT Ltd. @ ₹15 per share and 20,000, 9% Cumulative Preference shares for ₹21,60,000, from the existing shareholders of RAT Ltd. The shares acquired on 1st of August, 2012 were Ex-Bonus and Ex-Dividend.
- (2) On 1st August, 2012, CAT Ltd. received Bonus entitlements from RAT Ltd. @ 1 : 4 held, together with 12% equity Dividend from RAT Ltd. The equity dividend received was credited to Profit & Loss A/c by CAT Ltd. Both the bonus issue and the dividend payment have been considered in the Profit & Loss account of RAT Ltd. on 1st August, 2012 itself.
- (3) The Profit & Loss account of CAT Ltd. included Current Year Profits amounting to ₹3,75,000 earned after debiting a monthly sum off 8,000 in its P & L Account being expenditure incurred on behalf of RAT Ltd. The entry to record the amount due from RAT Ltd. was not passed neither in the books of CAT Ltd. nor in the books of RAT Ltd.
- (4) RAT Ltd. earned a profit off ₹1,92,000 for the year ended March 2013 which included ₹61,000 towards insurance claim received for loss of stock by a fire accident on 30th

June, 2012. The cost of such stock, which is part of the opening stock of the company as on 1st April, 2012, was ₹1,09,000.

(5) RAT Ltd. has discharged its obligations towards Preference Dividend only up to 31st March, 2011.

(6) A 10% equity dividend has been proposed by CAT Ltd. which is not provided for as yet.

(16 Marks)

Answer

Consolidated Balance Sheet of Cat Ltd. and its subsidiary Rat Ltd.
as at 31st March, 2013

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	24,00,000
(b) Reserves and Surplus	2	28,23,240
(2) Minority Interest		1,37,160
(3) Non-Current Liabilities		
Long-term borrowings	3	6,50,000
(4) Current Liabilities		
(a) Trade Payables	4	15,40,400
(b) Other current liabilities and provisions	5	<u>2,40,000</u>
Total		<u>77,90,800</u>
II. Assets		
(1) Non-current assets		
Fixed assets		
(a) Tangibles assets	6	56,11,650
(b) Intangible assets	7	1,31,650
(2) Current assets	8	<u>20,47,500</u>
Total		<u>77,90,800</u>

Notes to Accounts

		₹
1.	Share Capital	
	Authorised share capital of 3,00,000 equity shares of ₹	30,00,000

	10 each		
	Issued share capital		24,00,000
2.	Reserves and Surplus		
	Profit & Loss Account (W.N. 4)		28,23,240
3.	Long-term borrowings		
	12% Secured Debentures		6,50,000
4	Trade Payables		
	Cat Ltd.	10,90,400	
	Rat Ltd.	<u>4,50,000</u>	15,40,400
5	Other Current Liabilities		
	Proposed Dividend of cat Ltd.*		2,40,000
6.	Tangible Assets		
	Cat Ltd.	38,61,650	
	Rat Ltd.	<u>17,50,000</u>	56,11,650
7	Intangible assets		
	Goodwill (W.N 3)		1,31,650
8	Current Assets		
	Cat Ltd.	1,87,500	
	Rat Ltd.	18,60,000	20,47,500

Working Notes:

		<i>Capital Profits</i> ₹	<i>Revenue Profits</i> ₹
1.	Analysis of profits of Rat Ltd. Profit and Loss Account on 1.4.2012 (2,60,000 – 1,92,000) Profit for the year Add back: Loss by fire(1,09,000 – 61,000) Less: Expenses not considered	68,000	1,92,000 48,000 <u>96,000</u> 1,44,000

* Proposed dividend has been assumed to be declared.

	Less: Arrears of Preference Dividend of Minority's Preference Shares (as per para 27 of AS 21)	(2,250)	(2,250)
	Less: Abnormal Loss in pre-acquisition period	<u>(48,000)</u>	<u> </u>
		17,750	1,41,750
	Pre-acquisition profits = $\frac{4}{12} \times 1,41,750 =$	<u>47,250</u>	<u>(47,250)</u>
		<u>65,000</u>	<u>94,500</u>
	Cat Ltd.'s share (72%*)	46,800	68,040
	Minority's share (28%)	18,200	26,460
	$9,000 + 4,950 + \text{Bonus shares } \frac{9,000}{4} \text{ i.e. } 2,250$ $* \frac{\quad}{22,500} \times 100$		
	$= \frac{16,200}{22,500} \times 100 = 72\%$		
2.	Minority interest (28%)		₹
	Equity Share capital		63,000
	Preference share capital		25,000
	Arrears of Preference Dividend		4,500
	Capital profits		18,200
	Revenue profits		<u>26,460</u>
			<u>1,37,160</u>
3.	Cost of control		₹
	Investment in Rat Ltd.		23,51,250
	Less: Pre-acquisition dividend	10,800	
	Less: Face Value of investment		
	9000 equity share	90,000	
	2,250 bonus share	22,500	
	4,950 equity shares	49,500	
	20,000 Preference shares	20,00,000	
	Less: Capital profits	<u>46,800</u>	<u>22,19,600</u>
	Goodwill		<u>1,31,650</u>
4.	Profit and Loss Account – Cat Ltd.		₹
	Balance		29,10,000

Less: Pre-acquisition dividend wrongly credited	10,800
Less: Proposed dividend	2,40,000
Add: Expenses of Rat Ltd. written back	96,000
Add: Share in Rat Ltd.	<u>68,040</u>
	<u>2,823,240</u>

Question 5

(a) The summarised balance sheet of M/s Indus Ltd. as on 31.0.3.2013 is as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital ₹10 each fully paid	5,00,000.00	Goodwill	1,00,000.00
12% Preference Shares of ₹10 each fully paid	4,00,000.00	Land & Building	4,50,000.00
Equity Shares of 10 each ₹ 7 partly paid	2,80,000.00	Plant & Machinery	5,45,000.00
Reserves & surplus	2,20,000.00	Vehicles	3,50,000.00
Secured loans (12%)	7,50,000.00	Investments	5,00,000.00
Sundry Creditors	2,50,000.00	Inventory	4,25,000.00
Provision for expenses	1,50,000.00	Debtors	1,00,000.00
	25,50,000.00	Cash and Bank Balances	35,000.00
		Prepaid Expenses	45,000.00
			25,50,000.00

- (1) Net Profit of the company for the past Four Years (before interest & tax) were as under:

2012-13	5,50,000
2011-12	3,85,000
2010-11	5,25,000
2009-10	4,90,000
- (2) The company had purchased Furniture of ₹1,20,000 in the year 2011-12 which was wrongly charged to Revenue account. Furniture and Fixtures are depreciated at 15% of the W.D.V.
- (3) In the year 2012-13 an asset having a book value of ₹80,000 was sold for ₹65,000 only.
- (4) In the year 2010-11 the company paid ₹25,000 against the failure to comply with the rules as per the environment pollution control board.
- (5) 60% of the investments are Non-Trade investments and Market Value of the Trade investments is 15% below the book value. The investments realize an interest of 8%

p.a. whether trade or not. The Non-trade investments were purchased on 01.04.2012.

- (6) The company has been paying managerial Remuneration of ₹ 1,00,000 p.a. but as per the Companies Act the amount eligible to be paid is ₹ 80,000 p.a. only for the past four years.
- (7) The goodwill in books had been purchased in the year 2009-10.
- (8) 60% of the Secured loan was availed from US which was recorded at a rate of 1\$= ₹ 50 where as the closing rate was 1\$= ₹ 55.
- (9) The company wishes to revalue Assets on the realizable value as under :

Land & building	5,50,000
Plant & machinery	5,00,000
Vehicles	2,50,000
Debtors	80,000

(Ignore the change in depreciation due to the change in the value of Assets.)

The rate of Tax on companies is 30% and the rate of return on capital Employed is 15% p.a. Calculate Goodwill based on four Years purchase of Super Profit. Make appropriate assumption wherever required. (16 Marks)

Answer

(i) Future Maintainable Profit

	2009-10	2010-11	2011-12	2012-13
	₹			₹
Profit before interest and tax	4,90,000	5,25,000	3,85,000	5,50,000
<u>Adjustment for:</u>				
1. Furniture purchased wrongly written off as expenses (working note 1)			1,20,000	
2. Depreciation of above furniture			(18,000)	(15,300)
3: Loss on sale of assets				15,000
4. Extraordinary claim –Penalty paid		25,000		
5. Income from Non trade investment				(24,000)
6. Managerial remuneration	20,000	20,000	20,000	20,000
7. Interest on loan	(90,000)	(90,000)	(90,000)	(90,000)
8. Exchange loss on secured Loans (W.N. 3)	-	-	-	(45,000)
9. Exchange loss on interest of secured Loans (W.N. 3)				(5,400)
Adjusted profit	4,20,000	4,80,000	4,17,000	4,05,300

Average profits before tax	₹ 4,30,575
Less: Tax @ 30%	₹ <u>1,29,173</u>
	₹ <u>3,01,402</u>

(ii) Average Capital employed

	₹	₹
Goodwill	1,00,000	
Land and Buildings (Revalued)	5,50,000	
Furniture & fixture	86,700	
Vehicle	2,50,000	
Trade Investment [2,00,000 (W.N.2) Less 15%]	1,70,000	
Inventory	4,25,000	
Debtors	80,000	
Cash & bank balances	35,000	
Plant and Machinery	5,00,000	
Prepaid expenses	<u>45,000</u>	
Total Assets [A]		22,41,700
<u>Less: Outside liabilities:</u>		
Secured loan [7,50,000 + 45,000]	7,95,000	
Sundry Creditors	2,50,000	
Provision for expenses	<u>1,50,000</u>	
Total liabilities [B]		<u>11,95,000</u>
Capital employed at the end of the year [C=A-B]		10,46,700
Less: 50% of profit (after tax) for the year		
₹ 4,05,300 + ₹ 24,000 – ₹ 1,28,790		<u>1,50,255</u>
2		
Average capital employed		<u>8,96,445</u>

(iii) Normal Profit:

Average capital employed	₹ 8,96,445
Normal Profits [15% of the capital employed]	₹ 1,34,467

(iv) Valuation of Goodwill

Particulars	Amount (₹)
Future maintainable profit	3,01,402

Less: Normal profit	<u>1,34,467</u>
Super profit	<u>1,66,935</u>
Goodwill at 4 years' purchase thereof	<u>6,67,740</u>

Working note:

1. Adjustment for Furniture:

Particulars	₹
Furniture purchased	1,20,000
Less: Depreciation for year	
2011-12	18,000
2012-13	<u>15,300</u>
	<u>86,700</u>

2. Adjustment for non-trade investments:

	₹
Investment	5,00,000
40% trade investment	<u>2,00,000</u>
Non-trade investment	<u>3,00,000</u>
8% interest on the above	24,000

3. Adjustment for exchange loss on Secured loans:

Particulars	₹
Secured Loan	7,50,000
60% of above loan is availed from USA	<u>4,50,000</u>
Exchange loss [US\$9,000 x (₹ 55 – ₹ 50)]	<u>45,000</u>
Impact of exchange rate on interest on loan [US\$1080 x (₹ 55 – ₹ 50)]	5,400

Note:

- Goodwill given in Balance Sheet of M/s. Indus Ltd. has been considered in calculation of Capital employed as it is purchased goodwill.
- Average Capital employed has been taken for the valuation of goodwill.

Question 6

(a) The Value Added statements of Value Ltd. for the last 5 years are furnished below:

	2007-08	2008-09	2009-10	2010-11	(Lakh ₹) 2011-12
Sales	6,000	8,000	10,000	12,000	14,000
Cost of Bought in Material, Services & expenses	2,960	4,400	5,800	7,200	8,400
Value Added	3,040	3,600	4,200	4,800	5,600
Applied Towards :					
Employee Costs	1,368	1,584	1,680	1,968	2,240
Director Remuneration	30	44	40	48	50
Government for Taxes etc	640	760	840	1,000	1,120
Providers of Capital	250	336	440	512	630
Maintenance & Expansion	<u>752</u>	<u>876</u>	<u>1200</u>	<u>1272</u>	<u>1560</u>
Total	<u>3,040</u>	<u>3,600</u>	<u>4,200</u>	<u>4,800</u>	<u>5,600</u>

The Employee Costs included Annual Incentive that were decided and paid after negotiations with Labour Unions as under :

100 108 118 130 150

From 2012-13 onwards it was agreed to introduce a Value Added Incentive Scheme (VAIS) that would enable employees to have the opportunity to earn better incentives in case of enhanced performances. The salient features of VAIS are as under :

- (i) The highest Contribution of the last 5 years shall be the Target Index.
- (ii) 50% of the excess of actual contribution in 2012-13 over target shall be paid to employees as incentive.
- (iii) CONTRIBUTION shall mean the Value Added for the year reduced by Employee costs before incentive and expressed as a percentage of Turnover for the year. The result so obtained is to be rounded off to the nearest whole number.

The Profit & Loss account Summary for 2012-13 is given below from which you are required to:

- (I) Calculate the amount of Incentive payable to the employees
- (II) Prepare Statement of Application of Value Added for the year 2012-13 after payment of the incentive.

Summarized Profit & Loss account of Value Ltd. for the year ended 31.03.2013

		(Lakh ₹)
Sales		17,250
Less:		
Material & Services Consumed	6,400	
Wages	1,200	
Production Salaries	400	
Production Expenditure	1,600	
Deprecation on Machinery	1,000	
Administrative Salaries	600	
Administrative expenses	700	
Director Remuneration	60	
Administration Deprecation	350	
Interest on Debentures	80	
Advertisement & sales Promotion	600	
Salaries to Sales team	125	
Selling Expenses	150	
Sales dept. Deprecation	120	<u>13,385</u>
		3,865
Profit Before Taxes		
Taxes	1,190	
Dividends proposed	<u>800</u>	<u>1,990</u>
Balance C/o		<u>1,875</u>

(8 Marks)

- (b) ZED Ltd. is an FMCG player in the range of Men's Cosmetics and deals in both Branded and Unbranded products. The Branded products are sold under the Brand of 'ZED' and are fully outsourced from third party manufacturers. The company's unbranded products are manufactured at its own manufacturing units. The earnings for the last three years (lakh ₹) are furnished below :

	Year 1	Year 2	Year 3
Earnings Before Interest & Tax (EBIT) from sale of products	5,100	7,500	9,900
Other Income-Royalty for partial usage of ZED Brand	90	135	225

The details of Fixed Assets employed at the company's manufacturing units are given below:

	Year 1	Year 2	Year 3
Tangible Fixed assets employed (₹ Lakhs)	9,000	10,800	13,500
Returns (before interest & tax) on cost of tangible assets	14%	12%	14%
Spread over Return	2%	3%	3%

The average annual funds used in the company's operations is ₹ 5,200 lakhs of which ₹ 2,800 lakh is in respect of the branded business. The company's tax rate is 33.33% and has an average cost of funds of 17% after considering tax shelter on cost of borrowed funds. You are required to determine the value of the Brand ZED considering a capitalization rate of 20%. (8 Marks)

Answer

(i) Calculation of amount of incentive payable to employees for the year 2012-13:

Actual contribution in 2012-13 (W.N 4)	32%
Target Index (W.N 1)	30%
Excess of actual contribution over target index (I)	2%
Incentive is 50% of (I)	1%
Amount of incentive is (1% of turnover i.e 17,250)	173

(ii) Application of Value Added after incentive:

	(Lakh ₹)	(Lakh ₹)
To Pay Employees :		
Salaries (W.N 3)	2,325	
Incentives	<u>173</u>	2,498
To Pay Directors :		
Remuneration		60
To Pay Government		
Taxes		1,190
To Pay Providers of Capital		
Interest on Debentures		80
Dividend Proposed		800
To Provide for Maintenance and Expansion of the		

<i>Company</i>			
Depreciation on machinery		1,000	
Administration depreciation		350	
Sales dept. depreciation		120	
Retained profit	1,875		
Less: incentive	<u>(173)</u>	<u>1,702</u>	<u>3,172</u>
Grand Total			7,800

Working Notes:

1. Calculation of Target index

Year	2007-08	2008-09	2009-10	2010-11	2011-12
Value added (I)	3,040	3,600	4,200	4,800	5,600
Employees cost including incentive	1,368	1,584	1,680	1,968	2,240
Less: Incentives	100	108	118	130	150
Employees cost before incentive (II)	1,268	1,476	1,562	1,838	2,090
Contribution [I-II]	1,772	2,124	2,638	2,962	3,510
Turnover	6,000	8,000	10,000	12,000	14,000
Percentage of 'Contribution' to 'turnover (to the nearest whole number)	30%	27%	26%	25%	25%

Target index is highest (percentage) contribution of last 5 year i.e is 30%

2. Value Added Statement for the year 2012-13

	(₹ in lakhs)	(₹ in lakhs)
Sales		17,250
Less: Cost of bought in Goods & Services		
Material & services consumed	6,400	
Production expenditure	1,600	
Administrative expenses	700	
Advertisement & Selling Promotion	600	
Selling expenses	<u>150</u>	<u>9,450</u>
Value added		<u>7,800</u>

3. Employee cost for 2012-13

	(₹ in lakhs)
Wages	1,200
Production salaries	400
Administrative salaries	600
Salaries to Sales team	<u>125</u>
	<u>2,325</u>

4. Calculation of actual contribution in 2012-13

	(₹ In Lakhs)
Value added (I)	7,800
Employees cost (II)	2,325
Contribution [I-II]	5,475
Turnover	17,250
Percentage of 'Contribution' to 'turnover (to the nearest whole number)	32%

(b) 1. Calculation of EBIT on unbranded product (₹ In lakhs)

	Year 1	Year 2	Year 3
Tangible Fixed Assets	9,000	10,800	13,500
Return on cost +spread (5%)	16	15	17
Absolute value of the above	1,440	1,620	2,295
EBIT from sale of unbranded products	1,440	1,620	2,295

2. Calculation of Average earnings after tax on Branded Products

(₹ In Lakhs)

	Year 1	Year 2	Year 3
Total EBIT	5,100	7,500	9,900
Less: EBIT in respect of unbranded products	1,440	1,620	2,295
Add: Brand Royalty	90	135	225
EBIT from ZED Branded products	3,750	6,015	7,830
Average EBIT from Branded sold [(3750+6015+7830)/3]			5,865
Less : Tax @ 33.33%			1,955

Average post tax earnings from Branded Goods (including tax shelter on interest)			3,910
--	--	--	-------

3. Net Earnings from Brand (Lakh ₹)

= Average post tax earnings from Branded Goods less cost of funds used in Branded operations

= Average post tax earnings from Branded goods = 3,910

Less: Cost of funds used in Branded operations = $2,800 \times 17\%$ 476

Net earnings from brand 3,434

Brand Value = Net Earnings from Brand x Capitalisation Rate =
= $3,434 \times 100/20 =$ 17,170

Value of the ZED Brands is ₹ 17,170 lakh

Question 7

Answer any Four of the following :

- (a) K Ltd. issued 5,00,000, 6% Convertible Debentures off ₹ 10 each on the First of April 2010. The debentures are due for redemption on 31st March, 2014 at a premium of 10% convertible into equity shares to the extent of 50% and the balance to be settled in cash to the debenture holders. The interest rate on equivalent debentures without conversion rights was 10%. You are required to separate the debt & equity components at the time of the issue and show the accounting entry in the company's books at initial recognition.

The following Present Values of ₹ 1 at 6% and at 10% are supplied to you.

Interest Rate	Year 1	Year 2	Year 3	Year 4
6%	0.94	0.89	0.84	0.79
10%	0.91	0.83	0.75	0.68

- (b) WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipments costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10% you are required to compute the amount of the annul lease and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

- (c) Qu Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan, it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles and transfer plus employees in a phased manner.
- You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.
 - If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24?
 - Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?
- (d) Grant Medicare Ltd. acquired 5 units of Brain Scan Equipment for US\$ 5,00,000 in April 2010 incurring ₹ 20,00,000 on sea freight and US\$ 12,000 per unit towards transit Insurance, bank charges etc. The purchase was partly funded out of the company's internal accruals and from Government Grant of ₹ 94 Lakhs. The prevailing exchange rate to the US\$ was 50. The company estimated the useful life of the equipment at 4 years with an estimated salvage value of 13% (approx). The grant was considered as Deferred Income up to 2012-13 and in April 2013 the company had to return the entire grant received due to non fulfillment of certain conditions. You are required to show the depreciation and the grant that is to be recognized in the Profit & Loss accounts for the period commencing, 2010-11 onwards and also draw up the entry that is passed in April 2013 for the return of the Grant. The Company follows the written down value method for depreciating its assets.
- (e) Blow Glass Limited manufactures Glass Bottles of various sizes and shapes at its 3 manufacturing facilities in UP, Haryana and MP. The company follows the WDV method of depreciation for all assets at these units and at its corporate office. In 2013 May it acquired a new unit making plastic containers in Gujarat. The method of depreciation followed in the newly acquired unit was the SLM method for its assets, till the unit was acquired by Blow Glass Ltd. The Chief Accountant of Blow Glass is of the view that since the company has adopted the WDV method at all its existing assets it is mandatory to follow the WDV method in respect of the new unit also, especially since the same class of assets exist at the existing units and new unit. You are requested to comment on stand of the Chief Accountant. (4 x 4 = 16 Marks)

(a) Computation of Debt Component of Convertible Debentures as on 1.4.2014

Particulars	₹
Present value of the principal repayable after four years [50,00,000 × 50% × 1.10 × 0.68 (10% Discount factor)] (a)	18,70,000

Present value of Interest [3,00,000 x 3.17 (4 years cumulative 10% discount factor)](b)	9,51,000
Total present Value of debt component (I) (a+b)	28,21,000
Issue proceeds from convertible debenture(II) (c)	<u>50,00,000</u>
Value of equity component (I-II) (a+b-c)	<u>21,79,000</u>

Journal entry at initial recognition

		Dr. (₹)	Cr. (₹)
Cash / Bank A/c	Dr.	50,00,000	
To 6% Debenture (Liability component) A/c			28,21,000
To 6% Debenture (Equity component) A/c			21,79,000
(Being the disbursement recorded at fair value)			

- (b) (i) Computation of annual lease payment to the lessor

	₹
Cost of equipment	16,99,999.50
Unguaranteed residual value	1,33,500.00
Present value of residual value after third year @ 10% (₹ 1,33,500 × 0.751)	1,00,258.50
Fair value to be recovered from lease payments (₹ 16,99,999.50 – ₹ 1,00,258.50)	15,99,741.00
Present value of annuity for three years is 2.486	
Annual lease payment = ₹ 15,99,741 / 2.486	6,43,500.00

- (ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 6,43,500 x 3)	19,30,500.00
Add: Unguaranteed residual value	<u>1,33,500.00</u>
Gross investment in the lease	20,64,000.00
Less: Present value of investment (lease payments and residual value) (₹ 1,00,258.50 + ₹ 15,99,741)	<u>(16,99,999.50)</u>
Unearned finance income	<u>3,64,000.50</u>

- (c) (i) Mere gradual phasing is not considered as discontinuing operation as defined under para 3 of AS 24, 'Discontinuing Operation'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

- (i) Gradual or evolutionary phasing out of a product line or class of service.
- (ii) Shifting of some production or marketing activities for a particular line of business from one location to another and
- (iii) Closing of a facility to achieve productivity improvements or other cost savings.

A Reportable business segment or geographical segment as defined in AS-17, would normally satisfy criteria (b) of the definition.

In view of the above the answers are:

- (i) No. The company's strategic plan has no final approval from the board through a resolution and no specific time bound activities like shifting of Assets and employees and above all the new segment commercial vehicle production line and factory has started.
- (ii) No. The resolution is salient about stoppage of the Car segment in definite time period. Though, some assets sales and transfer proposal was passed through a resolution to the new factory, closure road map and new segment starting road map is missing. Hence, AS-24 will not be applicable.
- (iii) Yes. Phased and time bound programme resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and clear road map. Hence, this action will attract AS-24 compliance.

- (d) Statement showing annual depreciation and amount of Grant to be recognized in P&L A/c

(Rupees in Lakhs)

Year	Value of asset	Depr.@40%	Closing Value	Deferred grant to be recognized 94 X dep. for the year/Total Depreciation
2010-11	300.00	120.00	180.00	43.20
2011-12	180.00	72.00	108.00	25.92
2012-13	108.00	43.20	64.80	15.55
2013-14	64.80	25.92	38.88	9.33
Total		261.12		94.00

The entries for depreciation & recognition of the grant will be as per the above table for the year 2010-11, 2011-12 & 2012-13

The entry for the return of the Grant of ₹ 94 lakhs in April 2013 will be as under:

Deferred Grant Account	Dr.	9.33
Profit & Loss Account(43.20+25.92+15.55)	Dr.	84.67

To Bank

94.00

(Being the return of the Grant received in April 2010 due to non-fulfillment of conditions)

Working Note:

1. Calculation of Revised Book Value of Machine as on 1st April, 2010

Particulars	(₹ in lakhs)
Acquisition of 5 units of brain scan units [US \$ 5,00,000 x ₹ 50]	250
Add: Sea Freight on the above units	20
Add: Transit insurance, Bank charges etc. paid (\$ 12,000 x ₹ 50 x 5)	<u>30</u>
Total landed cost as on 1 st April, 2010	300

2. Calculation of WDV rate

$$\begin{aligned}
 \text{WDV rate of depreciation} &= 1 - \sqrt[n]{\frac{\text{Residual value}}{\text{Cost of Asset}}} \times 100 \\
 &= 1 - \sqrt[4]{\frac{39}{300}} \times 100 = 40\%
 \end{aligned}$$

- (e) According to Para 5 of the Guidance Note on 'Accounting for Depreciation in Companies', issued by The Institute of Chartered Accountants of India a company may adopt more than one method of depreciation. It is also permissible to follow different methods for different types of assets provided the same methods are consistently adopted from year to year in accordance with Section 205(2) of the Companies Act 1956. It is also permissible for a company to have different methods of depreciation for units at different locations provided consistency is maintained.

Hence, the view of the chief accountant that the company cannot follow SLM method of depreciation at the newly acquired unit is not correct and Blow Glass Ltd., can follow the SLM method of depreciation at the newly acquired unit.