Gurukripa's Guideline Answers to May 2014 Exam Questions CA Final FINANCIAL REPORTING

Question 1 is compulsory **(4 × 5 = 20 Marks)**
Answer **any five** questions from the **remaining six** questions **(16 × 5 = 80 Marks).** [Answer any 4 out of 5 in Q.7]

Question 1 (a): AS – 15 – Accounting for Salary & Ex–Gratia **5 Marks**

An Employee Roshan has joined a Company XYZ Ltd in the year 2013. The annual emoluments of Roshan as decided is ₹14,90,210. The Company also has a policy of giving a lump sum payment of 25% of the last drawn salary of the Employee for each completed year of service, if the Employee retires after completing minimum 5 years of service. The salary of Roshan is expected to grow at 10% per annum.

The Company has inducted Roshan in the beginning of the year and it is expected that he will complete the minimum five year term before retiring.

What is the amount the Company should charge in its Profit & Loss A/c every year as cost for the Defined Benefit Obligation? Also calculate the Current Service Cost and the Interest Cost to be charged per year, assuming a Discount Rate of 8%.
(P.V Factor for 8% – 0.735, 0.794, 0.857, 0.926, 1)

Solution:

Concept discussed in Page 15.11, Q. No. 25 in Padhuka's Students' Referencer on Accounting Standards

1. **Accounting for Salary:** Salary paid every year is an expense pertaining to the year, and debited in the Statement of Profit and Loss in the same year.

Year	Computation (Salary increases every year by 10%)	Salary Expense debited to P & L
2013	given	₹ 14,90,210
2014	₹ 14,90,210 + 10%	₹ 16,39,231
2015	₹ 16,39,231 + 10%	₹ 18,03,154
2016	₹ 18,03,154 + 10%	₹ 19,83,470
2017	₹ 19,83,470 + 10%	₹ 21,81,816

2. **Accounting for Ex–gratia:** Ex–gratia paid is in relation to service rendered. Hence, the cost of ex–gratia will be amortised over the period of service.
   - Ex–gratia at the end of Year 5 = ₹ 21,81,816 × 25% × 5 completed years = ₹ 27,27,270.
   - Hence cost attributable to every year = $\frac{₹\ 27,27,270}{5\ \text{years}}$ = ₹ 5,45,454.

Using the PVF at 8% given in the question, the Current Service Cost and Interest Cost are computed as under – (amts in ₹)

Year	Opening Balance	Current Service Cost [Investment made at Year end]	Interest Cost = Opening Balance × 8%	Closing Balance
2013	–	₹ 545,454 × 0.735 = 400,908	Nil	4,00,908
2014	4,00,908	₹ 545,454 × 0.794 = 433,090	400,908 × 8% = 32,072	8,66,070
2015	8,66,070	₹ 545,454 × 0.857 = 467,454	866,070 × 8% = 69,285	14,02,810
2016	14,02,810	₹ 545,454 × 0.926 = 505,090	14,02,810 × 8% = 1,12,224	20,20,125
2017	20,20,125	₹ 545,454 × 1.000 = 545,454	20,20,125 × 8% = 1,61,610	27,27,189

Question 1 (b): AS – 22 – Accounting for Tax Credits **5 Marks**

Quick Ltd is a Company engaged in the trading of spare parts used in the repair of automobiles. The Company has been regular in depositing the tax, as such there is no liability of Income Tax, etc. for the Financial Year 2012–2013.

The figures for the year are as under:

Income chargeable to Tax	**₹ 211.64 Lakhs**
Total Income after Adjustments	**₹ 228.48 Lakhs**
Tax thereon	**₹ 74.13 Lakhs**
TDS deducted during the year	**₹ 30.45 Lakhs**
Tax paid for the year	**₹ 43.68 Lakhs**

The Company has prepared its Balance Sheet as per above figures. However, during the assessment proceeding held before the finalization of the Balance Sheet, the Income Tax Officer has issued demand of ₹ 7.52 Lakhs, insisting that this amount of TDS has not been uploaded online and thus is not acceptable as deduction.

The Company has in reply to the same filed a rectification with the Assessing Officer. The Company is trying to collect the TDS Certificates, but ₹ 2.39 Lakhs deducted by XY Ltd, is not traceable. The rectification is lying pending with the Assessing Officer. Please suggest the treatment of ₹ 2.39 Lakhs and ₹ 7.52 Lakhs in Balance Sheet.

Solution:

1. Under the Income Tax Act, the credit for TDS cannot be denied on the ground that it is not reflected online in Form 26AS. In such cases, the TDS Credit can be given on the strength of other evidences available with the Assessee.

2. In the present case, Quick Ltd has the following accounts balances –
   (a) TDS Credit (Asset) a/c = ₹ 30.45 Lakhs Dr.
   (b) Advance Tax Paid = ₹ 43.68 Lakhs Dr.
   (c) Provision for Tax A/c = ₹ 74.13 Lakhs Cr. (being equal to total of the above)

3. Out of ₹ 30.45 Lakhs TDS, ₹ 7.52 Lakhs is not uploaded online, and it is assumed that out of that ₹ 7.52 Lakhs, TDS Certificates are not available for ₹ 2.39 Lakhs (from XY Ltd.)

4. The accounting effect of the above under different situation are as under–

Situation/Assumption	Treatment
(a) If ₹ 2.39 Lakhs TDS (from XY Ltd) cannot be proved as valid claim before AO/Higher Appellate Authorities	Write back ₹ 2.39 Lakhs out of TDS Credit (Asset) A/c to the relevant Debtor A/c, since on this amount the credit cannot be claimed.
(b) If ₹ 2.39 Lakhs TDS Certificated traced / other valid evidence for TDS provided to AO/Higher Appellate Authorities.	No further, adjustment is required.

5. Provision for Tax Liability A/c will not have any impact based on Allowability / Disallowability of TDS Credit.

Question 1 (c): AS – 10 – Accounting for Exchange of Assets **5 Marks**

Comptech Ltd, having office at Chennai, acquired a sophisticated three dimensional (3D) Computer Printer having all inclusive MRP (Maximum Retail Price) of ₹ 50 Lakhs from a Supplier located at New Delhi. The terms of the purchase were as under:

(i) The Supplier would buy back the existing unit with Comptech that has carrying amount of ₹ 10.20 Lakhs. Prevailing CST Rate is 2%.

(ii) The Supplier would give a special discount of 10% on MRP to Comptech considering their long standing relationship.

(iii) A Cash Payment of ₹ 38.25 Lakhs would be made by Comptech Ltd, to the Supplier.

(iv) Accessories required to operate the Machine costing ₹ 7.60 Lakhs (inclusive of all taxes) will be purchased by Comptech.

(v) The Supplier will deliver free of cost certain heavy duty cables, etc. having MRP of ₹ 5.75 Lakhs, that are required to run the Machine.

(vi) Transit Insurance Cost will be borne by Comptech at 2% of MRP.

(vii) Freight and other incidentals amounting to ₹ 2.30 Lakhs is borne by Comptech.

You are required to arrive at the cost of the new asset and show the Profit/(Loss) incurred by Comptech on the buy–back arrangement and also draft the Journal Entries to record the above transaction.

Solution: **Concept discussed in Page 10.9, Q. No. 31 in Padhuka's Students' Referencer on A/cg Stds**

1. **Non–Monetary Consideration:** When a Fixed Asset is acquired – (a) in exchange, or (b) in part exchange for another asset, it is said to have been acquired for Non–Monetary Consideration.

2. **Cost:** The cost of the asset acquired is determined as under –

Particulars		₹
	Fair Market Value or Net Book Value of Asset given up	XXX
Add / (Less):	Balance Cash or other consideration paid (or received)	XXX
	Cost of Asset acquired	**XXX**

FMV may be determined by reference either to asset given up or asset acquired, whichever is more clearly evident.

3. **Recognition of Asset Acquired:**
   (a) FMV of Asset given up = Info Not available (Book Value is given in the question)
   (b) FMV of Asset Acquired [MRP of Printer 50 + Cables 5.75] = ₹ 55.75 Lakhs

   Note: It is assumed that discount at 10% is given "for long lasting relationship" thus influencing the Fair Price. Hence the discount is not adjusted when determining Fair Value of the Asset. However, if the discount is due to the Business policy of the Supplier, it may be deducted to arrive at the Fair Value of the Asset.

4. **Total Capitalised Value of Asset Acquired** = Acquisition Cost + Accessories + Insurance + Freight
   = 55.75 + 7.60 + 1.00 + 2.30 = ₹ **66.65 Lakhs**

5. **Total Payments Made for New Asset:**

Particulars	₹
Amount paid to Supplier (given)	38,25,000
Accessories	7,60,000
Transit Insurance (2% on MRP of ₹ 50 Lakhs)	1,00,000
Freight and Incidental Cost	2,30,000
Total	**49,15,000**

6. **Journal Entries**

Particulars		₹	₹
Supplier a/c	Dr.	10,40,400	
To Machinery a/c			10,20,000
To CST Payable			20,400
(Being exchange of Old asset, along with CST thereon at 2% on ₹ 10,20,000)			
New Asset a/c (WN 4)	Dr.	66,65,000	
To Bank a/c (WN 5)			49,15,000
To Supplier a/c (as per Journal Entry 1 above)			10,40,400
To P & L a/c (Profit on Exchange) (balancing figure)			**7,09,600**
(Being new asset acquired at fair value and the loss on exchange recognized)			

Note: Alternatively, Profit on Exchange may be computed as FMV ₹ 55,75,000 – Paid to Supplier ₹ 38,25,000 – Old Asset Sale 10,40,400 = ₹ **7,09,600.**

Question 1 (d): AS – 20 – Computation of Basic and Adjusted EPS **5 Marks**

Compute Basic and Adjusted EPS from the following information. All workings may be rounded off to two decimals.

Net Profit for 2012–2013	**₹ 22 Lakhs**
Net Profit for 2013–2014	**₹ 33 Lakhs**
No. of Shares before Rights Issue	**110,000**
Rights Issue Ratio	**One of Every Four Held**
Rights Issue Price	**₹ 180**
Date of Exercising Rights option	**31–7–2013 (fully subscribed on this date)**
Fair Value of Share before Rights Issue	**₹ 270**

Solution:

Similar to Page 20.12, Q. No. 30 (values changed) in Padhuka's Students' Referencer on Accounting Stds

	Computation	Result
1	**Determination of Theoretical Ex–Rights Fair Value / Price:** $\frac{(\text{Base Shares Quantity} \times \text{Fair Value per Share Before Rights}) + (\text{Rights Issue} \times \text{Rights Issue Price})}{\text{Base Shares Quantity} + \text{Rights Shares Quantity}}$ $= \left[\frac{(1{,}10{,}000 \times ₹\ 270) + (27{,}500 \times ₹\ 180)}{1{,}10{,}000 + 27{,}500}\right]$	₹ 252
2	Adjustment Factor (AF) = $\frac{\text{Fair Value before Rights Issue}}{\text{Theoretical Ex-Rights Price (as per Stage 1)}} = \frac{₹\ 270}{₹\ 252}$	1.0714

	Computation	Result
3	Weighted Average Number of Shares (WANES) Outstanding during the period **(Note)**	1,30,951.33 Shares
4	Basic EPS for Current Year = $\frac{\text{Equity Earnings}}{\text{WANES as per Stage 3}} = \frac{₹\ 33,00,000}{1,30,951.33\ \text{Shares}}$	**₹ 25.20**
5	Basic EPS for Previous Year as originally reported = $\frac{\text{Previous Year's Equity Earnings}}{\text{Previous Year's WANES}} = \frac{₹\ 22,00,000}{1,10,000}$	**₹ 20.00**
6	Adjusted Basic EPS for Previous Year = $\frac{\text{PY Equity Earnings}}{(\text{PY Wanes x AF})} = \frac{22,00,000}{(1,10,000 \times 1.0714)}$	**₹ 18.67**

Note: Computation of Weighted Average Number of Equity Shares Outstanding for the current year

Period	**Period** (in mths)	**Time Weighting Factor**	**Adjustment Factor**	**No. of Equity Shares**	**Weighted Average Number of Shares**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = (3) × (4) × (5)**
1st Apr to 31st Jul	4	4 / 12	1.0714	Opg. Bal. = 1,10,000	39,284.67
1st Jul to 31st Mar	8	8 / 12	NA	1,37,500 (1,10,000+27,500)	91,666.67
Weighted Average Number of Shares outstanding during the period					**1,30,951.34**

Question 2: Valuation of Goodwill **16 Marks**

A Company Q is willing to sell its business. The Purchaser has sought professional advice for the valuation of the goodwill of the Company. He has the last audited Financial Statements together with some additional information. Help him to ascertain the correct price for the purpose of purchase:

The extract of the Balance Sheet as on 31–03–2014 is as under:

Liabilities	₹	Assets	₹
Equity Share Capital (Shares of ₹ 100 each)	9,50,000	Goodwill	2,75,000
8% Preference Share Capital (Shares of ₹ 100 each)	2,25,000	Land & Building	5,45,000
Reserves & Surplus	10,25,500	Plant & Machinery	4,55,000
9% Debentures	5,60,000	Investments in Shares	4,85,000
Current Liabilities	3,25,640	Inventories	3,80,000
		Trade Receivables (net)	4,25,620
		Cash & Bank Balances	5,20,520
Total	30,86,140	Total	30,86,140

(1) The Purchaser wants to acquire all the Equity Shares of the Company.

(2) The Debentures will be redeemed at a discount of 25% of the value in Balance Sheet, and Investments in Shares will be sold at their present market value which is quoted as ₹ 4,95,200. The above will be prior to the purchase of the Equity Shares.

For the purpose of Pricing of Goodwill:

(3) The Normal Rate of Return on Net Assets for Equity Shares is 10%.

(4) Profits for the past three years after Debenture Interest but before Preference Share Dividend have been as under:

31–3–2014	**₹ 2,95,000**
31–3–2013	**₹ 4,99,000**
31–3–2012	**₹ 3,25,000**

(5) Goodwill is valued at three years purchase of the Adjusted Average Super Profit.

(6) In the year 2013, 20% of the Profit mentioned above was due to non–recurring transaction resulting in increase of profit.

(7) The Land & Building has a current Rental Value of ₹ 62,400, and a 8% Return is expected from the property.

(8) On 31–3–2014, 8% of the Debtors existing on the date had been written as bad and charged to Profit and Loss Account as Provision for Bad Debts. The same are now recoverable. Tax is applicable at 35%.

(9) A claim of compensation long contingent of ₹ 25,000 has perspired and is to be accounted for.

(10) No Debenture Interest shall be payable in future due to its redemption.

Solution:

Similar to Page 4.27, Q. No. 11 (with more adjustments) in Padhuka's Students' Guide on Financial Reporting

1. Computation of Future Maintainable Equity Earnings

	Particulars	2012	2013	2014
	Profit After Tax	3,25,000	4,99,000	2,95,000
Less:	Non–Recurring Expenditure (20% × 4,99,000)	–	(99,800)	–
	Claims unaccounted, now accounted	–	–	(25,000)
Add:	Provision for Bad Debts not required (4,25,620 × $\frac{8}{92}$)	–	–	37,010
Less:	Tax Provision at 35% on the above (37,010 – 25,000) × 35%	–	–	(4,204)
	Adjusted Profits after Tax	**3,25,000**	**3,99,200**	**3,02,806**

Computation continued…..

	Average Profits = $\frac{3{,}25{,}000 + 3{,}99{,}200 + 3{,}02{,}806}{3}$	**3,42,335**
Add:	Interest on Debentures (No Longer Payable) (₹ 5,60,000 × 9% × 65%) (after tax)	32,760
Less:	Income from Investments (No longer receivable) (₹ 4,85,000 × 10% × 65%) (after tax)	(31,525)
	Future Maintainable Profits before Preference Dividend	3,43,570
Less:	Preference Dividend (2,25,000 × 8%)	(18,000)
	Future Maintainable Equity Earnings	**3,25,570**

Note:

- Sundry Debtors as per B/s reflects the net balance after deducting 8% provision. Since Net Debtors of ₹ 4,25,620 reflect 92% of the Total Debtors Amount, Provision = ₹ 4,25,620 × $\frac{8}{92}$ = ₹ **37,010.**
- Simple Average is taken due to fluctuating / oscillating trend of profits.

2. Computation of Capital Employed

	Particulars	₹	₹
	Land and Building (Capitalisation of Rental Value of ₹ 62,400 at 8%)		7,80,000
	Plant & Machinery		4,55,000
	Stock		3,80,000
	Sundry Debtors = $\frac{₹\ 4{,}25{,}620}{(100\% \text{ - Provision at } 8\%)}$ or (4,25,620 + 37,010)		4,62,630
	Bank [Given 5,20,520 + Invts Sale 4,95,200– Debenture Redemption 4,20,000]		5,95,720
	Total Assets		**26,73,350**
Less:	**Outside Liabilities** (excluding Equity Shareholders' Funds)		
	Sundry Creditors [₹ 3,25,640 + Unaccounted Claim of ₹ 25,000]	3,50,640	
	Preference Shareholders [Share Capital + Dividend Due]	2,43,000	
	Additional Tax Liability due to unaccounted claim & provision w/back	4,204	**5,97,844**
	Net Worth of Equity Share Holders on B/s date		**20,75,506**

Note:

- "Land and Buildings" as given in the question is assumed as Operating Asset, i.e. used for Business. The potential Rental Income details and the Capitalization Rate given are assumed to be the information for arriving at the Fair Value of the Land and Buildings. (If the Land and Buildings is used for the purpose of the let out, then the same would have been disclosed in the Balance Sheet as "Investment in Properties", which is not the caption at present). Alternative assumption is also possible.
- Since Normal Return is 10% on the Net Assets available to Equity Shares (given), Future Maintainable Equity Earnings should be compared with the Expected Equity Earnings. Hence, Net Worth of Equity Shareholders (i.e. after deducting Preference Shareholders' dues) is considered.
- Goodwill in the Balance Sheet should not be considered for computing Net Worth for Goodwill computation.
- Redemption Value of Debentures = Face Value ₹ 5,60,000 – 25% Discount = ₹ 4,20,000.

3. Computation of Super Profits and Goodwill

	Particulars	₹
	Future Maintainable Equity Earnings	3,25,570
Less:	Normal Earnings = Normal Return × Capital Employed = 10% × ₹ 20,75,506	(2,07,551)
	Super Profit, i.e. Excess Earnings available for Equity Shareholders	**1,18,019**
	Goodwill at 3 years purchase of Super Profits = ₹ 1,18,019 × 3 years	**3,54,057**

Note: Alternatively, Average Capital Employed can be considered as Proxy for Future Capital Employed, in order to determine Normal Earnings.

4. Valuation of Shares

Particulars		₹
(a) Net Worth attributable to Equity Holders	**(WN 2)**	20,75,506
(b) **Add:** Goodwill	**(WN 3)**	3,54,057
(c) Total Net Assets of Equity Shareholders		**24,29,563**
(d) Number of Equity Shares		9,500 Shares
(e) Value per Equity Share = (c ÷ d)		**₹255.74**

Question 3: Consolidation of Financial Statements **16 Marks**

The Balance Sheets of the Greatness Group of Companies as at 31st March 2014 is given below:

Capital & Liabilities	Greatest Ltd (₹)	Big Ltd (₹)	Small Ltd (₹)
Share Capital: Ordinary Shares of ₹ 10	5,00,000	2,00,000	1,00,000
General Reserve	1,00,000	50,000	30,000
Profit & Loss Account	2,00,000	1,00,000	50,000
Creditors	3,00,000	2,00,000	1,00,000
Total	11,00,000	5,50,000	2,80,000
Assets			
Fixed Assets	7,75,000	4,10,000	2,35,000
Investments:			
16,000 Shares in BIG Ltd	2,00,000	–	–
6,000 Shares in SMALL Ltd	–	90,000	–
Others (Non–Current)	25,000	–	15,000
Current Assets	1,00,000	50,000	30,000
Total	11,00,000	5,50,000	2,80,000

Notes:

(1) The investment in BIG Ltd, was made on 1st April, 2007 and that in SMALL Ltd, was made on 1st April, 2009.

(2) The Balances in Reserves and P & L Account on relevant dates are as under: (Amount in ₹)

BIG Ltd	1st April 2007	1st April 2009
Reserves	20,000	22,000
P & L Account	60,000	68,000
SMALL Ltd	1st April 2007	1st April 2009
Reserves	8,000	10,000
P & L Account	17,000	20,000

(3) Current Assets of SMALL Ltd, include Inventories of ₹ 10,800 acquired at a mark–up of 20% from Greatest Ltd.

You are required to prepare the Consolidated Balance Sheet of the Group as at 31st March, 2014.

Solution: **Similar to Page 3.109, Q. 42 (with more adjts) in Padhuka's Students' Guide on Financial Reporting**

1. Basic Information

Company Status		Dates	Holding Status	
Holding Company	= Greatest	Acquisition (DOA):	Held in Big ltd	
Subsidiary	= Big	Greatest in Big Ltd: 1st Apr 2007	Group: 80%	Minority:20%
		Big in Small Ltd: 1st Apr 2009	Held in Small Ltd	
Sub Subsidiary	= Small	Consolidation (DOC): 31st March 2014	Group: 60%	Minority:40%

2. Analysis of Reserves & Surplus of Subsidiary Companies, i.e. Reserves and P&L A/c

Big Ltd: Balance as per B/s ₹ **50,000**

As on date of acquisition ₹ 20000 **Capital Profit**		From DOA to DOC (bal. fig.) ₹ 30,000 **Revenue Reserve**	
GI–Pre	MI	GI–Post	MI
=80%	=20%	=80%	= 20%
= 16,000	= 4,000	= 24,000	= 6,000

Big Ltd: Balance as per B/s ₹ **1,00,000**

As on date of acquisition ₹ 60,000 **Capital Profit**		From DOA to DOC (bal. fig.) ₹ 40,000 **Revenue Reserve**	
GI–Pre	MI	GI–Post	MI
= 80%	= 20%	= 80%	= 20%
=48,000	=12,000	=32,000	=8,000

Small Ltd: Balance as per B/s ₹ **30,000 (Reserves)**

As on date of acquisition ₹ 10,000 **Capital Profit**		From DOA to DOC (bal. fig.) ₹ 20,000 **Revenue Reserve**	
GI–Pre	MI	GI–Post	MI
=60%	=40%	=60%	= 40%
= 6,000	= 4,000	= 12,000	= 8,000
Greatest (80%): 4,800		Greatest (80%): 9,600	
MI: 1,200		MI: 2,400	

Small Ltd: Balance as per B/s ₹ **50,000 (P&L A/c)**

As on date of acquisition ₹ 20,000 **Capital Profit**		From DOA to DOC (bal. fig.) ₹ 30,000 **Revenue Reserve**	
GI–Pre	MI	GI–Post	MI
= 60%	= 40%	= 60%	= 40%
=12,000	=8,000	=18,000	=12,000
Greatest (80%): 9,600		Greatest (80%): 14,400	
MI: 2,400		MI: 3,600	

3. Consolidation of Balances

Particulars	Total	Minority Interest	Pre–Acqn.	Post Acqn. Rev. Res.
Big Ltd (Holding – 80%, Minority – 20%)				
Equity Capital	2,00,000	40,000	1,60,000	–
Reserves	50,000	10,000	16,000	24,000
P&L A/c	1,00,000	20,000	48,000	32,000
Minority Interest		**70,000**		
Small Ltd (Holding – 60%, Minority – 40%)				
Equity Capital	1,00,000	40,000	60,000	–
Revenue Reserve	30,000	15,600	4,800	9,600
P&L A/c	50,000	26,000	9,600	14,400
Minority Interest		**81,600**		
Total [Cr]			**2,98,400**	**80,000**
Cost of Investment [Dr.] In Big₹ Ltd			(2,00,000)	
In SmallLtd			(90,000)	
Parent's Balances (Reserves 1,00,000 + P&L 2,00,000)				3,00,000
Stock Reserve Downstream = ₹ 10,800 × 20/120				(1,800)
For Consolidated Balance Sheet		**1,51,600**	**Cap. Res. = 8,400**	**3,78,200**

4. Consolidated Balance Sheet of Greatest Ltd and its Subsidiaries Big Ltd & Small Ltd as at 31st March 2014

	Particulars as at 31st March	Note	This Year	PY
I	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	5,00,000	
	(b) Reserves & Surplus	**2**	3,86,600	
(2)	**Minority Interest**		1,51,600	
(3)	**Current Liabilities**			
	Other Current Liabilities (3,00,000 +2,00,000 + 1,00,000)		6,00,000	
	Total		**16,38,200**	

	Particulars as at 31st March		Note	This Year	PY
II	**ASSETS**				
(1)	**Non–Current Assets:**	Fixed Assets (7,75,000 + 4,10,000 + 2,35,000)		14,20,000	
		Others (25,000 + 15,000)		40,000	
(2)	**Current Assets:**	computed as per Note below		1,78,200	
	Total			**16,38,200**	

Notes to the Balance Sheet: **Note 1: Share Capital**

Particulars		This Year	Prev. Year
Authorised:	……… Equity Shares of ₹ …… each		
Issued, Subscribed & Paid up:	…… Equity Shares of ₹ ……each	**5,00,000**	

Note 2: Reserves and Surplus

Particulars		This Year	Prev. Year
(a) Capital Reserve	(5,800 + 200) (on Consolidation)	8,400	
(b) Revenue Reserve		378,200	
Total		**386,600**	

Computation Note for Current Assets:

Particulars		₹
	Balance of Greatest Ltd	1,00,000
Add:	Balance of Big Ltd	50,000
	Balance of Small Ltd	30,000
	Sub–Total	**1,80,000**
Less:	Stock Reserve	(1,800)
	Total	**1,78,200**

Question 4 (a): Accounting for Stock Appreciation Rights (SAR) **8 Marks**

Quittle Ltd, announced a Stock Appreciation Rights (SAR) Scheme to its employees on 1st April, 2011. The salient features of the Scheme is given below:

(1) The Scheme will be applicable to employees who have completed three years of continuous service with the Company.

(2) Each eligible employee can claim cash payment amounting to the excess of Market Price of the Company's Shares on Exercise Date over Exercise Price in respect of 60 (sixty) Shares.

(3) The Exercise Price is fixed at ₹ 75 per Share.

(4) The option to exercise the SAR is open from 1st April 2014 for 45 days and the same vested on 975 Employees.

(5) The Intrinsic Value of the Company's Share on date of closing (15th May 2014) was ₹ 30 per Share.

(6) The Fair Value of the SAR was ₹ 20 in 2011–2012, ₹ 25 in 2012–2013 and ₹ 27 in 2013–2014.

(7) In 2011–2012, the expected rate of employee attrition was 5% which rate was doubled in the next year.

(8) Actual attrition year wise was as under:

2011–2012	**35 employees, of which 5 had served the Company for less than 3 years.**
2012–2013	**30 employees, of which 20 Employees served for more than 3 years.**
2013–2014	**20 employees, of which 5 Employees served for less than 3 years.**

You are required to show the Provision for Stock Appreciation Rights Account by Fair Value Method.

Solution:

Note: It is given that the Intrinsic Value of the Company's Share on 15.05.2014 was ₹ 30. In such case, the Exercise Price being fixed at ₹ 75, none of the SAR will be exercised. Hence it is assumed that the Intrinsic value of ₹ 30 refers to that of Stock Appreciation Rights.

Similar to Page 5.20, Q. No. 13 (values changed) in Padhuka's Students' Guide on Financial Reporting

1. Computation of Expense to be recognized under Stock Appreciation Rights (SAR)

Note: Existing Number of Employees as on 1.4.2011 = 975+35+30+20 = 1060 Employees

(a) Year 2011–12

(i) No. of Employees expected on 31.03.2012 (1060 – 35) × 0.95 × 0.95	925
(ii) No of Employees SAR expected to vest 925 Employees × 60 Shares =	55,500
(iii) Total Fair Value of Options Expected to Vest = 55,500 Shares × Fair Value of SAR ₹ 20 per Share	₹ 11,10,000
(iv) Vesting Period	3 Years
(v) **Value of SAR recognized as Expense in the Year 2011–2012** = ₹ 11,10,000 ÷ 3 Years	**₹ 3,70,000**

(b) Year 2012–13

(i) Number of SAR expected to vest = (1060 – 35 – 30) × 0.90 × 60 Shares	53,730
(ii) Total Fair Value of SAR expected to be exercised = 53,730 × Fair Value of SAR ₹ 25 per Share	₹ 13,43,250
(iii) Vesting Period	3 Years
(iv) No. of years expired	2 Years
(v) Cumulative Value of SAR to be recognized as Exp. in 2011–12 and 2012–13 (₹ 13,43,250 × 2 ÷ 3)	8,95,500
Less: Value of SAR already recognized in FY 2011–12	(3,70,000)
Value of SAR recognized as Expense in 2012–13	**₹ 5,25,500**

(c) Year 2013–14

(i) No. of SAR actually vested = 975 Employees × 60 Shares	58,500
(ii) Total Fair Value of SAR to be recognized as Expense = 58,500 Shares × Fair Value of SAR ₹ 27 per Share	15,79,500
Less: Value of SAR already recognized earlier in FY 2011–12 and 2012–13	8,95,500
Value of SAR recognized as Expense in 2013–2014	**₹ 6,84,000**

(d) Year 2014–15

	Cash Payment (975 Employees × 60 Shares × 30 per share)	17,55,000
Less:	Value of SAR recognized as Expense in books	15,79,500
	Value of SAR recognized as Expense in 2014–2015	**1,75,500**

2. Provision for Stock Appreciation Right A/c

Year	Particulars	₹	Particulars	₹
2011–12	To balance c/d	3,70,000	By Employees' Compensation A/c	3,70,000
	Total	**3,70,000**	**Total**	**3,70,000**
2012–13	To balance c/d	8,95,500	By balance b/d	3,70,000
			By Employees' Compensation A/c	5,25,500
	Total	**8,95,500**	**Total**	**8,95,500**
2013–14	To balance c/d	15,79,500	By balance b/d	8,95,500
			By Employees' Compensation A/c	6,84,000
	Total	**15,79,500**	**Total**	**15,79,500**
2014–15	To Bank (58,500 X 30)	17,55,000	By balance b/d	**15,79,500**
			By Employees' Compensation A/c	1,75,500
	Total	**17,55,000**	**Total**	**17,55,000**

Question 4 (b): NBFC – Provisioning for NPA – HP Assets **4 Marks**

Peoples Financiers Ltd, is an NBFC providing Hire Purchase Solutions for acquiring Consumer Durables. The following information is extracted from its books for year ended 31st March 2014:

Asset Funded	Interest Overdue but recognized in Profit & Loss		Net Book Value of Assets outstanding
	Period Overdue	Interest Amount (₹ Crore)	(₹Crore)
LCD Televisions	Upto 12 months	480.00	20,123.00
Washing Machines	for 24 months	102.00	2,410.00
Refrigerators	for 30 months	50.50	1,280.00
Air Conditioners	for 45 months	26.75	647.00

You are required to calculate the amount of provision to be made.

Concept discussed in Page 6.20, Point No. 6.2.10 in Padhuka's Students' Guide on Financial Reporting

Solution:

1. NPA is an asset in relation to which, interest has remained overdue for a period of 6 months or more. In the present case, all the "Assets Funded" have overdue interest for more than 6 months. Hence all the Assets are "NPAs".

2. **Classification of Assets and Basic Provision:**

Asset Funded	Period Overdue	Conclusion	Provision (%)
LCD Television	Upto 12 months	NPA for upto 18 months – Sub–Standard Asset	10%
Washing Machines	For 24 months	NPA for upto 18 months – Sub–Standard Asset	10%
Refrigerator	For 30 months	NPA for more than 18 months – Doubtful Asset (upto 1 year)	20% of Secured Portion and 100% of Unsecured Portion
Air Conditioners	For 45 months	NPA for more than 18 months – Doubtful Asset (1 to 3 years)	30% of Secured Portion and 100% of Unsecured Portion

Note: Provision has to be created as under for Lease / HP Assets–

(a) Total Dues (overdue and future instalments taken together) = xxx
(b) Less: Unmatured Finance Charges = (xxx)
(c) Less: Depreciated value of underlying asset (20% SLM Notional basis) = (xxx)
(d) Amount for which provision has to be created = xxx

3. **Additional Provision**

Period Overdue	Interest overdue to be reversed	Given Net Book Value	Net Book Value after reversal	Provision (% on Net Book Value)
Upto 12 months	–	20,123.00	20,123.00	Nil
For 24 months	102.00	2,410.00	2,308.00	10% = 230.80
For 30 months	50.50	1,280.00	1,229.50	40% = 491.80
For 45 months	26.75	647.00	620.25	70% = 434.18
Total Provision				**1156.78**

Note: For HP Transactions, interest overdue for a period of more than 12 months have to be reversed. Hence Interest overdue on LCD Television (i.e. upto 12 months) is not reversed

Question 4 (c): Market Value Added **4 Marks**

The Capital Structure of W Ltd, whose Shares are quoted on the NSE is as under–

Equity Shares of ₹ 100 each fully paid	**₹ 505 Lakhs**
9% Convertible Preference Shares of ₹ 10 each	**₹ 150 Lakhs**
12% Secured Debentures of ₹ 10 each	**5,00,000**
Reserves	**₹ 101 Lakhs**
Statutory Fund	**₹ 50,50,000**

The Statutory Fund is compulsorily required to be invested in Government Securities. The Ordinary Shares are quoted at a premium of 500%, Preference Shares at ₹ 30 per Share and Debentures at par value. You are required to ascertain the Market Value Added of the Company, and also give your assessment on the Market Value Added as calculated by you.

Solution:

Concept discussed in Page 7.29, Point 7C.3 in Padhuka's Students' Guide on Financial Reporting

1. **Market Capitalisation of Equity** [Market Value is quoted at a premium of 500%]
Market Price per Share= Face Value + 500% Premium on Face Value = ₹ 100 + 500% of ₹ 100 = ₹ 600 per Share
Total Market Capitalisation of Equity = $\frac{₹600 \times ₹\ 505\text{Lakhs}}{₹100}$ = **₹ 3,030 Lakhs.**

2. **Market Capitalisation of Preference Capital=** ₹ 30 per Share **×** $\frac{₹150\text{ Lakhs}}{₹10}$ = **₹ 450 Lakhs**

3. **Equity Capital Employed** = Equity Capital + Reserves + Statutory Fund = 505 + 101 + 50.50 = **₹ 656.5 Lakhs**
Note: Statutory Fund is included as a part of Capital Employed, since the same would have been included in "Market Capitalisation of Equity".

4. **Computation of Market Value Added (₹ Lakhs)**

	Particulars	Equity	Preference	Debt	Total
	Market Capitalisation	(WN 1) 3030.00	(WN 2) 450.00	(Par) 5.00	3485.00
Less:	Capital Employed **(Note)**	(WN 3) 656.50	150.00	5.00	811.50
	Market Value Added	**2373.50**	**300.00**	**0.00**	**2673.50**

Question 5: Corporate Restructuring – Purchasing Co. holding Shares in Selling Co. — 16 Marks

The summarized Balance Sheets of A Ltd and B Ltd as at 31–3–2014 were as follows: (₹ in Lakhs)

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
Share Capital (Share of ₹ 10 each)	50	10	Fixed Assets	60	18
General Reserve	50	20	Investment in B Ltd. (60,000 Shares)	6	–
Profit & Loss Account	20	15	Debtors	35	5
Secured Loan	20	3	Inventories	30	25
Current Liabilities	30	2	Cash at Bank	39	2
Total	170	50	Total	170	50

A Ltd holds 60% of the Paid Up Capital of B Ltd and balance is held by a Foreign Company. The Foreign Company agreed with A Ltd as under:

(i) The Shares held by the Foreign Company will be sold to A Ltd at ₹ 50 above than Nominal Value of per share.

(ii) The Actual Cost per Share to the Foreign Company was ₹ 11, Gain accruing to Foreign Company is taxed at 20%. The tax payable will be deducted from the sale proceeds and paid to Government by A Ltd, 50% of the consideration (after payment of tax) will be remitted to Foreign Company by A Ltd, and also any cash for fractional Shares allotted.

(iii) For the Balance consideration A Ltd would issue its shares at their intrinsic value.

It was also decided that A Ltd would also absorb B Ltd simultaneously by writing down the Fixed Assets of B Ltd by 10%. The Balance Sheet figure included a sum of ₹ 1 lakh due by B Ltd to A Ltd and Stock of 'A' Ltd included Stock of ₹ 1,50,000 purchased from B Ltd who sold them at cost plus 20%.

The entire arrangement was approved and put through by all concerned effective from 1–4–2014.

You are required to prepare the Balance sheet of A Ltd, after absorption of B Ltd. Workings should form part of your answer.

Solution:

Same Question as in Page 2.62, Q.23 in Padhuka's Students' Guide on Financial Reporting
[Repeated already as RTP, M 91(Mod), N 01 (Mod), N 06, N 09] [No change in Numbers / Values]

Question 6 (a): — 8 Marks

The following information is supplied to you about Lookdown Ltd

Capital & Reserves	
Equity Shares of ₹ 100 each of which ₹ 75 has been called up	5,00,000 Shares
Equity Shares in respect of which calls are in arrear at ₹ 25 per Share	₹ 1,00,000
General Reserve	₹10,00,000
Profit & Loss Account (balance at beginning of the year)	₹ (25,00,000)
Profit / (Loss) for the year	₹ (1,80,000)
Industry Average Profitability	12.50%
8% Debentures of ₹ 10 each	₹ 8,00,000
Lookdown Ltd, is proposing to hire the services of Mr. X to turn the Company around.	
Minimum Take Home Salary per month demanded by Mr. X	₹ 4,00,000
Average Income Tax Rate on Salaries above ₹ 3 Lakhs per annum	25%
Provident Fund contribution by Employer per month	₹ 50,000
Profits over and above target expected by hiring Mr. X	10%

You are required to analyze the proposal and see whether it is worthwhile to employ Mr. X, and also suggest the maximum emoluments that could be paid to him.

Note:

(i) PF contributions are tax exempt.

(ii) Take Home Salary is that remaining after Employee's Contribution to PF at ₹ 50,000 per month and after deduction of Income–Tax on Salary.

Solution: **1. Computation of Capital Base**

	Particulars	Computation	₹
	Share Capital (Called Up)	5,00,000 Shares × ₹ 75	3,75,00,000
Add:	General Reserve		10,00,000
Less:	Calls in Arrears (See Note)	1,00,000 Shares × ₹ 25	(25,00,000)
Less:	P&L (Dr. Balance)	Opening 25,00,000 + 1,80,000	(26,80,000)
	Total Capital Base [From Shareholders' perspective]		**3,33,20,000**
Add:	8% Debentures		8,00,000
	Total Capital Base [From Company's perspective]		**3,41,20,000**

Note: As per the question "Calls in Arrears of ₹ 25 per share is for an amount of ₹ 1,00,000". Considering the spirit of the question and consistency of solution, it is **assumed** that "Calls in Arrears of ₹ 25 per share is on 1,00,000 Shares".

2.Computation of Maximum Salary Payable to X

	Particulars	From Shareholder's Perspective	From Company's Perspective
	Industry Average Profit [Capital Base x 12.5%]	41,65,000	42,65,000
Add:	Expected Increment [Above x 10%]	4,16,500	4,26,500
	Total Expected Profit due to X's appointment	45,81,500	46,91,500
Add:	Leverage Profit on Debentures [(12.5% × 110%) – 8%] × ₹ 8,00,000.	46,000	
	Net Increase in Profits	**46,27,500**	**46,91,500**
	Maximum Remuneration that can be paid	48,07,500 (CY Loss 1,80,000 + 46,27,500)	48,07,500 (CY Loss after Interest 1,80,000 – Interest reversed 64,000 + 46,91,500)

3.Computation of Salary Cost to Company

(a) Net Take Home Pay p.m (post tax)	₹ 4,00,000
(b) Since Tax = 25%, Pre–Tax Net Pay = $\frac{4,00,000}{75\%}$ =	₹ 5,33,333
(c) Add back: Deductions towards PF Contribution Employer 50,000 + Employee 50,000 =	₹ 1,00,000
(d) Gross Salary = Cost to Company per month =	₹ 6,33,333
(e) Hence, Cost to Company p.a = ₹ 6,33,333 × 12 =	**₹ 76,00,000**

4. Conclusion: Since Cost to Company as per X's expectations (WN 3) is much higher than benefit to Company & Maximum Remuneration Payable (WN 2), it is **not** advisable to employ Mr. X.

Question 6 (b): EVA **8 Marks**

Gold & Co has provided the following data for the Financial Year ending 2014:

Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital	**1,000**	**Fixed Assets**	**3,000**
Reserves & Surplus	**2,000**	**Investments**	**150**
Long Term Debt	**200**	**Current Assets**	**100**
Trade Payable	**50**		
Total	**3250**	**Total**	**3250**

Additional information provided is as follows:

Profit before Interest and Tax is	**₹ 1,000 Lakhs**	**Risk Free Rate**	**10%**
Interest is	**₹20 Lakhs**	**Market Rate**	**15%**
Tax Rate	**35.875%**	**Beta (ß) factor**	**1.4**

Calculate the Economic Value Added by Gold Ltd.

Solution:

Similar to Page 7.31, Q.33 in Padhuka's Students' Guide on Financial Reporting [repeated in M 10]

1. Computation of Cost of Equity and Interest

$E(R_A) = R_F + [ß_A (R_M - R_F)] = 10\% + 1.40 (15\% - 10\%) = 17\%$ = Cost of Equity

Cost of Debt = $\frac{20}{200}$ = 10% Pre Tax. so, Post Tax Cost of Debt = 10 × (1 – 35.875%) = 6.4125%

2. Computation of Weighed Average Cost of Capital

Source	Amount ₹ Lakhs	Cost	Product
Equity (1,000 + 2,000)	3,000	17%	510
Long Term Debt	200	6.4125%	12.825
Capital Employed	3,200	WACC	522.825

So, **Weighted Average Cost of Capital =** $\frac{522.825}{3,200}$ = **16.33%**

3. Economic Value Added

EVA = Operating Profit After Taxes **Less** Cost of Capital × Capital Employed

= ₹ 1,000 Crores × (1 – 35.875%) **Less** 16.33% × ₹ 3,200 Crores = **₹ 118.69 Crores**

Question 7 (a): Operating Cycle as per Companies Act **4 Marks**

KAY Ltd is in the process of finalizing its accounts for year ended 31st March 2014, and furnishes the following information:

(i) Finished Goods normally are held for 30 days before sale.

(ii) Sales realization from Debtors usually takes 60 days from date of Credit Invoice.

(iii) Raw Materials are held in stock to cover one month's production requirements.

(iv) Packing Materials, being specifically made for the Company and having lead time of 90 days is held in stock for 90 days.

(v) The holding period in respect of Unfinished Goods is 30 days.

(vi) Being a monopoly, KAY Ltd enjoys a credit period of 12.5 months from its Suppliers who sometimes at the end of their credit period opt for conversion of their dues into long term debt of KAY Ltd.

You are required to compute the Operating Cycle of KAY Ltd as per revised Schedule IV of Companies Act, 1956. As the Suppliers of the Company are paid off after a credit period of 12.5 months should this be part of Current Liability? Would your answer be the same if the creditors are settled in 330 days?

Solution:

Concept discussed in Page 1.7, Point 1.2.2 in Padhuka's Students' Guide on Financial Reporting

1. **Meaning:** Operating Cycle is the time between the acquisition of assets for processing and their realization in Cash and Cash Equivalents. Thus, Operating Cycle refers to cash to cash conversion cycle.

2. **Computation:**

Details	Days
(a) Raw Materials Holding Period	30
(b) Packing Materials Lead Time & Holding Time	90
(c) WIP Holding Time	30
(d) Finished Goods Holding Time	30
(e) Credit Period given for Debtors	60
Operating Cycle	240

3. **Treatment of Packing Materials:**
   (a) Packing Materials are used in relation to Finished Goods (at the time of sale). Lead Time + Holding Time = 180 days in relation to Packing Materials.
   (b) As the time taken for manufacturing Finished Goods (from the date of procurement of raw material) is 90 days, the lead time & packing materials of 180 days is already assumed to have included the 90 days referred above. Hence, the effective time limit considered for Operating Cycle in relation to Packing Materials is 90 days (180–90)

4. **Treatment of Sundry Creditors:**
   (a) As per ICAI Guidance Note on Revised Schedule VI, Credit Period given by the Suppliers (12.5 months or 330 days) shall be ignored while calculating Operating Cycle, since the relevant Working Capital in any case would have been used for conversion purposes.
   (b) Also, if the Credit Period offered by Creditors is 12.5 months, then it will be classified as "Non Current Liabilities", since neither it is payable within 12 months nor within 1 Operating Cycle of 240 days
   (c) If the credit period of Sundry Creditors is 330 days, then it will be classified as "Current Liability" since it is not payable within 1 Operating Cycle of 240 days, but payable within 12 months.

Question 7 (b): Mutual Fund **4 Marks**

A Mutual Fund has launched a new scheme "All Purpose Scheme". The Mutual Fund's Asset Management Company wishes to invest 25% of the NAV of the Scheme in an Unrated Debt Instrument of a Company Y Ltd, which has been paying above average returns for the past many years. The Promoters of the Company seek your professional advice in light of the Regulations of SEBI. Will the position change in case the Debt Instruments of the Company Y Ltd is a rated?

Solution:

Concept discussed in Page 6.2, Point 6.1.3 (Para 7) in Padhuka's Student's Guide on Financial Reporting

SEBI Regulation: Investments made by Mutual Funds should confirm to the following limits–

Instrument / Investment in	Quantum of Investment
(a) Debt instruments of a single issuer and Mortgaged backed Securitised Debt (Rated above Investment Grade by a Credit Rating agency)	• 15% of NAV of the Scheme • 20% with approval of Board of Trustees and AMC • **Note:** The above limit is not applicable for investment in Govt. Securities and Money Market Instruments
(b) Unrated Debt Instruments (Approval of Board of Trustees and AMC required)	• Individually (for each issuer) – 10% of NAV of scheme • Aggregate Investment – 25% of the NAV of scheme

Conclusion:

(a) If the investment in Unlisted – The Mutual fund can invest upto a Maximum of 10% of NAV in Debentures of Y Ltd.

(b) If the investment is Listed – The Mutual fund can invest upto a Maximum of 15% of NAV in Debentures of Y Ltd (20% with approval of Board of Trustees and AMC).

Question 7 (c): AS – 22 **4 Marks**

What are Timing Differences and Permanent Differences as per Accounting Standard – 22? Explain with example.

Solution:

Same Question as in Page 22.2, Q.4 in Padhuka's Students' Referencer on Accounting Standards
[Repeated already as RTP, N 05, N 08]

Question 7 (d): AS – 19 **4 Marks**

X Ltd has leased an equipment over its useful life that costs ₹ 7,46,55,100 for a three year lease period. After the lease term, the asset would revert to the Lessor. You are informed that –

(i) The estimated Unguaranteed Residual Value would be ₹ 1 Lakh only.

(ii) The Annual Lease Payments have been structured in such a way that the sum of their Present Values together with that of the Residual Value of the asset will equal the cost thereof.

(iii) Implicit Interest Rate is 10%.

You are required to ascertain the Annual Lease Payment and the Unearned Finance Income. PV Factor @ 10% for year 1 to 3 are 0.909, 0.826 and 0.751 respectively.

Solution:

Similar to Page 19.15, Q.33 in Padhuka's Students' Referencer on Accounting Standards

1. Computation of Annual Lease Payment: Let Annual Lease Payment / Rentals (ALR) be "P".

- PV of MLP + PV of URV = Cost of Asset = ₹ 7,46,55,100
- So, (₹ P × Annuity Factor for 3 years at 10%) + (₹ 1,00,000 × PV Factor for 3rd year at 10%) = ₹ 7,46,55,100.
- So, (2.487 × ₹ P)+ (₹ 1,00,000 × 0.7513)= ₹ 7,46,55,100.
- Therefore, P = ₹ **2,99,87,925.**

2. Computation of Unearned Finance Income

(a) MLP (₹ 2,99,87,925 × 3 years) + URV (₹ 1,00,000) = ₹ 8,99,63,775 + ₹ 100,000 =	₹ 9,00,63,775
(b) PV of MLP & URV = Cost / Fair Value of the Asset at the time of inception of Lease	₹ 7,46,55,100
(c) Unearned Finance Income (a) – (b)	**₹ 1,54,08,675**

Question 7 (e): 4 Marks

AQ Ltd, an Investment Company, is finalizing its account for the Financial Year ending 2013 in the month of August 2013. How will the following incomes to accounted for in the books of AQ Ltd?

(1) X Ltd has declared Interim Dividend which has not been received till 31–03–2013 but received on 25–04–2013.

(2) Y Ltd has declared dividend on 8th May 2013 for the year ending 31–03–2013, which has been approved by the Shareholders of the Company on 30th June 2013.

(3) Z Ltd, a Subsidiary of AQ Ltd, has declared dividend for the year ended 31–03–2013 on 25th May 2013 the AGM for which is to be held on September 2013.

Solution:

Similar Question as in Page 9.5, Q.17 in Padhuka's Students' Referencer on Accounting Standards

Revenue Recognition Principle:

(a) As per AS–9, Dividend from Investments in Shares are not recognised in the Statement of Profit and Loss until a right to receive payment is established. The right to receive dividend should be construed as right to receive by the Balance Sheet date and not till the date when accounts are finalised. In such case, event occurring after Balance Sheet is not considered requiring adjustment to Financial Statements.

(b) Further, in case of Interim Dividend, the right to receive Interim Dividend is not established until the dividend is actually received as the Board has a power to rescind their decision.

Based on above, the recognition will be as under –

Case 1: Since, Interim Dividend is to be recognised when Dividend is received, AQ Ltd should recognise such Dividend in accounting year 2013–14 and not in financial year ending 31–3–2013.

Case 2: In this case also, AQ Ltd should recognise the Dividend in the financial year 2013–14 and not in the year ending 31–3–2013, since the right to receive dividend did not exist at the Balance Sheet date, i.e. as at 31–3–2013 but existed only when Annual General Meeting of Y Ltd approved the dividend on 30th June 2013.

Case 3: AQ Ltd will recognise the Dividend in the Financial Year 2013–14, for the same reason mentioned in Case 2.

Note: As per Old Sch VI, Dividend from Subsidiaries will be recognised as an Income in relation to the period for which the Dividend is declared (irrespective of the actual time of declaration). However this requirement has been dispensed with in Revised Sch VI. Hence, as per ICAI Guidance Note on Rev Sch VI, the Company will be recognizing the Final dividend only based on the right to receive the same.

STUDENTS' NOTES