Gurukripa's Guideline Answers to May 2012 Exam Questions
Final Group I – Financial Reporting

Question No.1 is compulsory **(4 X 5 = 20 Marks).**
Answer **any five** questions from the **remaining six** questions **(16 X 5 = 80 Marks).** [Answer any 4 out of 5 in Q.7]

Question 1(a): AS – 16 – Borrowing Cost on Foreign Currency Loan **M 12 (5 Marks)**

Sun Co–Operative Society Ltd has borrowed a sum of US $ 12.50 Million at the commencement of the Financial Year 2011–12 for its Solar Energy Project at LIBOR (London Interbank Offered Rate of 1%) + 4%. Interest is payable at the end of the respective financial year. The Loan was availed at the then rate of ₹ 45 to the Dollar while the rate as on 31st March 2012, is ₹ 48 to the US Dollar. Had Sun Co–operative Society Ltd borrowed the Rupee equivalent in India, the interest would have been 11%. Compute 'Borrowing Cost' also showing the amount of Exchange Difference as per prevailing Accounting Standards.

Solution: **Similar to Q.No.36 / Page 16.16 of Padhuka's Students' Referencer on Accounting Standards**

Particulars	Result
1. **Interest Payable if Borrowed in INR =** (USD Borrowed 12.50 Millions x Opening Exchange Rate ₹ 45 x INR Loan Interest Rate 11%)	₹ 61.88 Millions
2. **Interest Actually Paid in Foreign Currency =** Foreign Currency Loan USD 12.50 Million x Closing Exchange Rate ₹ 48 x USD Interest Rate 5%	₹ 30.00 Millions
3. **Notional Savings in Interest due to Foreign Currency Borrowings =** (a – b)	₹ 31.88 Millions
4. **Change in Carrying Amount of Principal due to Exchange Rate Difference =** (Closing Exchange Rate ₹ 48 **less** Opening Exchange Rate ₹ 45) x USD 12.5 Millions **Note:** Since Closing Rate > Opening Rate, there is an Increase in Carrying Amount in this case.	₹ 37.50 Millions
5. **Further Amount to be treated as Borrowing Cost = Least** of (3) and (4)	₹ 31.88 Millions
6. **Aggregate Borrowing Cost** as per AS – 16 = Actual Interest as per (2) + Additional in (4)	₹ 61.88 Millions
7. **Exchange Rate Loss to be Recognized in Statement of P&L = (4 – 5)**	**₹ 5.62 Millions**

Question 1(b): AS – 22 – Deferred Taxes – Treatment of Impairment **M 12 (5 Marks)**

Acute Ltd is the Owner of a CGU (Cash Generating Unit) Block of Assets whose current Carrying Cost is ₹ 999 Lakhs. The Company, after a detailed study by its technical team, has assessed the present Recoverable Amount of this CGU Block of Assets at ₹ 555 Lakhs. The value of the Block of Assets as per the Income Tax Records is ₹ 777 Lakhs. The Board of Directors of the Company have issued a signed statement confirming that the impairment in the value of the CGU is only a temporary phenomenon which is reversible in subsequent periods and also assuring virtual certainty of Taxable Incomes in the foreseeable future. You are required to show Deferred Tax workings as per Accounting Standards in force, given the Tax Rate of 30% plus 10% surcharge thereon. The Depreciation Rate for Tax Purposes is 15% and that per Books is 13.91%.

Solution:

Note: It is assumed that the given values of Fixed Assets (Cash Generating Unit) are as at the Balance Sheet date after charging depreciation for the corresponding time period ending on that date.

1. Deferred Taxes Prior to Impairment Loss

(a) Carrying Amount as per Books	₹ 999 Lakhs
(b) Carrying Amount as per Income Tax Law	₹ 777 Lakhs
(c) Excess Depreciation Claimed under Income Tax Law	₹ 222 Lakhs
(d) Excess Depreciation in Income Tax Law will result in creation of **Deferred Tax Liability**	
(e) Therefore, Balance in Deferred Taxes Liability A/c (Excess Depreciation ₹ 222 Lakhs x Tax Rate 33%)	₹ 73.26 Lakhs

2. Deferred Taxes After Impairment Loss

(a) Excess Depreciation Claimed under Income Tax Law = ₹ 555 Lakhs – ₹ 777 Lakhs	₹ 222 Lakhs
(b) Impairment Loss as per Books, not deductible under Income Tax Law	₹ 444 Lakhs
(c) So, Excess Deduction as per Books (a – b)	₹ 222 Lakhs
(d) Excess Deduction as per Books will result in Creation of Deferred Tax Asset	
(e) So, Target Balance in Deferred Tax Asset (Excess Deduction ₹ 222 Lakhs x Tax Rate 33%)	₹ 73.26 Lakhs

Note: Impairment Loss is **not** deductible as an Expense under Income Tax law, and hence will be reversed for determining Taxable Income. Such excess deduction in the books for the current year will be offset by reduced depreciation in the future.

3. Therefore, Effective Journal Entry

Deferred Tax Liability A/c Dr.	73.26 Lakhs	
Deferred Tax Asset A/c Dr.	73.26 Lakhs	
To Income Tax Expense A/c (Statement of P&L)		₹ 146.52 Lakhs
(Being creation of DTA and reversal of DTL as per WN 1 & WN 2 above)		

Note: Depreciation Rates are not relevant since the primary focus of AS – 22 is the amount to be disclosed as DTA or DTL as appropriate. So, difference in Carrying Amount of Assets as per Books and Income Tax Law is relevant.

Question 1(c): AS 7 – Construction Contracts **M 12 (5 Marks)**

PRZ & Sons Ltd are Heavy Engineering Contractors specializing in construction of dams. From the records of the Company, the following data is available pertaining to year ended 31st March 2012. Using this data and applying the relevant Accounting Standard you are required to:

(i) Compute the Amount of Profit / Loss for year ended 31st March 2012.

(ii) Arrive at the Contract Work in Progress at the end of Financial Year 2011–12.

(iii) Determine the Amount of Revenue to be recognized out of the Total Contract Value.

(iv) Work out the amount due from / to customers as at year–end.

(v) List down relevant disclosures with figures as per relevant Accounting Standard.

Total Contract Price	**₹ 2,400 Crores**	**Estimated Further Cost to Completion**	**₹ 1,750 Crores**
Work Certified	**₹ 1,250 Crores**	**Stage–wise Payments received**	**₹ 1,100 Crores**
Work pending certification	**₹ 250 Crores**	**Progress Payments in pipe line**	**₹ 300 Crores**

Solution: **Similar to Q No.32 / Page 7.10 of Padhuka's Students Referencer on Accounting Standards**

1. Computation of Percentage of Completion

1. Cost of Work Certified	₹ 1,250 Crores
2. Cost of Work Not Yet Certified	₹ 250 Crores
3. Therefore, Cost Incurred Till Date	₹ 1,500 Crores
4. Further Cost to be incurred to complete the contract	₹ 1,750 Crores
5. Total Expected Cost on Contract	₹ 3,250 Crores
6. Percentage of Completion (Cost Incurred ₹ 1,500 ÷ Estimated Total Cost ₹ 3,250)	46.15%

2. Total Expected Loss on Contract

1. Value of Contract	₹ 2,400 Crores
2. Total Expected Cost on Contract	₹ 3,250 Crores
3. Expected Total Loss on Contract	₹ 850 Crores

3. Disclosure

1. Contract Revenue Recognized (Contract Price ₹ 2,400 Crores x 46.15%)	₹ 1,107.60 Crores
2. Contract Costs Recognized	₹ 1,500.00 Crores
3. Loss Recognized for the Year	₹ 392.40 Crores
4. Further Loss to be Provided for (Total Loss ₹ 850 Cr **Less** Current Year Loss ₹ 392.40 Cr.)	₹ 457.60 Crores
5. Progress Payments Received	₹ 1,100.00 Crores
6. Gross Amount Due To Customers (Note)	₹ 750 Crores

Contract Costs ₹ 1500 Crores **less** Recognized Losses ₹ 850 Crores **less** Progress Payments Received ₹ 1100 Crores **less** Progress Payments to be received ₹ 300 Crores = (₹ 750 Crores), i.e. **Amount Due To Customers.**

Question 1(d): AS – 25 – Interim Financial Reporting **M 12 (5 Marks)**

On 30.06.2011, X Limited incurred ₹ 3,00,000 Net Loss from disposal of a business segment. Also on 31.07.2011, the Company paid ₹ 80,000 for Property Taxes assessed for the Calendar Year 2011. How should the above transactions be included in determination of Net Income of X Limited for the six months interim period ended on 30.09.2011?

Solution: **Also See Q.No.31 / Page 25.11 of Padhuka's Students' Referencer on Accounting Standards**

1. **Disposal of Business Segment:** Net Loss of from disposal of a business segment of ₹ 3,00,000 should be reported in **full** as the loss was incurred during the half year period.
2. **Property Taxes:** Cost charged as Expense should be allocated to interim period on **accrual basis**. Hence, Property Taxes of ₹ 80,000 for the whole year should be apportioned. Therefore ₹ 40,000 to be treated as Expenses, ₹ 20,000 as Prepaid Expenses (₹ 80,000 × 3/12 Months) and ₹ 20,000 to be adjusted in the previous half year.

Question 2: Consolidated Financial Statements – Associate and Subsidiary **M 12 (16 Marks)**

The Balance Sheets of A Limited and its Subsidiaries B Limited and C Limited as on 31.03.2011 were as follows (₹ in Lakhs)

Particulars		A	B	C
Investments:	1,00,000 Shares in B Ltd	100	–	–
	80,000 Shares in C Ltd	200	–	–
Other Assets		700	600	500
Total		1,000	600	500
Share Capital:	Shares of ₹ 100 each	400	100	100
Reserves and Surplus		400	300	200
Liabilities		200	200	200
Total		1,000	600	500

A Limited acquired Shares in B Limited in April 2008 when B Limited was formed with Share Capital of ₹ 100 Lakhs.

A Limited acquired Shares in C Limited in April 2008 when C Ltd had Share Capital of ₹ 100 Lakhs and Reserves and Surplus of ₹ 100 Lakhs.

The Group amortises Goodwill on Consolidation on a SLM basis over a period of 5 years. A full year's amortization is provided if the Goodwill exists for more than 6 months.

On 1st April 2011, A Limited sold 40,000 Shares of C Limited for cash consideration of ₹ 150 Lakhs. The Balance Sheets of the Companies for the year 2011–12 were as follows –

(1) Balance Sheet as on 31.03.2012 (₹ in Lakhs)

Particulars		A	B	C
Investments at Cost:	1,00,000 Shares in B Ltd	100	–	–
	40,000 Shares in C Ltd	100	–	–
Other Assets		1,000	800	700
Total		1,200	800	700
Share Capital: Shares of ₹ 100 each		400	100	100
Reserves and Surplus		550	420	280
Liabilities		250	280	320
Total		1,200	800	700

(2) Profit and Loss A/c for the year ended 31.03.2012 (₹ in Lakhs)

Particulars		A	B	C
	Profit Before Tax	150	180	120
Less:	Tax	50	60	40
	Profit After Tax	100	120	80
	Extraordinary items	50	–	–
	Profit After Tax	150	120	80
	Reserves & Surplus – Beginning	400	300	200
	Reserves & Surplus – End	550	420	280

Prepare for A Limited, Group Balance Sheets as on 31.03.2011 and as on 31.03.2012.

Solution:

A. Basic Information

Companies	Dates	Shareholding Pattern
Holding Company: A Ltd Subsidiary Company: B Ltd (Both Dates); C Ltd (for 31.03.2011 Only) Associate: C Ltd (for 31.03.2012 Only)	Date of Acquisition: 01.04.08 (Given) Date of Consolidation: 31.03.2011 and 31.03.2012	For B Ltd => Group Interest 100% (Wholly Owned Subsidiary) For C Ltd => Group Interest 40% (for 31.03.2012); Group Interest 80% for 31.03.2011 and Minority Interest 20%

B. Analysis of Reserves

Part One: For Consolidation as at 31.03.2011

1. **For B Ltd:** A Ltd acquired the entire shares at the time of incorporation of B Ltd. Therefore, entire profits earned by B Ltd is in the nature of Post Acquisition Reserves, i.e. ₹ 300 Lakhs is Post Acquisition Group Interest.

2. **For C Ltd:**

Date of Consolidation ₹ 200 Lakhs

Date of Acquisition i.e. 01.04.2008	Date of Acquisition to Date of Consolidation
₹ 100 Lakhs	₹ 100 Lakhs
Group Interest @ 80% ₹ 80 Lakhs	Group Interest @ 80% ₹ 80 Lakhs
Minority Interest @ 20% ₹ 20 Lakhs	Minority Interest @ 20% ₹ 20 Lakhs

Part Two: For Consolidation as at 31.03.2012

3. **For B Ltd:** A Ltd acquired the entire shares at the time of incorporation of B Ltd. Therefore, entire profits earned by B Ltd is in the nature of Post Acquisition Reserves i.e. ₹ 420 Lakhs is Post Acquisition Group Interest.

4. **For C Ltd:**

Date of Consolidation ₹ 280 Lakhs

Date of Acquisition i.e. 01.04.2008	Date of Acquisition to Date of Consolidation
₹ 100 Lakhs	₹ 180 Lakhs
Group Interest @ 40% ₹ 40 Lakhs	Group Interest @ 40% ₹ 72 Lakhs

C. Consolidation of Balances

Part One: For Consolidation as at 31.03.2011

Particulars	Total	Minority Interest	Group Int Pre–Acqn.	Reserves & Surplus
Subsidiary : B Ltd				
Equity Share Capital	100	–	100	–
Reserves & Surplus	300	–	–	300
Investments	–	–	(100)	–
Sub Total		**NIL**	**NIL**	**300**
Subsidiary : C Ltd				
Equity Share Capital	100	20	80	–
Reserves & Surplus	200	40	80	80
Investments	–	–	(200)	–
Sub Total		**60**	**(40)**	**80**
Gross Total		**60**	**(40)**	**380**
Add: Reserves & Surplus of A Ltd	–	–	–	400
Less: Goodwill on Acquisition of C Ltd Amortized (₹ 40 Lakhs x 3 Years/ 5 Years)			24	(24)
For Consolidated Balance Sheet		**60**	**(16)**	**756**
		Minority Int.	**Goodwill**	**Reserves**

Part Two: For Consolidation as at 31.03.2012

Particulars	Total	Minority Interest	Group Int Pre–Acqn.	Reserves & Surplus
Equity Share Capital	100	–	100	–
Reserves & Surplus	420	–	–	420
Investments	–	–	(100)	–
Reserves & Surplus of A Ltd	–	–	–	550
Total		**NIL**	**NIL**	**970**
Add: Share in Post Acquisition Reserve of Associate	—	—	—	72
Less: Goodwill on Acquisition of Associate Amortized				(16)
For Consolidated Balance Sheet		**—**	**—**	**1026**

Note: Computation of Goodwill / Capital Reserve on Acquisition of Associate

	Cost of Acquisition Shares	₹ 100 Lakhs
Less:	Face Value of Equity Held	(₹ 40 Lakhs) [40% of ₹ 100 Lakhs]
Less:	Share of Pre Acquisition Reserves	(₹ 40 Lakhs) [40% of ₹ 100 Lakhs]
	Goodwill on Consolidation	**₹ 20 Lakhs [as per AS – 23]**

The above goodwill to be amortized over 5 Years from Financial Year 2008–09 to Financial Year 2012–13. Therefore, as at the end of Financial Year 2011–12, 4 Years have elapsed. And hence, ₹ 16 Lakhs should have been amortized.

D. Computation of Carrying Amount of Investment in Associate as per AS 23 [As at 31.03.2012](₹ Lakhs)

	Cost of Acquisition of Investment	100
Less:	Goodwill to be shown separately	(20)
Add:	Share in Post Acquisition Reserves (i.e. 40% of ₹ 180 Lakhs)	72
	Value of Investment under Equity Method	152
Add:	Goodwill to be shown under Investment under AS 23 (Unamortized Portion Only)	4
	Net Carrying Amount of Investment in Associate	**156**

E. Consolidated Balance Sheet of A Ltd and its Subsidiaries / Associates

Part One: As at 31.03.2011

Liabilities	₹ Lakhs	Assets	₹ Lakhs
Equity Share Capital	400	Goodwill on Consolidation	16
Reserve & Surplus	756	Other Assets (700+600+500)	1,800
Minority Interest	60		
Liabilities (200+200+200)	600		
Total	**1,816**	**Total**	**1,816**

Part Two: As at 31.03.2012

Liabilities	₹ Lakhs	Assets	₹ Lakhs
Equity Share Capital	400	Other Assets (1,000 + 800)	1,800
Reservses & Surplus	1026	Investments in Associate (as above)	156
Liabilities (250 + 280)	530		
Total	**1,956**	**Total**	**1,956**

Question 3: Corporate Restructuring – Internal Reconstruction **M 12 (16 Marks)**

The Shareholders of Sunrise Ltd decided on a corporate restructuring exercise necessitated due to economic recession and a slump in business. From the audited statements as on 31.03.2012 and the information supplied, you are requested to prepare:

(i) Balance Sheet after the completion of the re–structuring exercise,

(ii) The Capital Reduction Account,

(iii) The Cash Account of the Entity.

Balance Sheet of Sunrise Ltd as on 31.03.2012

Liabilities		₹	Assets		₹
Share Capital			**Fixed Assets**		
30,000 Equity Shares (₹ 10 each)		3,00,000	Trade Marks and Patents		1,10,000
40,000 8% Cumulative Preference Shares (₹ 10 each)		4,00,000	Goodwill at cost		36,100
			Freehold Land		1,20,000
Reserves and Surplus			Freehold Premises		2,44,000
Share Premium Account		10,000	Plant and Equipment		3,20,000
Profit and Loss Account		(1,38,400)	Investment (Marked to Market)		64,000
Secured Borrowings:			**Current Assets:**		
9% Debentures (₹ 100)	1,20,000		**Inventories:**		
Accrued Interest	5,400	1,25,400	Raw Materials & Packing Materials	60,000	
Current Liabilities			Finished Goods	16,000	76,000
Creditors		1,20,000	Trade Receivables		1,20,000
Deferred VAT Payable		50,000			
Temporary Bank Overdraft		2,23,100			
Total		**10,90,100**	**Total**		**10,90,100**

Note: Preference Dividends are in arrears for 4 years.

The Scheme of Reconstruction that received the permission of the Court was on the following lines –

(1) The Authorized Capital of the Company to be re–fixed at ₹ 10 Lakhs (Preference Capital ₹ 3 Lakhs and Equity Capital ₹ 7 Lakhs both ₹ 10 Shares each).

(2) The Preference Shares are to be reduced to ₹ 5 each, and Equity Share reduced by ₹ 3 per Share. Post reduction, both classes of Shares to be re–consolidated into ₹ 10 Shares.

(3) Trade Investments are to be liquidated in open market.

(4) One fresh Equity Share of ₹ 10 to be issued for every ₹ 40 of Preference Dividends in arrears (Ignore Taxation).

(5) Share Premium is to be fully utilized to meet the reconstruction programme.

(6) Debenture Holders took over Freehold Land at ₹ 2,10,000 and settled the balance after adjusting their dues.

(7) Unprovided Contingent Liabilities were settled at ₹ 54,000 and a pending Insurance Claim Receivable settled at ₹ 12,500 on condition that claim will be immediately settled.

(8) Intangible Assets were all to be written off along with ₹ 10,000 obsolete Packing Material and 10% of the Receivables.

(9) Expenses for the Scheme were ₹ 10,000.

(10) Remaining cash available as a result of the above transactions is to be utilized to pay off the Bank Overdraft to that extent.

(11) Equity Shareholders agree that they will bring in cash to liquidate the balance outstanding on the Overdraft Account and also agree that sufficient funds will be brought in to bring up the Net Working Capital, after completing the re–structuring exercise, to ₹ 2 Lakhs. The Equity Shares will be issued at par for this purpose.

Solution:

1. Computation of Equity Shares to be issued to Preference Shareholders

Preference Dividends Payable (Capital 4,00,000 × Dividend Rate 8% × 4 Years) (Assuming ₹ 4,00,000 is the Issued Preference Share Capital for all the 4 years)	₹ 1,28,000
No. of Equity Shares to be issued (Amount of Dividend ₹ 1,28,000 ÷ ₹ 40)	3,200
Value of Equity Shares Issued [3,200 Shares × Face Value Per Equity Share ₹10]	₹ 32,000

2. Settlement of Debenture holders and Transfer of Freehold Land

Particulars	₹
(a) Profit on Transfer of Asset (Credit in Capital Reduction A/c) = Tfr Value 2,10,000 – Book Value 1,20,000	90,000
(b) Tfr Value 2,10,000 – Due as per B/s 1,25,400	84,600

3. Capital Reduction / Reconstruction Account

Particulars	₹	Particulars	₹
To Equity Share Capital (Issued for Arrears of Preference Dividend) **[WN 1]**	32,000	By 8% Cumulative Preference Share Capital A/c (4,00,000 × 5/10)	2,00,000
To Bank A/c (Contingent Liability Materialized)	54,000	By Equity Share Capital (3,00,000 × 3/10)	90,000
To Goodwill Written Off	36,100	By Securities Premium A/c	10,000
To Trademarks & Patents Written Off	1,10,000	By Bank (Insurance Claim Settlement recd.)	12,500
To Inventory Packing Material Written Off	10,000	By Profit on Transfer of Asset **[WN 2]**	90,000
To Trade Receivables (1,20,000 × 10%)	12,000		
To Bank A/c (Expenses paid)	10,000		
To Profit & Loss A/c (Debit Bal. Written Off)	1,38,400		
Total	**4,02,500**	**Total**	**4,02,500**

4. Cash A/c

Particulars	₹	Particulars	₹
To Investments A/c	64,000	By Capital Reduction (Settlement of Unrecorded Liability)	54,000
To Capital Reduction (Insurance Claim recd)	12,500	By Capital Reduction A/c (Expenses)	10,000
To Debenture Holders A/c **[WN 2]**	84,600	By Bank Overdraft A/c (settlement) **(bal. figure)**	97,100
Total	**1,61,100**	**Total**	**1,61,100**

Note: It is assumed that available cash is first fully used to settle Bank Overdraft, to the extent available.

5. Computation of Net Working Capital

Particulars		₹	₹
Current Assets:	Inventory of Raw Materials and Packaging Materials (60,000 – 50,000)	50,000	
	Inventory of Finished Goods	16,000	
	Trade Receivables (1,20,000 – 10%)	1,08,000	1,74,000
Current Liabilities:	Sundry Creditors	(1,20,000)	
	Deferred VAT Payable	(50,000)	(1,70,000)
	Net Working Capital before amount brought in by Equity Shareholders		4,000
Add:	Bank Balance to be maintained **(Balancing Figure)** (2,00,000 – 4,000)		**1,96,000**
	Net Working Capital After Cash Brought in Equity Shareholders (Target Bal.)		**2,00,000**

6. Bank A/c / Bank Overdraft A/c

Particulars	₹	Particulars	₹
To Cash **(WN 4)**	97,100	By balance b/d (given)	2,23,100
To Equity Share Capital **(balancing figure)**	**3,22,000**	By balance c/d (Target Closing Balance reqd) **(WN 5)**	1,96,000
Total	**4,19,100**	**Total**	**4,19,100**

7. Balance Sheet of Sunrise Ltd (and Reduced) as on 31.03.2012

Liabilities	₹	Assets	₹
Share Capital:		**Fixed Assets:**	
Authorized Capital:		Freehold Premises	2,44,000
70,000 Equity Shares of ₹ 10 each	7,00,000	Plant & Equipment	3,20,000
30,000 10% Cumulative Preference Shares	3,00,000		
	10,00,000	**Current Assets:**	
Issued, Subscribed and Paid–up Capital:		Raw Materials and Packing Materials	50,000
20,000 10% Cumulative Pref. Shares of ₹ 10 each fully paid	2,00,000	Finished Goods	16,000
Equity Share Capital (56,400 of ₹ 10 each, fully paid) [3,200 Shares issued for Non Cash Consideration]	5,64,000	Trade Receivable (1,20,000 – 10%)	1,08,000
Current Liabilities:		Cash at Bank	1,96,000
Creditors	1,20,000		
Deferred VAT Payable	50,000		
Total	**9,34,000**	**Total**	**9,34,000**

Note: Previous Format of Schedule VI has been used in this Answer.

Note: Equity Shares Outstanding After Reconstruction

Equity Shares Outstanding Before Reconstruction		30,000 Shares of ₹ 10 Each
After Reduction in Face Value / Paid Up Value		30,000 Shares of ₹ 7 Each
	After Reconsolidating into Shares of ₹ 10 Each	21,000 Shares of ₹ 10 Each
Add:	Issued to Preference Shareholders for Arrears of Dividend	3,200 Shares of ₹ 10 Each
Add:	Fresh Issue for Cash Consideration	32,200 Shares of ₹ 10 Each
	Total Shares Outstanding After Reconstruction	**56,400 Shares of ₹ 10 Each**

Question 4: Corporate Restructuring – Sale of Undertaking **M 12 (16 Marks)**

The following was the abridged Balance Sheet of X Co. Ltd, as at 31st March 2012.

Liabilities			₹	Assets	₹
Authorised Capital: 10,000 Equity Shares of ₹ 100 each			**10,00,000**	**Plant and M/c at depreciated value**	**8,60,000**
Issued and Paid up:				**Land**	**7,00,000**
8,000 Equity Shares of ₹ 100 each, fully paid up			**8,00,000**	**Current Assets**	**8,00,000**
Reserves and Surplus:	**General Reserve**	**5,00,000**		**Patents, Trade Marks and Copyrights**	**6,00,000**
	Share Premium	**4,00,000**			
	Profit and Loss A/c	**3,60,000**	**12,60,000**		
11% Debentures secured against assets of the Co			**5,00,000**		
Sundry Creditors			**4,00,000**		
Total			**29,60,000**	**Total**	**29,60,000**

The Company ran two distinct Departments utilizing the Trademarks and Copyrights owned and generated by it. The Assets and Liabilities of one of the Departments as on the date of Balance Sheet were:

Particulars		₹	₹
	Plant and Machinery	**4,00,000**	
	Land (used for business)	**2,00,000**	
	Current Assets	**2,00,000**	
	Trademarks and Copyrights	**3,50,000**	**11,50,000**
Less:	**Sundry Creditors**		**2,50,000**
			9,00,000

Due to managerial constraints, the Company is unable to develop this Department. An Overseas Buyer is interested to acquire this Department and after due diligence, offers a consideration of ₹ 20,00,000 to the Company for transfer of business. The Buyer offered to discharge the Purchase Consideration immediately after 31st March 2012, in the following manner –

1. **Issue of Equity Shares of the Buyer's Company for ₹ 10,00,000 at a Premium of 20% over the Face Value, and**
2. **Payment of the balance consideration in £ Sterling. The Exchange Rate agreed upon is ₹ 80 per £ Sterling. This amount will be retained in London, till the date actual take over of the business is done by the Buyer.**

(a) **Expenses to put through the transaction come to ₹ 8,00,000 initially to be incurred by X Co Ltd, but to be shared equally by the parties.**

(b) **The balance value of Trademarks, Copyrights and Patents left with X Co Ltd does not enjoy any Market Value and has to be written off.**

(c) **The value of the balance of Land in X Co Ltd's possession will be taken at its Market Value in the books of accounts. Such a value, determined by an Approved Valuer, is 200 percent of the Book Value.**

(d) **The parties agree that the date of legal ownership of the transferred business shall be 31st March 2012, though certain formalities may have to be gone through and agree that the actual transfer to the Buyer will be effected before 30th April 2012.**

(e) **X Co. Ltd to carry on the business in the normal course and account for the profits of the transferred department to the Foreign Buyer. X Co Ltd made a Net Profit of ₹ 2,40,000 from the whole business for April 2012. 40% of the Net Profit related to the business of the transferred department.**

(f) **The Shares of the Overseas Buyer's Company were quoted on the London Stock Exchange, and on 30th April 2012, were quoted at 95 percent of their Face Value.**

(g) **The cash received by X Co Ltd at London was remitted by it to its Indian Banking Account on 30th April 2012, when the Rupee–Sterling Rate was ₹ 75 per UK Sterling Pound.**

Draw the Balance Sheet of X Co. Ltd as at 30th April 2012, after the transfer of the business to the Overseas Buyer.

Solution:

A. Sale Consideration:

Equity Shares of Foreign Company Face Value of which is ₹ 10,00,000 at a Premium of 20%	₹ 12,00,000
Balance Payable in GB Pound Sterling (GBP 10,000 at an Exchange Rate of ₹ 80 each)	₹ 8,00,000 (b/f)
Total Purchase Consideration	**₹ 20,00,000**

B. Ledger Accounts (Not Required as per Question. But serves as Working Notes)

1. Realization Account

Particulars	₹	Particulars	₹
To Assets Transferred to Foreign Company –		By Liabilities Transferred to Foreign Company –	
(a) Plant & Machinery	4,00,000	Sundry Creditors	2,50,000
(b) Land	2,00,000	By Buying Company – Consideration Due	20,00,000
(c) Current Assets	2,00,000		
(d) Trademarks	3,50,000		
To Cash & Bank (Share in Realisation Expenses)	4,00,000		
To Capital Reserve (Profit on Realisation)	7,00,000		
Total	**22,50,000**	**Total**	**22,50,000**

2. Buying Company Account (Foreign Company)

Particulars	₹	Particulars	₹
To Realisation A/c – Consideration Due	20,00,000	By Equity Shares of Buying Company	12,00,000
To Cash & Bank – Buying Company's Share in Realisation Expenses	4,00,000	By Foreign Currency Recd. (GBP 10,000×₹ 75)	7,50,000
		By Profit & loss A/c (Exchange Rate Loss)	50,000
		By Profit & Loss A/c (Share of Buying Company in the Profits of Transferred Division i.e. 40% of ₹ 2,40,000)	96,000
		By Cash Received (balancing figure)	**3,04,000**
Total	**24,00,000**	**Total**	**24,00,000**

3. Cash A/c (Assuming Entire Current Assets is made up of Cash Balance Only)

Particulars	₹	Particulars	₹
To balance b/d (8,00,000 – 2,00,000)	6,00,000	By Buying Company – Realisation Expense	4,00,000
To Buying Company Account – Foreign Currency Received and Converted into INR	7,50,000	By Realisation Account –Realisation Expenses	4,00,000
To Buying Company – Final Settlement	3,04,000		
To Profit & Loss A/c (Profits Earned)	2,40,000	By balance c/d	**10,94,000**
Total	**18,94,000**	**Total**	**18,94,000**

4. Profit & Loss Account

Particulars	₹	Particulars	₹
To Trademarks A/c	2,50,000	By Balance b/d	3,60,000
To Buying Company – Transfer of Share of Profit	96,000	By Cash A/c – Profits Earned for April	2,40,000
To Buying company (Exchange Rate Loss)	50,000	By balance c/d	46,000
To Investments (Equity Shares) **Note**	2,50,000		
Total	**6,46,000**	**Total**	**6,46,000**

Note: This amount is derived as 12,00,000 less (12,00,000 ÷ 120% × 95%)

5. Balance Sheet of X Co Ltd as on 30.04.2012

Liabilities	₹	Assets	₹
Share Capital:		**Fixed Assets:**	
Equity Share Capital	8,00,000	Plant & Machinery	4,60,000
Reserves & Surplus:		Land (7.00 – 2.00 Trfrd + Revaluation 5.00)	10,00,000
Securities Premium	4,00,000	**Investments** (95% of Face Value of ₹ 10,00,000)	9,50,000
General Reserve	5,00,000	**Current Assets:**	
Profit & Loss A/c	(46,000)	Cash	10,94,000
Revaluation Reserve	5,00,000		
Capital Reserve	7,00,000		
Secured Loans: Debentures	5,00,000		
Current Liabilities: Sundry Creditors	1,50,000		
Total	**35,04,000**	**Total**	**35,04,000**

Question 5(a): AS 30 – Loan to Employees – Amortisation of Employee Cost **M 12 (8 Marks)**

As point of staff welfare measures, Y Co. Ltd has contracted to lend to its employees sums of money at 5 percent per annum rate of interest. The amounts lent are to be repaid alongwith the interest in five equal annual instalments. The market rate of interest is 10 percent per annum.

Y lent ₹ 16,00,000 to its employees on 1st January, 2011.

Following the principles and recognition and measurement as laid down in AS 30, you are required to record the entries for the year ended 31st December, 2011 for the transaction and also calculate the value of the loan initially to be recognized and the amortised cost for all the subsequent years.

For purposes of calculation, the following discount factors at interest rate of 10 percent may be adopted. At the end of year –

1	2	3	4	5
0.909	0.827	0.751	0.683	0.620

Solution: Similar to Q No.21 / Page 32.14 of Padhuka's Students' Referencer on Accounting Standards

1. Computation of Equal Annual Installment

Loan Amount = Present Value of Loan Installments i.e. Annuity Factor at Int Rate for Loan Tenor x Loan Installments.
Therefore, Loan Installments = Loan Amount ÷ Annuity Factor at Interest Rate for Loan Tenor
⇨ Equal Annual Installment = ₹ 16,00,000 ÷ Annuity Factor at 5% for 5 years i.e. 4.329 = ₹ 3,69,600

2. Fair Value of Loan Given

Fair Value = Present Value of Loan Installments at Effective Interest Rate (i.e. Fair Interest Rate)
⇨ Loan Installment ₹ 3,69,600 × Annuity Factor at 10% for 5 Years i.e. 3.79 => ₹ 14,00,784

3. Employee Benefit Cost

Nominal Value of Loan ₹ 16,00,000 **Less** Fair Value of Loan ₹ 14,00,784 = ₹ 1,99,216
To be amortized over the loan tenor of 5 Years

4. Amortisation of Employee Compensation Cost

	Schedule at 10% Rate of Interest			Schedule at 5% Rate of Interest			Difference to be amortized (₹) (Col.3 – Col.6)
Year	Opg Bal. ₹	Schedule at 10% ₹		Opg Bal.₹	Schedule at 5% ₹		
Col.1	Col.2	Col.3	Col.4	Col.5	Col.6	Col.7	Col.8
		Interest	Principal		Interest	Principal	
1	14,00,784	1,40,078	2,29,522	16,00,000	80,000	2,89,600	60,078
2	11,71,262	1,17,126	2,52,474	13,10,400	65,520	3,04,080	51,606
3	9,18,788	91,879	2,77,721	10,06,320	50,316	3,19,284	41,563
4	6,41,067	64,107	3,05,493	6,87,036	34,352	3,35,248	29,755
5	3,35,574	34,026	3,35,574	3,51,788	17,812	3,51,788	16,214
							1,99,216

5. Journal Entries for Financial Year ending 31.12.2011

Date	Particulars		Dr. (₹)	Cr. (₹)
01.01.2011	Employee Loan A/c	Dr.	14,00,784	
	Deferred Employee Compensation	Dr.	1,99,216	
	To Cash A/c			16,00,000
	(Being loan given to Employees recognized at Fair Value and balance transferred to Deferred Expense)			
31.12.2011	Bank A/c	Dr.	3,69,600	
	To Interest Income			1,40,078
	To Employee Loan			2,29,522
	(Being First installment received. Interest recognized at FV, & balance = Principal)			
31.12.2011	Salary Expense A/c	Dr.	60,078	
	To Deferred Employee Compensation			60,078
	(Being difference between Interest at FV and actual interest amortised for Year I)			

Question 5(b): Value Added Statements – Employee Incentive **M 12 (8 Marks)**

Hindusthan Corporation Limited (HCL) has been consistently preparing Value Added Statement (VAS) as part of Financial Reposting. The Human Resource Department of the Company has come up with a new scheme to link Employee Incentive with 'Value Added' as per VAS. As per the scheme an Annual Index of Employee Cost to Value Added rounded off to nearest whole number) shall be prepared for the last 5 years and the best index out of results of the last 5 years shall be selected as the 'Target Index'. The Target Index percentage shall be applied to the figure of 'Value Added' for a given year and the Target Employee Cost ascertained. Any saving in the Actual Employee Cost for the given year compared to the Target Employee Cost will be rewarded as 'Variable incentive' to the extent of 70% of the Savings. From the given data, you are requested to ascertain the eligibility of 'Variable Incentive' for the year 2011–2012 of the employees of the HCL.

Value Added Statement of HCL for Last 5 years (₹ Lakhs)

	Year	2006–07	2007–08	2008–09	2009–10	2010–11
	Sales	3,200	3,250	2,900	3,800	4,900
Less:	Bought Out Goods and Services	2,100	2,080	1,940	2,510	3,200
	Value Added	1,100	1,170	960	1,290	1,700

Application of Value Added

Year	2006–07	2007–08	2008–09	2009–10	2010–11
To Pay Employees	520	480	450	600	750
To Providers of Capital	160	170	120	190	210
To Government Tax	210	190	220	300	250
For Maintenance and expansion	210	330	170	200	490

Summarized Profit and Loss Account of the HCL for 2011–2012 (₹ in Lakhs)

	Sales		5,970
Less:	Material Consumed	1,950	
	Wages	400	
	Production Salaries	130	
	Production Expenses	500	
	Production Depreciation	150	
	Administrative Salaries	150	
	Administrative Expenses	200	
	Administrative Depreciation	100	
	Interest	150	
	Selling and Distribution Salaries	120	
	Selling Expenses	350	
	Selling Depreciation	120	4,320
	Profit		1,650

Solution: **Also See Q No.9 / Page 5.20 of Padhuka's Students' Guide on Financial Reporting**

1. Computation of Target Index: **Target Index =** Ratio of Employee Compensation on Value Added

Year	1	2	3	4	5
Employees Expense (given)	520	480	450	600	750
Value Added	1100	1170	960	1290	1700
Index (1÷2)	**47%**	**41%**	**47%**	**47%**	**44%**

Target Index = **Best Index = 47%**

2. Computation of Value Added for Current Financial Year

	Particulars	₹	₹
	Sales or Revenue		5,970
Less:	Materials Consumed	1,950	
	Production Expenses	500	
	Administration Expenses	200	
	Selling Expenses	350	3,000
	Gross Value Added		**2,970**

3. Computation of Incentive

Particulars	₹
Value Added	2,970
A. Employee Compensation Expense at Target Index of 47% (2970 × 47%)	1,396
B. Actual Employee Compensation Expense for the Year	
(a) Wages	400
(b) Production Salaries	130
(c) Administration Salaries	150
(d) Selling and Distribution Salaries	120
Total Actual Employee Compensation	800
C. Improvements in Target Index (₹ 1396 Lakhs **Less** ₹ 800 Lakhs)	596
D. **Incentive** at 70% of Improvement (70% of ₹ 596 Lakhs)	**417**

Question 6(a): Valuation of Business – Standalone and Acquisition Perspective **M 12 (12 Marks)**

NRPL (Nuclear Reactors Private Limited) is engaged in the business of design and construction of Nuclear Reactors that are exclusively to the Atomic Energy Department. The core component of such reactors is outsourced by NRPL from FIL (Fusion Industries Ltd) the Sole Manufacturer of this item. NRPL wants to gain leadership in this industry and seeks to take over FIL. NRPL estimates that its Goodwill in the industry will increase by a minimum of ₹ 300 Crores consequent on the acquisition. NRPL has made the following calculation of the economic benefits presently available and that foreseen as a result of the acquisition.

(i) Projected Cash Flows of NRPL for the next 5 years:

Year	1	2	3	4	5
Cash Flow (₹ in Crores)	1,000	1,500	2,000	2,500	3,000

(ii) Projected Cash Flows of FIL for the next 5 years:

Year	1	2	3	4	5
Cash Flow (₹ in Crores)	400	400	600	800	1,000

(iii) Audited Net Worth of FIL

	₹ Crores
Fixed Assets	2,000
Investments (Non Trade)	1,000
Current Assets	1,000
Total	4,000
Less: Current Liabilities	1,000
Net Worth	3,000

(iv) Other Information:

(a) 10% of the Fixed Assets of FIL will not be required in the event of the acquisition, and the same has ready buyers for ₹ 100 Crores.

(b) Current Assets include surplus Stocks of ₹ 20 Crores that can realize ₹ 30 Crores.

(c) Investments have a ready market for ₹ 1,500 Crores.

(d) Current Liabilities are to be paid off immediately. ₹ 510 Crores are payable on account of a compensation claim awarded against FIL, which has been treated as a Contingent Liability in the accounts on which 20% was provided for.

(v) NRPL has estimated the combined Cash Flows post–merger as under:

Year	1	2	3	4	5
Cash Flow (₹ in Crores)	1,500	2,000	2,500	3,000	3,500

You are required to advise NRPL the maximum value it can pay for take over of FIL. Also show the current valuation of FIL as a 'Stand Alone' Entity. The Discount Rate of 15% is advised appropriate, values for which are given below:

Year	1	2	3	4	5
Discount Factor	0.870	0.756	0.658	0.572	0.497

Solution: **Refer Qn.32 Page 1.110 – Padhuka's Students' Guide on Financial Reporting**

Part One: Business Valuation – Acquisition Perspective

1. Value of Business by Discounted Cash Flow method :

Value = Present Value of Incremental Earnings Post Merger / Takeover

Year	Earnings of NRPL After Acqn	Earnings of NRPL Before Acqn	Incremental Earnings
1	1500	1000	500
2	2000	1500	500
3	2500	2000	500
4	3000	2500	500
5	3500	3000	500

Valuation from Acquisition Perspective = Annuity Factor at 15% for 5 Years 3.353 × ₹ 500 Crores = ₹ 1,676.50 Crores

2. Valuation of Business by Net Assets Method / Intrinsic Value Method

	Particulars	₹ Crores	₹ Crores
	Fixed Assets Taken Over (and intended to be used) [90% of ₹ 2000 Cr.]		1,800
	Fixed Assets Taken Over (for immediate disposal)		100
	Investments (Market Value)		1,500
	Current Assets:		
	(a) Other than Stock (₹ 1,000 **Less** Stock ₹ 20)	980	
	(b) Realizable value of Stock	30	1,010
	Total of above		4,410
Less:	Current Liabilities	1,000	
	Contingent Liability (₹ 510 Crores × 80%) (Assuming 20% is included in CL)	408	1,408
	Value of Business on Standalone Basis		**3,002**
Add:	Goodwill on Takeover		300
	Value of Business on Acquisition Basis		**3,332**

3. Maximum Value Payable = ₹ 3,332 Crores

Note: The Present Value of Future Earnings are **not** worth the Initial Investment of ₹ 3,332 Crores, since, for an Investment of ₹ 3332 Crores, the Incremental Value being created is ₹ 1,676 Crores only, i.e. lower than the incremental investment. So, from a financial prudence perspective, the Maximum Value Payable is ₹ 1,676 Crores only.

Note: Alternative Method for Computation of Maximum Value to be quoted is given below –

	Particulars	₹ Crores	₹ Crores
	Value as per Discounted Cash Flow from Operations		1,676.50
Add:	Cash to be collected immediately by disposal of assets –		
	Fixed Assets	100.00	
	Investments (Market Value)	1,500.00	
	Stock	30.00	1,630.00
	Total of above		3,306.50
Less:	Current Liabilities paid	1,000	
	Contingent Liability (₹ 510 Crores × 80%) (Assuming 20% is included in CL)	408	1,408.00
	Value of Business on Standalone Basis		**1,898.50**
Add:	Goodwill on Takeover		300.00
	Maximum Value to be quoted		**2,198.50**

Part Two: Business Valuation – Standalone Basis

1. Discounted Cash Flow Basis: Value of Business = Present Value of Independent Future Earnings

Years	Earnings	Discounting Factor	Discounted Cash Flow
1	400	0.870	348.0
2	400	0.756	302.4
3	600	0.658	394.8
4	800	0.572	457.6
5	1000	0.497	497.0
		Value of FIL	**1,999.8**

2. Net Assets Basis: As Computed Above = ₹ 3,002 Crores

Question 6(b): Economic Value Added **M 12 (4 Marks)**

The following information (as of 31.03.2012) is supplied to you by Fox Ltd.

			₹ Crores
(i)	**Profit after Tax (PAT)**		**205.90**
(ii)	**Interest**		**4.85**
(iii)	**Equity Share Capital**	**40.00**	
	Accumulated Surplus	**700.00**	
	Shareholders Fund	**740.00**	
	Loans (Long term)	**37.00**	
	Total Long Term Funds		**777.00**
(iv)	**Market Capitalization**		**2,892.00**

Additional Information:

(a)	**Risk Free Rate**					**12.00 percent**
(b)	**Long Term Market Rate (Based on BSE Sensex)**					**15.50 percent**
(c)	**Effective Tax Rate for the company**					**25.00**
(d)	**Beta β) for last few years**					
Year	**1**	**2**	**3**	**4**	**5**	
Beta	**0.48**	**0.52**	**0.60**	**1.10**	**0.99**	

Using the above data you are requested to calculate the Economic Value Added of Fox Limited as on 31st March 2012.

Solution:

1. **Average Equity Beta:** Average β for past 5 years = (0.48 + 0.52 + 0.60 + 1.10 + 0.99) ÷ 5 = **Equity Beta = 0.738**

2. **Cost of Equity** = $K_e = R_f + \text{Beta} \times (R_m - R_f)$ = 12 + 0.738 × (15.50 – 12) = **14.58%**

3. **Computation of Cost Debt:**
   Interest Rate = Interest ÷ Loan Amount (Assumed to be Face Value) = 4.85 Crores ÷ 37.00 Crores = **13.11%**
   Cost of Debt = After Tax Interest Rate = 13.11% × (100% – Tax Rate 25%) = **9.83%**

4. **Computation of Weighted Average Cost of Capital**

Particulars	Amount	Cost	Product
Shareholders Funds	740 Crores	14.58%	107.89
Debt Funds	37 Crores	9.83%	3.64
Total	**777 Crores**		**111.53 Crores**

   Weighted Average Cost of Capital = 111.53 Crores ÷ 777 Crores = 14.35%

5. **Economic Value Added =** Operating Profits After Tax **Less** Capital Employed × Cost of Capital
   Operating Profits After Tax = Profits After Tax + After Tax Interest = ₹ 205.90 + ₹ 4.85 × (1 – 0.25) = ₹ 209.54 Cr.
   So, **EVA** = ₹ 209.54 Crores **Less** (777 Crores × 14.35%) = **₹ 98.01 Crores**

Note: Alternative Solutions exist due since WACC can be computed based on Market Capitalisation instead of Book Values.

Question 7(a): Cash Flow Statement – Basics **M 12 (4 Marks)**

Bellhop LLC submits the following information pertaining to year 2011. Using the data, you are required to find the ending Cash and Bank Balances given an Opening Figure thereof was ₹ 1.55 Million.

Particulars	₹ Millions
Additional Shares issued	**6.50**
CAPEX (Capital Expenditure)	**9.90**
Proceeds from Assets sold	**1.60**
Dividends declared	**0.50**
Gains 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**

Solution:

	Details / Description	₹ Millions
	Opening Balance of Cash and Bank	1.55
Add:	Additional Shares issued	6.50
Add:	Proceeds from Sale of Asset	1.60
Add:	Net Income	3.30
Add:	Depreciations and Amortisations	0.75
Add:	Loss on Sale of Assets	1.20
Less:	Increase in Accounts Receivable	(1.50)
Less:	Capital Expenditure	(9.90)
Less:	Dividend declared	(0.50)
Less:	Redemption of Debentures	(2.50)
	Closing Cash and Bank Balance	**0.50**

Question 7(b): AS 20 – Basic and Diluted EPS **M 12 (4 Marks)**

From the information furnished you are required to compute the Basic and Diluted EPS (Earnings Per Share) for accounting year 01.04.2011 to 31.03.2012 and adjusted EPS for the year 01.04.2010 to 31.03.2011.

Particulars	
Net Profit for year ended 31.03.2011	₹ 75,50,000
Net Profit for year ended 31.03.2012	₹ 1,00,25,000
No. of Equity shares as on 01.04.2011	50,00,250
Bonus issue on 01.01.2012	1 Share for every 2 held
No. of 12% Convertible Debentures of ₹ 100 each issued on 01.01.2012	1,00,000
Conversion Ratio of Debentures	10 Shares per Debenture
Tax Rate	30 percent

Solution:

1. Basic EPS for Financial Year 2011–12

	Details / Description	Value
	Net Profits for the Year	1,00,25,000
	No. of Equity Shares Outstanding on 01.04.2011	50,00,250
Add:	Bonus Shares at 1 : 2 (1/2 × 50,00,250)	25,00,125
	Weighted Average Shares Outstanding for FY 2011–12	75,00,375
	Therefore, **Basic EPS** (Equity Earnings 1,00,25,000 ÷ 75,00,375)	**1.337**

2. Diluted EPS for Financial Year 2011–12

	Details / Description	Value
	Net Profits for the Year	1,00,25,000
Add:	After Tax Interest (1,00,000 Debentures × ₹ 100 Face Value × 12% × 3/12 × 0.70)	2,10,000
	Adjusted Equity Earnings for the Year	**1,02,35,000**
	Weighted Average Shares Outstanding for FY 2011–12 (as above)	75,00,375
Add:	Potential Equity Shares (to be computed only from the date of issue) (1,00,000 Debentures × Conversion Ratio 10 × 3/12, i.e. Period Outstanding)	2,50,000
	Adjusted Weighted Average Number of Equity Shares	**77,50,375**
	Therefore, **Diluted EPS** (Equity Earnings 1,02,35,000 ÷ 77,50,375)	**1.32**

3. Adjusted EPS for Financial Year 2010–11

	Details / Description	Value
	Net Profits for the Year	75,50,000
	Weighted Average Shares Outstanding for FY 2010–11 (given)	50,00,250
Add:	Bonus Shares at 1 : 2 (1/2 × 50,00,250)	25,00,125
	Adjusted Average Shares Outstanding for FY 2010–11	**75,00,375**
	Therefore, **Adjusted EPS** (Equity Earnings 75,50,000 ÷ 75,00,375)	**1.01**

Question 7(c): AS 1 & 2 – Inventory Valuation **M 12 (4 Marks)**

X Limited was making provisions upto 31.03.2011 for Non–Moving Stocks based on no issues for the last 12 months. Based on a technical evaluation, the Company wants to make provisions during the year 31.03.2012 in the following manner:

- **Total Value of Stock ₹ 3 Crores.**
- **Provision required based on 12 months ₹ 8 Lakhs.**
- **Provision required based on technical evaluation ₹ 7.50 Lakhs.**

Required: Does this amount to change in accounting policy? Can the Company change the method of provision?

Solution:

1. Provision of ₹ 8 Lakhs made by the Company was on adhoc basis & the Company did not follow any accounting policy. Provision of ₹ 7.50 Lakhs is more acceptable since it is based on a technical evaluation. The above change will **not** result in any change in accounting policy, as there will only be a change in accounting estimate.
2. The Company can adopt the technical evaluation, as the method is more appropriate.

Question 7(d): AS 16 – Borrowing Cost to be Captialized **M 12 (4 Marks)**

X Limited began construction of a new plant on 1st April 2011 and obtained a special Loan of ₹ 8 Lakhs to finance the construction of the plant. The rate of interest on loan was 10 percent per annum.

The expenditure that was made on the project of Plant construction was as follows:

	₹
01.04.2011	**10,00,000**
01.08.2011	**24,00,000**
01.01.2012	**4,00,000**

The Company's other outstanding Non–Specific Loan was ₹ 46,00,000 at an interest of 12 percent per annum.

The construction of the Plant was completed on 31.03.2012. You are required to calculate the amount of interest to be capitalized as per AS – 16 Borrowing Cost.

Solution: **Refer Q.No.17 Page No.16.17 of Padhuka's Students' Referencer on Accounting Standards**

Note: It is assumed that the specific loan of ₹ 8,00,000 was first utilized in the expenditure of ₹ 10,00,000 incurred on 01.04.2011. Balance of that expenditure and subsequent expenditure were all incurred out of non–specific loan.

Date	Cost Incurred	Specific Loan	Non Specific Loan	Interest on Specific Loan at 10%	Interest on Non Specific Loan at 12%
01.04.2011	10,00,000	8,00,000	2,00,000	80,000 (8L × 10%)	24,000 (2L × 12%)
01.08.2011	24,00,000	—	24,00,000	—	1,92,000 (24L×12%×8/12)
01.01.2012	4,00,000	—	4,00,000	—	12,000 (4L × 12%×3/12)
Total	**38,00,000**			**80,000**	**2,28,000**

Total Amount Capitalized	Cost Incurred	₹ 38,00,000
	Specific Loan Interest	₹ 80,000
	Non Specific Loan Int.	₹ 2,28,000
	Total Capitalisation	**₹ 41,08,000**

Question 7(e): AS 30 – Investment in Equity Shares – Short Term vs. Long Term **M 12 (4 Marks)**

X Limited on 01.01.2012 had made an investment of ₹ 600 Lakhs in the Equity Shares of Y Limited of which 50% is made in the long term category and the rest as Temporary Investment. The Realizable Value of all such investment on 31.03.2012 becomes ₹ 200 Lakhs, as the Company lost a case of Copyright. How will you recognize the reduction in Financial Statements for the year ended on 31.03.2012?

Solution:

1. As per AS – 30, both Short Term and Long Term Investment in Equity Shares of another Company are to be valued at **Fair Value** on the date of acquisition, and also at subsequent dates.
2. They are to be measured at Fair Value, with the gain or loss on subsequent measurement routed through Statement of Profit or Loss (Para 51 of AS 30).
3. Therefore, the given investment of ₹ 600 Lakhs should be valued at ₹ 200 Lakhs in the Financial Statements, with the loss of ₹ 400 Lakhs being debited to Statement of Profit or Loss.