

MOCK TEST PAPER – 2
FINAL COURSE: GROUP – I
PAPER – 1: FINANCIAL REPORTING
SUGGESTED ANSWERS/HINTS

1. (a) According to AS 28 "Impairment of Assets", an impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset, to the extent, that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

<i>Impairment Loss and its treatment</i>	<i>₹</i>
Current carrying amount (including revaluation amount of ₹ 14 lakhs)	27,30,000
Less: Current recoverable amount	<u>(12,00,000)</u>
Impairment Loss	<u>15,30,000</u>
Impairment loss charged to revaluation reserve	14,00,000
Impairment loss charged to profit and loss account	1,30,000

After the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

In the given case, the carrying amount of the asset will be reduced to ₹ 12,00,000 after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year). Therefore, the depreciation for the current year will be ₹ 4,00,000.

- (b) (i) As per para 44 of AS 26 "Intangible Assets," an intangible asset arising from development phase should be recognised as intangible asset (i.e. capitalised), if the criteria mentioned in the standard is complied with. In the given situation, the expenditure relating to the development phase consists of following:

		<i>₹</i>
(i)	Other coding costs after establishment of technological feasibility	48,000
(ii)	Other testing costs after establishment of technological feasibility	40,000
(iii)	Cost of producing product masters for training manual	<u>30,000</u>
	Total costs relating to development phase.	<u>1,18,000</u>

As this expenditure has been incurred after establishment of technical feasibility, it is logical to presume that it complies with recognition criteria laid down for the purpose. Therefore, an amount of ₹1,18,000 should be capitalised as software cost subject to amortisation.

- (ii) As per para 41 of the standard, amount incurred during "Research Phase" should be expensed off. Therefore, ₹ 46,000 (i.e. ₹ 26,000 + 20,000) should be shown as expenditure during the financial year 2012-2013.
- (c) As per para 23 of AS 10 'Accounting for Fixed Assets', subsequent expenditure relating to an item of fixed asset should be added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance. In the instant case, the subsequent expenditure on buying new rope costing ₹ 8.60 crores, did not increase the future benefits from the assets beyond their previously assessed level of performance. Therefore the cost of replacement of rope should be charged to revenue. Hence, the accounting treatment done by the company by charging the cost of new rope to repairs and maintenance is correct.

However, as per para 24 of the standard, material item retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements. On this basis, old rope should be written down to its net realisable value, until its final disposal. Therefore, the accounting treatment accorded by the company by showing it as an item of asset and charging it with depreciation every year is incorrect.

- (d) Following will be the treatment in the given cases:
 - (a) When sales price of ₹ 50 lakhs is equal to fair value, A Ltd. should immediately recognize the profit of ₹10 lakhs (i.e. 50 – 40) in its books.
 - (b) When fair value is ₹ 60 lakhs then also profit of ₹10 lakhs should be immediately recognized by A Ltd.
 - (c) When fair value of leased machinery is ₹ 45 lakhs & sales price is ₹ 38 lakhs, then loss of ₹ 2 lakhs (40 – 38) to be immediately recognized by A Ltd. in its books provided loss is not compensated by future lease payment.
 - (d) When fair value is ₹ 40 lakhs & sales price is ₹ 50 lakhs then, profit of ₹ 10 lakhs is to be deferred and amortized over the lease period.
 - (e) When fair value is ₹ 46 lakhs & sales price is ₹ 50 lakhs, profit of ₹ 6 lakhs (46 - 40) to be immediately recognized in its books and balance profit of ₹4 lakhs (50-46) is to be amortised/deferred over lease period.

2. **Consolidated Balance Sheet of Evil Ltd. with its subsidiary**
Devil Ltd. as on 31st March, 2013

	Notes No.	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,00,000
(b) Reserves and Surplus	2	1,93,000
(2) Minority interest (W.N. 5)		1,23,500
(3) Current Liabilities		
Trade payables	3	1,70,000
Total		10,86,500
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	4	6,28,000
Intangible assets	5	50,000
(2) Current assets		
(a) Inventories	6	2,13,500
(b) Trade receivables	7	1,30,000
(c) Cash and cash equivalents	8	65,000
Total		10,86,500

Contingent Liability – Bills discounted by Evil Ltd. is ₹ 5,000.

Notes to Accounts

		₹	₹
1.	Share Capital		
	Equity shares of ₹ 10 each, fully paid up		6,00,000
2.	Reserves and surplus		
	Capital reserve (W.N.3)	33,750	
	General reserve	60,000	
	Profit and loss account (W.N. 6)	99,250	1,93,000

3.	Trade Payables			
	Sundry creditors			
	Evil Ltd.	1,00,000		
	Devil Ltd.	<u>70,000</u>		
		1,70,000		
	Less: Mutual indebtedness	<u>(10,000)</u>	1,60,000	
	Bills payable			
	Devil Ltd.		<u>10,000</u>	1,70,000
4.	Tangible Assets			
	Land and buildings			
	Evil Ltd.	1,00,000		
	Devil Ltd.	<u>1,00,000</u>	2,00,000	
	Plant and machinery			
	Evil Ltd.	2,00,000		
	Devil Ltd.	1,80,000		
	Add: Upward revaluation	<u>50,000</u>		
		2,30,000		
	Less: Excess Depreciation on upward revaluation	<u>(2,000)</u> <u>2,28,000</u>	<u>4,28,000</u>	6,28,000
5.	Intangible Assets			
	Evil Ltd.		10,000	
	Devil Ltd.		<u>40,000</u>	50,000
6.	Inventories			
	Evil Ltd.		1,17,500	
	Devil Ltd.		<u>1,00,000</u>	
			2,17,500	
	Less: Unrealised profit		<u>(4,000)</u>	2,13,500
7.	Trade receivables			
	Sundry debtors			
	Evil Ltd.		50,000	
	Devil Ltd.		<u>90,000</u>	
			1,40,000	
	Less: Mutual indebtedness		<u>(10,000)</u>	1,30,000
8.	Cash and cash equivalents			
	Bank Balances			
	Evil Ltd.		45,000	
	Devil Ltd.		<u>20,000</u>	65,000

Working Notes:

1. Analysis of Reserves and Profits of Devil Ltd. as on 31.03.2013

		Pre-acquisition profit upto 1.10.2012 (Capital profits)	Post-acquisition profits (2.10.2012 – 31.3.2013) Profit and loss account
General reserve as on 31.3.2013		50,000	
Profit and loss account as on 31.3.2013	1,00,000		
Less: Opening Balance 60,000			
Less: Dividend for 2011-12 (out of pre-acquisition profits) (30,000)	<u>30,000</u>	30,000	
Profit earned during the year	70,000	35,000	35,000
Upward revaluation of plant and machinery as on 1.10.2012 (W.N.2)		50,000	
Excess depreciation (for 6 months) due to upward revaluation (W.N.2)			<u>(2,000)</u>
Total		<u>1,65,000</u>	<u>33,000</u>
Minority Interest (25%)		41,250	8,250
Share of Evil Ltd. (75%)		<u>1,23,750</u>	<u>24,750</u>

2. Revaluation of Plant & Machinery of Devil Ltd. and its book value as on 31.3.2013

Depreciation during the year = Opening Balance less Closing Balance = 2,00,000 – 1,80,000 = ₹ 20,000

Depreciation rate = (20,000/2,00,000) x 100 = 10%

(a) Computation of Revaluation Gain / Loss	₹
Revalued Amount on 01.10.2012 (date of acquisition)	2,40,000
Less: Book Value on 01.10.2012 (date of acquisition)	
Value on 01.04.2012 ₹ 2,00,000	
Less: Depreciation for 6 months at 10% <u>(₹10,000)</u>	<u>1,90,000</u>
Revaluation Gain i.e. Capital Profit	<u>50,000</u>

(b) Computation of Depreciation on Revaluation Gain / Loss	₹
Depreciation on Revalued Plant for 6 months = ₹ 2,40,000 × 6/12 × 10%	12,000
Less: Depreciation already provided on ₹ 2,00,000 × 6/12 × 10%	<u>(10,000)</u>
Revenue Loss	<u>2,000</u>

3. Calculation of cost of control

	₹
Share capital in Devil Ltd.	2,25,000
Add: Capital profit	<u>1,23,750</u>
	3,48,750
Less: Cost of Investments	3,37,500
Less: Pre-acquisition dividend received for 2011-12	<u>(22,500)</u>
Capital Reserve	<u>33,750</u>

4. Calculation of minority interest [25%]

	₹
Share capital	75,000
Capital (pre-acquisition) profits [W.N.1]	41,250
Revenue (post-acquisition) profits - Profit and loss [W.N.1]	<u>8,250</u>
	1,24,500
Less: Unrealised profit	<u>(1,000)</u>
	<u>1,23,500</u>

5. Stock reserve (plant and machinery)

$$\text{Unrealised profit} = \left(\frac{16,000 \times 1/3}{4/3} \right) = ₹ 4,000$$

To be adjusted from minority interest and consolidated profit and loss account in the ratio of 25:75.

6. Consolidated profit and loss account as on 31.3.2013

	₹
Profit and loss account balance of Evil Ltd. as on 31.3.2013	1,00,000
Less: Pre-acquisition dividend wrongly credited	<u>(22,500)</u>
Add: Share in post-acquisition profit and loss account of Devil Ltd. (W.N.1)	24,750
Less: Unrealised profit	<u>(3,000)</u>
	<u>99,250</u>

Note: Unrealized profits on closing stock have been eliminated to the extent of holding company's share in Profit and Loss Account and balance adjusted in Minority Interest as it relates to upstream transaction.

3. (a) Balance Sheet of Better Ltd. as on 31st March, 2012

Particulars	Note No.	After reconstruction	Before reconstruction
		(₹ in crores)	(₹ in crores)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	300	300
(b) Reserve and Surplus	2	800	750
(2) Non-Current Liabilities			
Long-term borrowings	3	315	250
(3) Current Liabilities		1,250	1,300
Total		2,665	2,600
II. Assets			
(1) Non-current assets			
(a) Fixed assets			
Tangible assets	4	765	600
(2) Current assets		1,900	2,000
Total		2,665	2,600

Notes to Accounts

Particulars		After reconstruction		Before reconstruction	
		(₹ in crores)		(₹ in crores)	
1. Share Capital					
Authorised:					
50 crores equity shares of ₹10 each			<u>500</u>		<u>500</u>
Issued and subscribed:					
30 crores equity shares of ₹10 each fully paid up			300		300
2. Reserves and surplus					
Capital reserves		40		40	
Add: Capital profit on reconstruction [WN 1(ii & iii)]		50		-	
Revenue reserves		700		700	
Surplus		<u>10</u>	800	<u>10</u>	750
3. Long term Borrowings					
Best Ltd. (Interest @ 15% p.a.) [WN 1(i)]		15			
Others		<u>300</u>	315		250
4. Fixed assets					
Gross block		925		1,000	
Less: Depreciation		<u>(160)</u>		<u>(400)</u>	
Net block			765		600

Best Ltd.

Balance Sheet as at 31st March, 2012

Particulars	Note No.	After reconstruction	Before reconstruction
		(₹ in Crores)	(₹ in Crores)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	200	200
(b) Reserves and Surplus	2	465	450
(2) Non-Current Liabilities			
Long-term borrowings		300	350

(3) Current Liabilities		950	900
Total		1,915	1,900
II. Assets			
(1) Non-current assets			
Fixed assets			
Tangible assets	3	300	400
(2) Current assets			
(a) Short term loans and advances	4	15	-
(b) Other current assets		1,600	1,500
Total		1,915	1,900

Notes to Accounts

Particulars		After reconstruction		Before reconstruction	
		(₹ in Crores)		(₹ in Crores)	
1. Share Capital					
Authorized:					
50 crores equity shares of ₹ 10 each			<u>500</u>		<u>500</u>
Issued and subscribed:					
30 crores equity shares of ₹ 10 each fully paid up			200		200
2. Reserves and surplus					
Capital reserves	20			20	
Add: Capital profit on reconstruction [WN 1(ii)]	<u>15</u>	35		-	20
Revenue reserves		425			425
Surplus		<u>5</u>			<u>5</u>
		<u>465</u>			<u>450</u>
3. Tangible assets:					
Gross block	400			700	
Less: Depreciation	<u>(100)</u>			<u>(300)</u>	
Net block		300			400
4. Short term loans and advances					
Loan to Better Ltd.[WN 1(i)]		15			----

(b) Net asset value of Master Win's holdings

	<i>Pre-reorganisation</i> (₹)	<i>Post-reorganisation</i> (₹)	<i>Change (Gain)</i> (₹)
Net asset value of one equity share: (Refer to working notes)			
Better Ltd.	35.00	36.67	1.67
Best Ltd.	32.50	33.25	0.75
Net asset value of equity shares owned by Master Win			
Better Ltd. (50,000 shares)	17,50,000	18,33,500	83,500
Best Ltd. (30,000 shares)	<u>9,75,000</u>	<u>9,97,500</u>	<u>22,500</u>
	<u>27,25,000</u>	<u>28,31,000</u>	<u>1,06,000</u>

Master Win has gained in terms of net asset value of his holdings as indicated in the last column.

Working Notes:

(1) Better Ltd.

(₹ in crores)

	<i>Pre-re- organisation figures</i> (a)	<i>Sale of division B</i> (b)	<i>Purchase of division D of Best Ltd.</i> (c)	<i>Post-re- organisa- tion figures</i> (d) = (a) – (b) + (c)
(i) Fixed assets:				
Cost	1,000	400	325	925
Depreciation	<u>(400)</u>	<u>(240)</u>	—	<u>(160)</u>
Written down value (I)	<u>600</u>	<u>160</u>	<u>325</u>	<u>765</u>
Current assets	2,000	900	800	1,900
Current liabilities	<u>(1,300)</u>	<u>(750)</u>	<u>(700)</u>	<u>(1,250)</u>
Net current assets (II)	<u>700</u>	<u>150</u>	<u>100</u>	<u>650</u>

Funds employed [(I) + (II)]	1,300	310	425	1,415
Loan funds:				
Others (III)	(250)	(200)	(250)	(300)
Best Ltd. (balance payable on transfer of divisions i.e. ₹ 140 – ₹ 125) (IV)				(15)
Net worth (I + II – III – IV)	<u>1,050</u>	<u>110</u>	<u>175</u>	<u>1,100</u>

Calculation of Profit / (Loss) on Division sale and purchase

		(₹ in crores)
(ii)	Sale of division B	
	Transfer price	125
	Cost of the division (₹160 + ₹ 150 – ₹ 200)	<u>(110)</u>
	Capital Profit	<u>15</u>
(iii)	Purchase of division D of Best Ltd.	
	Agreed value of assets less liabilities taken over ₹ (325 + 800-700 – 250)	175
	Less: Transfer price	<u>(140)</u>
	Capital Profit	<u>35</u>
(iv)	Pre-reorganisation net worth	1,050
	Add: Capital profit on	
	Sale 15	
	Acquisition <u>35</u>	<u>50</u>
	Post-reorganisation net worth	<u>1,100</u>

No. of equity shares	30 crores
Net asset value of equity share:	₹
Pre-reorganisation	1,050/30 = 35.00
Post-reorganisation	1,100/30 = 36.67 (rounded off)

(2) Best Ltd.

(i)

(₹ in crores)

	<i>Pre-re- organisation figures</i>	<i>Sale of division D</i>	<i>Purchase of division B of Better Ltd.</i>	<i>Post-re- organisation figures</i>
	(a)	(b)	(c)	(d) = (a) – (b) + (c)
Fixed assets:				
Cost	700	500	200	400
Depreciation	<u>(300)</u>	<u>(200)</u>	—	<u>(100)</u>
Written down value (I)	<u>400</u>	<u>300</u>	<u>200</u>	<u>300</u>
Current assets	1,500	800	900	1,600
Current liabilities	<u>(900)</u>	<u>(700)</u>	<u>(750)</u>	<u>(950)</u>
Net current assets (II)	<u>600</u>	<u>100</u>	<u>150</u>	<u>650</u>
Funds employed [(I) + (II)]	1,000	400	350	950
Loan funds—others (III)	<u>(350)</u>	<u>(250)</u>	<u>(200)</u>	<u>(300)</u>
	650	150	150	650
Better Ltd. (balance on account of transfers of divisions) (IV)	—	—	—	15
	—	—	—	—
Net worth (I + II – III + IV)	<u>650</u>	<u>150</u>	<u>150</u>	<u>665</u>

(ii)

(₹ in crores)

	<i>Purchase of division B of Better Ltd.</i>		<i>Sale of division D</i>
Value of assets less liabilities (Value to Best Ltd.)	150	(200 + 900 – 750 – 200)	150
Less: Transfer Price	<u>(125)</u>		<u>(140)</u>
Capital Profit/(Capital Loss)	<u>25</u>		<u>(10)</u>

(iii)

(₹ in crores)

Pre-reorganisation net worth		650
Add: Capital profit - on acquisition	25	

- Sale	(10)	15
Post-reorganisation net worth		<u>665</u>

No. of equity shares 20 crores

Net asset value of equity share: ₹

Pre-reorganisation 650/20 = 32.50

Post-reorganisation 665/20 = 33.25

**4. (a) Gross Value Added Statement of Addition Ltd.
for the year ended 31st March, 2013**

	₹ in lakhs	₹ in lakhs
Sales		5,010
Less: Cost of raw materials, stores and other services consumed	2,720	
Administrative expenses	125	
Interest on loan from bank for working capital	<u>35</u>	<u>2,880</u>
Value added by manufacturing and trading activities		2,130
Add: Other income		<u>130</u>
Total value added		<u>2,260</u>

Application of Value Added

	₹ in lakhs	₹ in lakhs	%
To pay employees			
Wages, salaries and bonus		610	26.99
To pay directors			
Salaries and commission to Directors		60	2.66
To pay Government			
Local taxes including cess	220		
Income tax	<u>280</u>	500	22.12
To pay providers of capital			
Interest on debentures	200		
Preference dividend	100		
Equity dividend	<u>300</u>	600	26.55
To provide for the maintenance and expansion of the company:			

Depreciation	370		
Transfer to general reserve	100		
Retained profit ₹ (60 – 40) lakhs	<u>20</u>	<u>490</u>	<u>21.68</u>
		<u>2,260</u>	<u>100</u>

(b) 1. Computation of Future Maintainable Profits

Particulars	₹ in lakhs
Profit after tax for the year just ended	48,00,000
Add: Tax expense (Tax is 36%, So, PAT = 64%. Hence, Tax = 48,00,000 x 36/64)	<u>27,00,000</u>
Profit before tax for the year just ended	75,00,000
Add/(Less): Adjustments in respect of non-recurring items	
Subsidy income not receivable in future	(2,00,000)
Interest on term loan not payable in future, hence saved	8,00,000
Additional managerial remuneration	(6,00,000)
Loss on sale of fixed assets and investments (non-recurring)	<u>8,00,000</u>
Future maintainable profits before tax	83,00,000
Less: Tax expense at 34%	(28,22,000)
Future maintainable profits after tax equity earnings	<u>54,78,000</u>

2. Computation of capitalization rate and value of business

Particulars	
(a) Profit after tax for the year just ended	₹ 48 lakhs
(b) Number of equity shares (₹ 100 lakhs / ₹ 50 per share)	2 lakhs
(e) Earnings per share (EPS) = PAT / Number of Equity Shares	₹24
(d) Market price per share on balance sheet date	₹120
(e) Price Earnings Ratio = MPS / EPS	5
(f) Capitalisation Rate = (1 / PE Ratio) x 100	20%
(g) Value of Business = Future Maintainable Profits / Capitalisation Rate = ₹ 54.78 Lakhs / 20%	₹ 273.90 lakhs

5. (a) Since the exercise price varies depending on the outcome of a performance condition that is not a market condition, the effect of that performance condition (i.e. the possibility that the exercise price might be ₹40 and the possibility that the exercise price might be ₹30) is not taken into account when estimating the fair value of the stock options at the grant date. Instead, the enterprise estimates the fair value of the stock options at the grant date under each scenario and revises the transaction amount to reflect the outcome of that performance condition at the end of every year based on the information available at that point of time.

Calculation of compensation expenses to be charged every year

Year	Calculation	Compensation expenses for the period (₹)	Cumulative compensation expense (₹)
1	10,000 options × ₹ 16 × 1/3	53,333	53,333
2	(10,000 options × ₹ 16 × 2/3) – ₹ 53,333	53,334	1,06,667
3	(10,000 options × ₹ 12 × 3/3) – ₹ 1,06,667	13,333	1,20,000

(b) (a) NAV of the Fund on 1st April, 2013 = $\frac{\text{Net Assets}}{\text{No. of units of fund}}$

$$= \frac{₹ 98,500 + ₹ 1,20,65,000 + ₹ 13,22,000 + ₹ 3,37,45,000 + ₹ 3,88,500}{4,00,000 \text{ units}}$$

$$= \frac{₹ 4,76,19,000}{4,00,000 \text{ units}} = ₹ 119.0475$$

(b) **The revised position of fund**

Shares	No. of shares	Price	Amount (₹)
P Ltd.	5000	19.70	98,500
Q Ltd.	25000	482.60	1,20,65,000
R Ltd.	(5,000+9,000) 14,000	264.40	37,01,600
S Ltd.	50,000	674.90	3,37,45,000
T Ltd.	15,000	25.90	3,88,500
Cash	[25,00,000 - (9,000 × 264.40)]		<u>1,20,400</u>
			<u>5,01,19,000</u>

(c) No. of units of fund = $4,00,000 + \frac{25,00,000}{119.0475} = 4,21,000$ units

Calculation of the NAV of fund on 2nd April, 2013

Shares	No. of shares	Price	Amount (₹)
P Ltd.	5,000	20.30	1,01,500
Q Ltd.	25,000	513.70	1,28,42,500
R Ltd.	14,000	290.80	40,71,200
S Ltd.	50,000	671.90	3,35,95,000
T Ltd.	15,000	44.20	6,63,000
Cash			<u>1,20,400</u>
			<u>5,13,93,600</u>

NAV as on 2nd April 2013 = $\frac{₹ 5,13,93,600}{4,21,000 \text{ units}} = ₹ 122.075$ per unit

6. (a) At the inception

Computation of fair value of Liability Component

	₹
Present value of 20 half yearly interest payments of ₹ 50, discounted @ 11% ($₹ 50 \times 11.9504$)	597
Present value of ₹ 1,000 due in ten years, discounted @ 11% compounded half yearly ($₹ 1,000 \times 0.343$)	<u>343</u>
Fair value of liability component	<u>940</u>

Computation of Equity Component

	₹
Issue proceeds from convertible debenture	1,000
Less: Fair value of liability component	<u>(940)</u>
Fair value of Equity Component	<u>60</u>

Journal Entries

	Debit (₹)	Credit (₹)
Cash/Bank A/c Dr.	1,000	
To Liability component		940
To Equity component		60
(Being issue of debentures recorded at fair values)		

At the time of repurchase

The repurchase price is allocated as follows:

	Carrying value (₹)	Fair Value (₹)	Difference (₹)
Liability component			
Present value of 10 remaining half-yearly interest payments of ₹ 50 discounted at 11% and 8% respectively	377	405	
Present value of ₹ 1,000 due in 5 years, discounted at 11% and 8% compounded half yearly, respectively	<u>593</u>	<u>680</u>	
	970	1085	115
Equity component	<u>60</u>	<u>615</u>	<u>555</u>
Total	<u>1,030</u>	<u>1,700</u>	<u>670</u>

Journal Entries

	Debit (₹)	Credit (₹)
Liability Component Dr.	970	
Debt settlement expenses Dr.	115	
To Cash A/c		1085
(Being repurchase of the liability component)		
Equity component Dr.	60	
Reserves and surplus Dr.	555	
To Cash A/c		615
(Being cash paid for the equity component)		

(b) EVA = NOPAT - Weighted Average cost of Capital Employed

$$\text{WACC} = \frac{2,295.08}{2,439.52^*} \times 12.42\% + \frac{144.44}{2,439.52^*} \times 5.6\%$$

$$= 11.69\% + 0.33\% = 12.02\%$$

$$^* 2,295.08 + 144.44 = ₹ 2,439.52 \text{ lakhs}$$

$$\text{NOPAT} = [\text{PBIT} - \text{Interest} - \text{Tax}] - \text{Interest (net of tax)}$$

	₹ in lakhs
PBIT	2,202.84
Less: Interest	<u>(13.48)</u>
	2,189.36
Less: Tax @ 40%	<u>(875.74)</u>
	1,313.62
Add: Interest (net of tax) [13.48 x (1 - .40)]	<u>8.09</u>
	<u>1,321.71</u>

$$\text{EVA} = \text{NOPAT} - \text{WACC} \times \text{CE}$$

$$= 1,321.71 \text{ lakhs} - (12.02\% \times 2,439.52 \text{ lakhs})$$

$$= 1,321.71 \text{ lakhs} - 293.23 \text{ lakhs} = ₹ 1,028.48 \text{ lakhs.}$$

7. (a)

Topic	Indian Accounting Standards	IFRS / IAS	US GAAPs
Investment property	Treated as a long-term investment and is carried at cost less impairment. Revaluation of such property is not applicable.	IFRS gives the choice of measuring the investment property at depreciated cost or fair value, with changes in fair value recognized in the income statement. Regular revaluations should be made so that the carrying amount does not differ materially from fair value	Treated the same as for other properties (depreciated cost). Industry-specific guidance applies to investor entities (for example investment entities)

Property, plant and equipment	Historical cost is used. Revaluations are permitted, however, frequency of revaluation has not been mentioned. On revaluation, an entire class of assets is revalued, or assets to be revalued are selected on systematic basis.	Historical cost or revalued amounts are used. On opting revaluation option, regular valuations of entire classes of assets are required.	Historical cost is used; revaluations are not permitted.
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(b) As per Revised Schedule VI, a liability shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

In the given case, instalments due on 1.4.2013 and 1.10.2013 will be shown under the head 'other current liabilities' as per criteria (c). Further, since the normal operating cycle of the business is 20 months, instalment due on 1.4.2014 will also be qualified as current liability as per criteria (a). Therefore, in the balance sheet as on 31.3.2013, ₹ 7,00,000 will be shown under the heading 'Long term Borrowings' and ₹ 3,00,000 (₹ 1,00,000 x 3 instalments) will be shown under the heading 'Other Current Liabilities' as current maturities of loan from bank.

(c) **Statement showing classification as per Non Banking Financing (Deposit, Accepting or Holding) Companies, Prudential Norms (Reserve Bank) Directions, 2007**

	(₹ in lakhs)
<u>Standard Assets</u>	
..... accounts (Balancing figure)	86.00
200 accounts overdue for a period for 3 months	40.00

24 accounts overdue for a period by 8 months	<u>24.00</u>	150.00
<u>Sub-Standard Assets</u>		
4 accounts identified as sub-standard asset for a period less than 18 months		14.00
<u>Doubtful Debts</u>		
6 accounts identified as sub-standard for a period more than 2 years		6.00
4 accounts identified as sub-standard for a period more than 3 years		20.00
<u>Loss Assets</u>		
1 account identified by management as loss asset		<u>10.00</u>
Total overdue		<u>200.00</u>

- (d) Para 10 of AS 16 'Borrowing Costs' states "to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings." The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Style Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2011-12 should be calculated as follows:

	₹ in crores
Actual interest for 2011-12 (11% of ₹ 150 crores)	16.50
Less: Income on temporary investment from specific borrowings	(3.50)
Borrowing costs to be capitalized during year 2011-12	13.00

- (e) AS 17 'Segment Reporting' requires that in measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers. Further, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if, followed consistently.