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PAPER – 1 : FINANCIAL REPORTING

Question No.1 is compulsory.

*Candidates are also required to answer any **five** questions from the remaining **six** questions.*

Whenever necessary suitable assumptions may be made and disclosed by way of note.

Working notes should form part of the answer.

Question 1

(a) *Prakash Limited leased a machine to Badal Limited on the following terms:*

		(₹ in lakhs)
(i)	*Fair value of the machine*	*48.00*
(ii)	*Lease term*	*5 years*
(iii)	*Lease rental per annum*	*8.00*
(iv)	*Guaranteed residual value*	*1.60*
(v)	*Expected residual value*	*3.00*
(vi)	*Internal rate of return*	*15%*

Discounted rates for 1st year *to* 5th year are 0.8696, 0.7561, 0.6575, 0.5718, and 0.4972 respectively.

Ascertain Unearned Finance Income.

(b) *Goodwill Limited is a full tax free enterprise tor the 1st 12 years of its existence and is in third year of operations. Depreciation timing difference resulting in a deferred tax liability in 1st, 2nd and 3rd year is ₹ 200 lakhs, ₹ 300 lakhs and ₹ 400 lakhs respectively. From the 4th year onwards, it is expected that the timing difference would reverse each year by ₹ 10 lakhs. Assuming tax rate @ 35%. Find out the deferred tax liability at the end of 3rd year and any charge to the Profit and Loss Account.*

(c) *In a manufacturing process of Vijoy Limited, one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process is here under:*

Item	*Unit*	*Amount (₹)*	*Output (unit)*	*Closing stock as on 31-03-2012*
Raw material	*15,000*	*1,60,000*	*MP1-6,250*	*800*
Wages	*-*	*82,000*	*MP2- 5,000*	*200*
Fixed overhead	*-*	*58,000*	*BP-1,600*	*-*
Variable overhead	*-*	*40,000*		*-*

Average market price of MP1 and MP2 is ₹ 80 per unit and ₹ 50 per unit respectively, by-product is sold @ ₹ 25 per unit. There is a profit of ₹ 5,000 on sale of by-product after incurring separate processing charges of ₹ 4,000 and packing charges of ₹ 6,000, ₹ 6,000 was realised from sale of scrap.

Calculate the value of closing stock of MP1 and MP2 as on 31-03-2012.

(d) Antarbarti Limited reported a Profit Before Tax (PBT) of ₹ 4 lakhs for the third quarter ending 30-09-2011. On enquiry you observe the following, give the treatment required under AS 25:

(i) Dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.

(ii) 80% of sales promotion expenses ₹ 15 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in the last quarter is high.

(iii) In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹ 12 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 3 lakhs.

(iv) ₹ 2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.

(v) Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of ₹ 3 lakhs. Out of this loss ₹ 1 lakh relates to previous quarters.

(vi) Sale of investment in the first quarter resulted in a gain of ₹ 20 lakhs. The company had apportioned this equally to the four quarters.

Prepare the adjusted profit before tax for the third quarter. (4 x 5 = 20 Marks)

Answer

(a) As per AS 19 on Leases, ***unearned finance income*** is the difference between (a) the ***gross investment*** in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Where:

(a) ***Gross investment*** in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

Gross investment = Minimum lease payments + Unguaranteed residual value

= [Total lease rent + Guaranteed residual value (GRV)] + Unguaranteed residual value (URV)

= [(₹ 8,00,000 × 5 years) + ₹ 1,60,000] + ₹ 1,40,000 = ₹ 43,00,000 (a)

(b) Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	*MLP inclusive of URV* ₹	*Internal rate of return (Discount factor @ 15%)*	*Present Value* ₹
1	8,00,000	0.8696	6,95,680
2	8,00,000	0.7561	6,04,880
3	8,00,000	0.6575	5,26,000
4	8,00,000	0.5718	4,57,440
5	8,00,000	0.4972	3,97,760
	1,60,000 (GRV)	0.4972	79,552
	41,60,000		27,61,312 (i)
	1,40,000 (URV)	0.4972	69,608 (ii)
	43,00,000	(i)+ (ii)	28,30,920(b)

Unearned Finance Income (a) - (b) = ₹ 43,00,000 – ₹ 28,30,920= ₹ 14,69,080.

(b) As per an explanation to para 13 of AS 22, "Accounting for Taxes on Income", in the case of tax free enterprises, no deferred tax liability is recognized, in respect of timing differences that originate and reverse in the tax holiday period. Deferred tax liability or asset is created in respect of timing differences that originate in a tax holiday period but are expected to reverse after the tax holiday period. For this purpose, adjustments are done in accordance with the FIFO method.

Accordingly, depreciation timing difference of ₹ 90 lakhs (₹ 10 lakhs x 9 years) will reverse in the tax holiday period i.e. from 4th year to 12th year. Therefore, no deferred liability on ₹ 90 lakhs out of ₹ 200 lakhs, will be created. In the 1st year, deferred tax liability of ₹ 38.5 lakhs will be created @ 35% on ₹ 110 lakhs (₹ 200 lakhs – ₹ 90 lakhs) only.

However, the entire depreciation timing difference of 2nd and 3rd year i.e ₹ 300 lakhs and ₹ 400 lakhs will reverse only after the tax holiday period. So, deferred tax liability will be created in the 2nd year for ₹ 105 lakhs (₹ 300 x 35%) and in the 3rd year for ₹ 140 lakhs (₹ 400 x 35%).

Therefore, total deferred tax liability in the Balance Sheet at the end of 3rd year will be ₹ (38.5+105+140) lakhs = ₹ 283.5 lakhs and charge to Profit and Loss account in the 3rd year will be ₹ 140 lakhs (₹ 400 x 35%).

(c) As per para 10 of AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials, by their nature, are immaterial. They are often measured at net realizable value and this value is deducted from the cost of the main product.

1. Calculation of net realizable value of by-product, BP

		₹
Selling price of by-product BP	(1,600 units x ₹ 25 per unit)	40,000
Less: Separate processing charges of by- product BP		(4,000)
Packing charges		(6,000)
Net realizable value of by-product BP		30,000

2. Calculation of cost of conversion for allocation between joint products MP1 and MP2

	₹	₹
Raw material		1,60,000
Wages		82,000
Fixed overhead		58,000
Variable overhead		40,000
		3,40,000
Less: NRV of by-product BP (See calculation 1)	(30,000)	
Sale value of scrap	(6,000)	(36,000)
Joint cost to be allocated between MP1 and MP2		3,04,000

3. Determination of "basis for allocation" and allocation of joint cost to MP1 and MP2

	MP1	MP2
Output in units (a)	6,250 units	5,000 units
Sales price per unit (b)	₹ 80	₹ 50
Sales value (a x b)	₹ 5,00,000	₹2,50,000
Ratio of allocation	2	1
Joint cost of ₹ 3,04,000 allocated in the ratio of 2:1 (c)	₹ 2,02,667	₹ 1,01,333
Cost per unit [c/a]	₹ 32.43	₹ 20.27

4. Determination of value of closing stock of MP1 and MP2

	MP1	MP2
Closing stock in units	800 units	200 units
Cost per unit	₹ 32.43	₹ 20.27
Value of closing stock	₹ 25,944	₹ 4,054

(d) As per para 36 of AS 25 "Interim Financial Reporting", seasonal or occasional revenue and cost within a financial year should not be deferred as of interim date untill it is appropriate to defer at the end of the enterprise's financial year. Therefore dividend income, extra-ordinary gain, and gain on sale of investment received during 3rd quarter should be recognised in the 3rd quarter only. Similarly, sales promotion expenses incurred in the 3rd quarter should also be charged in the 3rd quarter only.

Further, as per the standard, if there is change in the accounting policy within the current financial year, then such a change should be applied retrospectively by restating the financial statements of prior interim periods of the current financial year. The change in the method of depreciation or inventory valuation is a change in the accounting policy. Therefore, the prior interim periods' financial statements should be restated by applying the change in the method of valuation retrospectively.

Accordingly, the adjusted profit before tax for the 3rd quarter will be as follows:

Statement showing Adjusted Profit Before Tax for the third quarter

	(₹ in lakhs)
Profit before tax (as reported)	4
Add: Dividend income ₹ (4-1) lakhs	3
Excess depreciation charged in the 3rd quarter, due to change in the method, should be applied retrospectively ₹ (12-3) lakhs	9
Extra ordinary gain ₹ (2-1) lakhs	1
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively ₹ (3-2) lakhs	1
	18
Less: Sales promotion expenses (80% of ₹ 15 lakhs)	(12)
Gain on sale of investment (occasional gain should not be deferred)	(5)
Adjusted Profit before tax for the third quarter	1

Question 2

War Limited purchased 48,000 shares in Peace Limited on 31st March 2010, at 50% premium over face value by issue of 8% Debentures at 20% premium. The Balance Sheets of War Limited and Peace Limited as on 31-03-2010, i.e., on the date of purchase were as under:

Liabilities	*War Ltd.*	*Peace Ltd.*	*Assets*	*War Ltd.*	*Peace Ltd.*
Share capital of ₹ 10 each	*10,50,000*	*6,00,000*	*Fixed Assets*	*6,50,000*	*2,00,000*
General Reserve	*1,20,000*	*40,000*	*Stock in Trade*	*3,00,000*	*1,80,000*
Profit and Loss A/c	*80,000*	*-*	*Sundry Debtors*	*3,20,000*	*2,00,000*
Sundry Creditors	*1,00,000*	*60,000*	*Cash in hand*	*60,000*	*30,000*
			Preliminary Expenses	*20,000*	*10,000*
			Profit and Loss A/c	*-*	*80,000*
	13,50,000	*7,00,000*		*13,50,000*	*7,00,000*

(a) Particulars of War Limited:

(i) Profits made: 2010-11 ₹ 1,60,000

2011-12 ₹ 2,00,000

(ii) The above profit was made after charging depreciation of ₹ 60,000 and ₹ 40,000 respectively.

(iii) Out of profit shown above, every year ₹ 20,000 had been transferred to General Reserve.

(iv) 10% Dividend had been paid in both the years.

(v) It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss to subsidiary.

(b) Particulars of Peace Limited:

The company incurred losses of ₹ 40,000 and ₹ 60,000 in 2010-2011 and 2011- 2012 after charging depreciation of 10% p.a. on the book value of Fixed Assets as on 01-04-2010.

Prepare Consolidated Balance Sheet of War Limited and its subsidiary as at 31st March, 2012 as per requirement of Revised Schedule VI. *(16 Marks)*

Answer

Consolidated Balance Sheet of War Ltd. and its subsidiary Peace Ltd.

as at 31st March, 2012

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	10,50,000
(b) Reserves and Surplus	2	3,22,000
(2) Minority Interest [W.N.6(b)]		90,000

(3) Non-current Liabilities			
Long-term borrowings		3	6,00,000
	Total		20,62,000
II. Assets			
(1) Non-current assets			
(a) Fixed assets		4	7,10,000
(b) Intangible assets		5	2,32,000
(2) Net current assets		6	11,20,000
	Total		20,62,000

Notes to Accounts

		₹	
1.	Share Capital		
	Issued and Subscribed:		
	1,05,000 shares of ₹ 10 each fully paid up		10,50,000
2.	Reserves & surplus		
	Securities premium	1,20,000	
	General Reserve	1,60,000	
	Profit and Loss Account [W.N.6(d)]	42,000	3,22,000
3.	Long Term Borrowings		
	6,000, 8% Debentures of ₹ 100 each		6,00,000
4.	Tangible Assets		
	War Ltd. [W.N.3]	5,50,000	
	Peace Ltd. [W.N.3]	1,60,000	7,10,000
5.	Intangible assets		
	Goodwill [W.N.6(c)]		2,32,000
6.	Net current assets		
	War Ltd. [W.N.5]	8,30,000	
	Peace Ltd. [W.N.5]	2,90,000	11,20,000

Working Notes:

Percentage of shareholding of War Ltd. in Peace Ltd.:

48,000 shares out of 60,000 shares i.e $\frac{48,000}{60,000} \times 100 = 80\%$

1. Investment in Peace Ltd.

	₹
Face value of shares (48,000 shares x ₹ 10)	4,80,000
Premium (50%) over face value	2,40,000
Cost of investment	7,20,000

Acquired by issue of debentures at 20% premium:

	₹
8% Debentures	6,00,000
(Nominal value = 7,20,000/120 × 100)	
Add: Securities premium @ 20%	1,20,000
	7,20,000
Writing down of investment to face value in 10 years	
2010-11 : 1/10 × 2,40,000	(24,000)
2011-12: 1/10 × 2,40,000	(24,000)
Investment as on 31.3.2012	6,72,000

2. Balance of Profit and Loss Account for the year ended on 31st March, 2012

	War Ltd.	*Peace Ltd.*
	₹	₹
Balance as on 31.3.2010	80,000	(80,000)
Profit/(Loss)		
For 2010-11	1,60,000	(40,000)
For 2011-12	2,00,000	(60,000)
Less: Transfer to General Reserve		
2010-11	(20,000)	
2011-12	(20,000)	
Dividend @ 10%		
2010-11	(1,05,000)	
2011-12	(1,05,000)	

Investment written off		
2010-11	(24,000)	
2011-12	(24,000)	
Provision for share of loss in subsidiary		
2010-11: (40,000 × 80%)	(32,000)	
2011-12: (60,000× 80%)	(48,000)	
	62,000	(1,80,000)
Preliminary expense*	(20,000)	(10,000)
	42,000	(1,90,000)

In the absence of information, taxation has not been considered.

3. Fixed Assets as on 31st March, 2012

	War Ltd.	*Peace Ltd.*
	₹	₹
Fixed assets on 31.3.2010	6,50,000	2,00,000
Less: Depreciation for		
2010-2011	(60,000)	(20,000)
2011-2012	(40,000)	(20,000)
	5,50,000	1,60,000

4. General reserve of War Ltd.

	₹
Balance as on 31.03.2010	1,20,000
Add: Transfer from Profit and loss account	
in 2010-2011	20,000
in 2011-2012	20,000
	1,60,000

* As per para 56 of AS 26 “Intangible Assets”, preliminary expenses do not appear in the balance sheet.

5. Separate Balance Sheets as at 31st March, 2012 to calculate net current assets

Particulars	Note No.	*War Ltd.*	*Peace Ltd.*
		(₹)	(₹)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	10,50,000	6,00,000
(b) Reserves and Surplus	2	3,22,000	(1,50,000)
(2) Non-Current Liabilities			
Long-term borrowings	3	6,00,000	
Long tern provision	4	80,000	
Total		20,52,000	4,50,000
II. Assets			
(1) Non-current assets			
(a) Fixed assets			
(i) Tangible assets*(W.N.3)		5,50,000	1,60,000
(b) Non-current investment		6,72,000	
(2) Net current assets (bal. fig.) (see note)		8,30,000	2,90,000
Total		20,52,000	4,50,000

Notes to Accounts

		War Ltd.		*Peace Ltd.*
		₹		₹
1.	Share Capital			
	Issued and Subscribed:			
	1,05,000 shares of ₹ 10 each fully paid up		10,50,000	
	60,000 shares of ₹ 10 each fully paid up			6,00,000
2.	Reserves & surplus			
	Securities premium	1,20,000		-
	General Reserve (W.N. 4)	1,60,000		40,000
	Profit and Loss Account	42,000	3,22,000	(1,90,000)
	Total		3,22,000	(1,50,000)

* Fixed assets given in the question an assumed to be tangible fixed assets.

3.	**Long Term Borrowings**			
	8% Debentures		6,00,000	
4.	**Long term Provision**			
	Provision for loss in subsidiary		80,000	

Note: In the absence of information about the movement in individual current assets and current liabilities, balance sheets as on 31.3.2012 have been prepared on the basis of net current assets, which is the difference of total current assets and total current liabilities. However, revised Schedule VI requires separate disclosure of current liabilities and current assets in the balance sheet.

(6) Computations for Consolidation

(a) Analysis of General reserve and Profits (Losses) of Peace Ltd.

	Pre-acquisition Capital Profit or loss ₹	*Post acquisition Profit or loss* ₹
General Reserve on 31.3.2010	40,000	–
Profit and Loss Account on 31.3.2010	(80,000)	
Profit/(Loss) for the years 2010 - 2011		(40,000)
2011 - 2012		(60,000)
Preliminary expenses	(10,000)	
	(50,000)	(1,00,000)
Minority Interest (20%)	(10,000)	(20,000)
Share of War Ltd. (80%)	(40,000)	(80,000)

(b) Minority Interest

	₹
Share Capital	1,20,000
Add: Pre-acquisition capital loss	(10,000)
Post-acquisition loss	(20,000)
	90,000

(c) Cost of Control

		₹
Investment in Peace Ltd.		6,72,000
Less: Paid up value of investment	4,80,000	
Capital profit/(losses)	(40,000)	(4,40,000)
Goodwill		2,32,000

(d) Consolidated Profit and Loss Account

	₹
Balance of Profit and Loss Account of War Ltd.	42,000
Less: Share of loss in Peace Ltd.	(80,000)
	(38,000)
Add back: Provision for loss in subsidiary (mutual transaction) (32,000 + 48,000)	80,000
	42,000

(e) Long term provision for loss in subsidiary as

	₹
Provision for loss in subsidiary as shown in War Ltd.	80,000
Less: Intra company transaction	(80,000)
	Nil

Question 3

The Abridged Balance Sheet (Draft) of V Ltd. as on 31st March, 2012 is as under:

Liabilities	₹	*Assets*	₹
24,000, Equity shares of ₹ 10 each	*2,40,000*	*Goodwill*	*5,000*
5000, 8% cumulative preference shares of ₹ 10 each	*50,000*	*Fixed Assets*	*2,57,000*
8% Debentures	*1,00,000*	*Stock*	*50,000*
Interest accrued on debentures	*8,000*	*Debtors*	*60,000*
Creditors	*1,00,000*	*Bank*	*1,000*
		Preliminary Expenses	*15,000*
		Profit & Loss Accounts	*1,10,000*
	4,98,000		*4,98,000*

The following scheme is passed and sanctioned by the court:

(i) A new company P Ltd. is formed with ₹ 3,00,000, divided into 30,000 Equity shares of ₹ 10 each.

(ii) The new company will acquire the assets and liabilities of V Ltd. on the following terms:

(a) Old company's debentures are paid by similar debentures in new company and for outstanding accrued interest, shares of equal amount are issued at par.

(b) The creditors are paid for every ₹ 100, ₹ 16 in cash and 10 shares issued at par.

(c) Preference shareholders are to get equal number of equity shares at par. For arrears of dividend amounting to ₹ 12,000, 5 shares are issued at par for each ₹ 100 in full satisfaction.

(d) Equity shareholders are issued one share at par for every three shares held.

(e) Expenses of ₹ 8,000 are to be borne by the new company.

(iii) Current Assets are to be taken at book value (except stock, which is to be reduced by ₹ 3,000). Goodwill is to be eliminated, balance of purchase consideration being attributed to fixed assets.

(iv) Remaining shares of the new company are issued to public at par and are fully paid.

You are required to show:

(a) In the old company's books:

(i) Realisation and Reconstruction (combined) Account

(ii) Equity Shareholder's Account

(b) In the new company's books:

(i) Bank Account

(ii) Summarised Balance Sheet as per the requirements of Revised Schedule VI.

(16 Marks)

Answer

(a) (i) In the books of V Ltd. i.e Old company's

Realisation and Reconstruction Account

	₹		₹
To Goodwill	5,000	By 8% Debentures	1,00,000
To Fixed assets	2,57,000	By Interest accrued on debentures	8,000
To Stock	50,000	By Creditors	1,00,000
To Debtors	60,000	By P Ltd. (Purchase consideration)	1,36,000
To Bank	1,000	By Equity shareholders a/c (Bal. fig.)	35,000
To Preference share holders A/c (W.N.3)	6,000		
	3,79,000		3,79,000

(ii) Equity shareholders' Account

	₹		₹
To Preliminary expenses	15,000	By Equity Share capital	2,40,000
To Profit & loss A/c	1,10,000		
To Equity shares in P Ltd.	80,000		
To Realisation and Reconstruction A/c	35,000		
	2,40,000		2,40,000

(b) (i) In the books of P Ltd. (New company)

Bank Account

	₹		₹
To Business Purchase	1,000	By Goodwill A/c* (for expenses on absorption)	8,000
To Equity shares application & allotment A/c (W.N. 4)	56,000	By Creditors $\left(\frac{1,00,000}{100}\times 16\right)$	16,000
		By Balance b/d (Bal. fig.)	33,000
	57,000		57,000

(ii) Balance Sheet as on 31st March, 2012

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	3,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	1,00,000
Total		4,00,000

* However, as per para 56 of AS 26, if no asset is acquired from the expenditure incurred, then the same is recognized as an expense when it is incurred.

II.	Assets		
	(1) Non-current assets		
	Fixed assets		
	(a) Tangible assets** (W.N.2)		2,52,000
	(b) Intangible assets	3	8,000
	(2) Current assets		
	(a) Inventories		47,000
	(b) Trade receivables		60,000
	(c) Cash and cash equivalents		33,000
	Total		4,00,000

Notes to Accounts

		₹	
1.	Share Capital		
	Authorised share capital		
	30,000 equity shares of ₹ 10 each	3,00,000	
	Issued and Subscribed		
	30,000 shares of ₹ 10 each fully paid up		3,00,000
	(out of the above, 24,400 (W.N.4) shares have been issued for consideration other than cash)		
2.	Long Term Borrowings		
	Secured		
	8% Debentures		1,00,000
3.	Intangible assets		
	Goodwill		8,000

** It is assumed that fixed assets given in the balance sheet of V Ltd. comprises of tangible fixed assets only.

Working Notes:

1. Calculation of Purchase consideration

	₹
Payment to preference shareholders	
5,000 equity shares @ ₹ 10	50,000
For arrears of dividend: (₹ 12,000 x 5 shares / ₹100) @ ₹ 10	6,000
Payment to equity shareholders	
(24,000 shares x 1/3) @ ₹ 10	80,000
Total purchase consideration	1,36,000

2. Calculation of fair value at which fixed assets have been acquired by P Ltd.

Since, the question states that "balance of purchase consideration is being attributed to fixed assets", it is implied that the amount of purchase consideration is equal to the fair value at which the net assets have been acquired.

Therefore, the difference of fair value of net assets (excluding fixed assets) and the purchase consideration is the fair value at which the fixed assets have been acquired.

		₹
Purchase consideration / Net assets		1,36,000
Add: Liabilities:		
8% Debentures		1,08,000
Creditors $\left(\frac{1,00,000}{100}\times16\right)\times\left(\frac{1,00,000}{100}\times10\times10\right)$		1,16,000
		3,60,000
Less: Stock ₹ (50,000- 3,000)	47,000	
Debtors	60,000	
Bank	1,000	(1,08,000)
Fair value at which fixed assets has been acquired		2,52,000

3. Preference shareholders' Account

	₹		₹
To Equity Shares in P	56,000	By Preference Share	50,000

Ltd.			capital	
		By	Realisation and Reconstruction A/c (Bal. fig.)	6,000
	56,000			56,000

4. Calculation of number of Equity shares issued to public

	Number of shares	
Authorised equity shares		30,000
Less: Equity shares issued for		
Interest accrued on debentures	800	
Creditors of V Ltd. $\left(\frac{1,00,000}{100}\times 10 \text{ shares}\right)$	10,000	
Preference shareholders of V Ltd.	5,000	
Arrears of preference dividend $\left(\frac{12,000}{100}\times 5\right)$	600	
Equity shareholders of V Ltd. $\left(\frac{24,000}{3}\right)$	8,000	(24,400)
Number of equity shares issued to public at par for cash		5,600

Question 4

(a) *Samvedan Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31-03-2010. Few machines were sold on hire purchase basis. The hire purchase price was set as ₹ 100 lakhs as against the cash price of ₹ 80 lakhs. The amount was payable as ₹ 20 lakhs down payment and balance in 5 equal instalments. The hire vendor collected first instalment as on 31-03-2011, but could not collect the second instalment which was due on 31-03-2012. The company was finalising accounts for the year ending 31-03-2012. Till 15-05-2012, the date on which the Board of Directors signed the accounts, the second instalment was not collected. Presume IRR to be 10.42%.*

Required :

(i) *What should be the principal outstanding on 1-4-2011? Should the company recognize finance charge for the year 2011-12 as income?*

(ii) *What should be the net book value of assets as on 31-03-12 so far Samvedan Ltd. is concerned as per NBFC prudential norms requirement for provisioning?*

(iii) *What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI?* *(10 Marks)*

(b) *Find out Leverage effect on Goodwill in the following case:*

(i)	*Current cost of capital employed*	*₹ 10,40,000*
(ii)	*Profit earned after current cost adjustments*	*₹ 1,72,000*
(iii)	*10% long term loan*	*₹ 4,50,000*
(iv)	*Normal rate of return:*	
	on equity capital employed	*15.6%*

(6 Marks)

Answer

(a) (i) Since, the hire-purchaser paid the first instalment due on 31.3.2011, the notional principal outstanding on 1-4-2011 was ₹ 50.25 lakhs (refer W.N.).

In the year ended 31.03.2012, the instalment due of ₹ 16 lakhs has not been received. However, it was due on 31.3.2012 i.e on the balnce sheet date, and therefore, it will be classified as standard asset. Samvedan Ltd. will recognise ₹ 5.24 lakhs as interest income included in that due instalment as this should be treated as finance charge.

(ii) The net book value of the assets as on 31.3.2012

	₹ in lakhs
Overdue instalment	16.00
Instalments not due (₹ 16 lakhs x 3)	48.00
	64.00
Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52)	(8.51)
	55.49
Less: Provision as per para 9(2)(i) of NBFC prudential norms (Refer point (iii))	7.49
Net book value of assets for Samvedan Ltd.	48.00

(iii) Amount of Provision

	₹ in lakhs
Overdue instalment	16.00
Instalments not due (₹ 16 lakhs x 3)	48.00
	64.00

Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52)	(8.51)
	55.49
Less: Depreciated value (cash price less depreciation for two years on SLM @ 20%*)	(48.00)
Provision to be created as per para 9(2)(i) of NBFC prudential norms	7.49

Since, the instalment of ₹ 16 lakhs not paid, was due on 31.3.12 only, the asset is classified as standard asset. Therefore, no additional provision has been made for it.

Working Notes:

It is necessary to segregate the instalments into principal outstanding and interest components by using I.R.R. @ 10.42%. ***(₹ in lakhs)***

Time	*Opening outstanding amount (a)*	*Cash flow (b)*	*Interest @ 10.42% (c) = (a x 10.42%)*	*Principal repayment (d) = (b – c)*	*Closing outstanding (e) = (a – d)*
31-3-2010		(60)	-----	---	60.00
31-3-2011	60.00	16	6.25	9.75	50.25
31-3-2012	50.25	16	5.24	10.76	39.49
31-3-2013	39.49	16	4.11	11.89	27.60
31-3-2014	27.60	16	2.88	13.12	14.48
31-3-2015	14.48	16	1.52	14.48	0.00

(b)

			₹
a	Profit for equity fund after current cost adjustment		1,72,000
b	Profit (as per Long-term fund approach)		
	Profit for equity fund	1,72,000	
	Add: Interest on Long-term loan (4,50,000 x 10%)	45,000	2,17,000
c	Current cost of capital employed (by Equity approach)		10,40,000
d	Capital employed as per Long-term fund approach		
	Current cost of capital employed (by Equity approach)	10,40,000	

* As per NBFC prudential norms laid down by the RBI.

	Add: 10% Long term loan	4,50,000	14,90,000
e	Value of Goodwill		
	(A) By Equity Approach		
	Capitalised value of Profit as per equity approach= $\frac{1,72,000}{15.60}\times 100$		11,02,564
	Less: Capital employed as per equity approach		(10,40,000)
	Value of Goodwill		62,564
	(B) By Long-Term Fund Approach		
	Capitalized value of Profit as per Long-term fund approach = $\frac{2,17,000}{13.5}\times 100$		16,07,407
	Less: Capital employed as per Long-term fund approach		(14,90,000)
	Value of Goodwill		1,17,407

Leverage effect on Goodwill:

Adverse Leverage effect on goodwill is ₹ 54,843 (i.e. ₹ 1,17,407 – ₹ 62,564).

Question 5

(a) The Balance Sheet of Mulyan Ltd. as on 31st December, 2010 is as follows:

Liabilities	*₹*	*₹*	*Assets*	*₹*
Share Capital:			*Goodwill:*	*50,000*
Equity shares of ₹ 10 each	*5,00,000*		*Fixed Assets:*	
less, calls in arrear (₹ 2 for final call)	*10,000*	*4,90,000*	*Machinery*	*2,30,000*
			Factory shed	*3,00,000*
8% Preference shares of ₹ 10 each fully paid		*2,00,000*	*Vehicles*	*60,000*
			Furniture	*25,000*
Reserve and Surplus:			*Investments*	*1,00,000*
General Reserve		*2,00,000*	*Current Assets:*	
Profit & Loss A/c		*1,40,000*	*Stock in trade*	*2,10,000*
Current Liabilities:			*Sundry debtors*	*3,50,000*
Sundry Creditors		*2,70,000*	*Cash at bank*	*50,000*
Bank Loan		*1,00,000*	*Preliminary expenses*	*25,000*
		14,00,000		*14,00,000*

Additional Information:

(i) Fixed assets are worth 20% above their actual book value, depreciation on appreciated portion of fixed assets is to be ignored for valuation of goodwill.

(ii) Of the investments, 80%, is non-trading and the Balance is trading. All trade investments are to be valued at 20% below cost. A uniform rate of dividend of 10% is earned on all investments.

(iii) For the purpose of valuation of shares, Goodwill is to be considered on the basis of 6 year's purchase of the super profits based on simple average profit of the last 3 years. Profits after tax @50%, are as follows:

Year	*₹*
2008	*1,90,000*
2009	*2,00,000*
2010	*2,50,000*

In a similar business, return on capital employed is 20%. In 2008, a new furniture costing ₹ 10,000 was purchased but wrongly charged to revenue. No effect has yet been given for rectifying the same. Depreciation is charged on furniture @ 10% p.a. (Diminishing Balance Method).

Find out the value of each fully paid and partly paid equity shares. *(10 Marks)*

(b) Ramesh Goyal has invested in three mutual funds. From the details given below, find out effective yield on per annum basis in respect of each of the schemes to Ramesh Goyal upto 31-03-2012.

Mutual Fund	X	Y	Z
Date of Investment	1-12-2011	1-1-2012	1-3-2012
Amount of investment (₹)	1,00,000	2,00,000	1,00,000
NAV at the date of investment (₹)	10.50	10.00	10.00
Dividend received upto 31-3-2012 (₹)	1,900	3,000	Nil
NAV as on 31-3-2012 (₹)	10.40	10.10	9.80

(6 Marks)

Answer

(a) Valuation of an equity share

$$\text{Value of an equity share} = \frac{\text{Net assets available to equity shareholders (W.N. 6)}}{\text{Number of equity shares}}$$

$$= \frac{9,27,740}{50,000} = ₹\ 18.5548$$

Value of a ₹ 10 fully paid up share = ₹ 18.5548 per share

Value of ₹ 10 share, ₹ 8 per share paid up = (₹ 18.5548 – ₹ 2) per share

= ₹ 16.5548 per share

Working Notes:

1. Capital employed

	₹	₹
Fixed Assets:		
Machinery	2,30,000	
Factory shed	3,00,000	
Furniture(₹ 25,000 + ₹ 7,290)	32,290	
Vehicles	60,000	
	6,22,290	
Add: 20% increase	1,24,458	
	7,46,748	
Trade investments (₹1,00,000 × 20% ×80%)	16,000	
Stock in trade	2,10,000	
Sundry Debtors	3,50,000	
Cash at bank	50,000	13,72,748
Less: Outside liabilities:		
Bank Loan	1,00,000	
Sundry Creditors	2,70,000	(3,70,000)
Capital employed		10,02,748

2. Calculation of average adjusted profit

	2008 ₹	*2009* ₹	*2010* ₹
Profit after tax	1,90,000	2,00,000	2,50,000
Add: Tax @ 50%	1,90,000	2,00,000	2,50,000

Profit before tax	3,80,000	4,00,000	5,00,000
Add: Capital expenditure on furniture	10,000		
Less: Depreciation on furniture*	(1,000)	(900)	(810)
Income from non-trade investments	(8,000)	(8,000)	(8,000)
	3,81,000	3,91,100	4,91,190
Less: Preliminary expenses (See Note)	______	______	(25,000)
	3,81,000	3,91,100	4,66,190
Less: Tax @ 50%	(1,90,500)	(1,95,550)	(2,33,095)
Adjusted profit	1,90,500	1,95,550	2,33,095

Note: As per para 56 of AS 26, preliminary expenses are to be charged to profit and loss account as and when they are incurred. It is assumed that preliminary expenses were incurred in the year 2010. Therefore, charged to the profit of the year 2010 only.

	₹
Total adjusted profit for three years (1,90,500 + 1,95,550 + 2,33,095)	6,19,145
Adjusted Average profit (₹ 6,19,145/3)	2,06,382

3. Normal Profit: 20% on capital employed i.e. 20% on ₹ 10,02,748 = ₹ 2,00,550
4. Super profit: Average Adjusted profit – Normal profit
   = ₹ 2,06,382 – ₹ 2,00,550 = ₹ 5,832
5. Goodwill: 6 years' purchase of super profit
   = ₹ 5,832 × 6 = ₹ 34,992
6. Net assets available to equity shareholders

	₹
Capital employed (W.N.1)	10,02,748
Goodwill (W.N.5)	34,992
Add: Non-trade investments	80,000
	11,17,740
Less: Preference share capital	(2,00,000)

* Furniture is assumed to be purchased at the beginning of the year and therefore, depreciation is charged for the whole year in 2008.

	9,17,740
Add: Notional calls received for calls in arrears	10,000
Net assets for equity shareholders	9,27,740

(b) Calculation of effective yield on per annum basis in respect of three mutual fund schemes of Ramesh Goyal upto 31.03.2012

		X	Y	Z
1	Amount of Investment (₹)	1,00,000	2,00,000	1,00,000
2	Date of investment	1.12.2011	1.1.2012	1.3.2012
3	NAV at the date of investment (₹)	10.50	10.00	10.00
4	No. of units on date of investment [1/3]	9,523.809	20,000	10,000
5	NAV per unit on 31.03.2012 (₹)	10.40	10.10	9.80
6	Total NAV of mutual fund investments on 31.03.2012 [4 x 5]	99,047.61	2,02,000	98,000
7	Increase/ decrease of NAV [6-1]	(952.39)	2,000	(2,000)
8	Dividend received upto 31.3.2012	1,900	3,000	Nil
9	Total yield [7+8]	947.61	5,000	(2,000)
10	Yield % [9/1] x 100	0.95%	2.5%	(2%)
11	Number of days*	122	91	31
12	Effective yield p.a. [10/11]x 366 days	2.85%	10.05%	(23.61%)

Question 6

(a) *Kharid Ltd. has the following capital structure as on 31-03-2011:*

Particulars	*(₹ in crores)*	
Equity share capital (shares of ₹ 10 each, fully paid)		*660*
Reserve and Surplus:		
General Reserve	*480*	
Securities Premium Account	*180*	
Profit and Loss Account	*180*	
Infrastructure Development Reserve	*360*	*1200*
Loan Funds		*3,600*

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* February was of 29 days in the year 2012.

The shareholders of Kharid Ltd. have on the recommendation of their Board of Directors approved on 12-09-11, a proposal to buy-back maximum permissible number of equity shares, considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price 20% over market value.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under, a situation where the loan funds of the company were either ₹ 2,400 crores or ₹ 3,000 crores.

Assuming that the entire buy-back is completed by 09-12-2011, show-the accounting entries with full narrations in the company's books in each situation. *(8 Marks)*

(b) *From the following details, compute according to Lev and Schwartz (1971) model, the value of human resources of skilled employees group.*

(i)	*Annual average earning of an employee till the retirement age*	*₹ 1,00,000*
(ii)	*Age of Retirement*	*65 years*
(iii)	*Discount rate*	*15%*
(iv)	*No. of employees in the group*	*20*
(v)	*Average age*	*62 years*

(4 Marks)

(c) *H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset. Comment on the accuracy of the decision and the treatment of asset by H Ltd. as per revised Schedule VI.* *(4 Marks)*

Answer

(a) Statement determining the maximum number of shares to be bought back

Number of shares

Particulars	*When loan fund is*		
	₹ 3,600 crores	*₹ 2,400 crores*	*₹ 3,000 crores*
Shares Outstanding Test (W.N.1)	16.5	16.5	16.5

Resources Test (W.N.2)	12.5	12.5	12.5
Debt Equity Ratio Test (W.N.3)	Nil	7.5	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	7.5	Nil

Journal Entries for the Buy Back (applicable only when loan fund is ₹ 2,400 crores)

			₹ in crores	
			Debit	*Credit*
(a)	Equity share buy back account	Dr.	225	
	To Bank account			225
	(Being buy back of 7.5 crores equity shares of ₹ 10 each @ ₹ 30 per share)			
(b)	Equity share capital account	Dr.	75	
	Securities premium account	Dr.	150	
	To Equity share buy back account			225
	(Being cancellation of shares bought back)			
(c)	General reserve account	Dr.	75	
	To Capital redemption reserve account			75
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. Shares Outstanding Test

Particulars	*(Shares in crores)*
Number of shares outstanding	66
25% of the shares outstanding	16.5

2. Resources Test

Particulars		
Paid up capital (₹ in crores)		660
Free reserves (₹ in crores)		
General Reserve	480	
Securities Premium A/c	180	

Profit and Loss A/c	180	840
Shareholders' funds (₹ in crores)		1,500
25% of Shareholders fund (₹ in crores)		375
Buy-back price per share (₹) (₹ 25 x 120%)		₹ 30
Number of shares that can be bought back (shares in crores)		12.5 crores shares

3. Debt Equity Ratio Test

	Particulars	*When loan fund is*		
		₹ 3,600 crores	*₹ 2,400 crores*	*₹ 3,000 crores*
(a)	Loan funds (₹ in crores)	3,600	2,400	3,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹ in crores)	1,800	1,200	1,500
(c)	Present equity (₹ in crores) (W.N.2)	1,500	1,500	1,500
(d)	Future equity (₹ in crores) (See Note 2)	N.A.	1,425 (1,500-75)	N.A.
(e)	Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	Nil	225 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	Nil	7.5 (by simultaneous equation)	Nil

Note:

1. Under Situations 1 & 3 the company does not qualify for buy back of shares as per the provisions of Section 77A of the Companies Act, 1956.

2. As per Section 77A of the Companies Act 1956, the ratio of debt owed by the company should not be more than twice the capital and its free reserve <u>after</u> such buy-back. Also as per the section, on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 80 of the Companies Act, 1956, utilization of CRR is restricted to issuance of fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be deducted from present equity.

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is ‘x’ and maximum permitted buy-back of equity is ‘y’.

Then,

$$(1{,}500 - x) - 1200 = y \qquad (1)$$

$$\frac{y}{30} \times 10 = x$$

Or, $3x = y \qquad (2)$

by solving the above equation, we get

x = ₹ 75 crores

y = ₹ 225 crores

(b) Value of skilled employees:

$$= \frac{1{,}00{,}000}{(1+0.15)^{(65-62)}} + \frac{1{,}00{,}000}{(1+0.15)^{(65-63)}} + \frac{1{,}00{,}000}{(1+0.15)^{(65-64)}}$$

₹ 65,751.62 + ₹ 75,614.37 + ₹ 86,956.52 = ₹ 2,28,322.51

Total value of skilled employees is ₹ 2,28,322.51 × 20 = ₹ 45,66,450.20

(c) As per revised Schedule VI, one of the criteria for classification of an asset as a current asset is that the asset is expected to be realised in the company’s’ operating cycle or is intended for sale or consumption in the company’s normal operating cycle.

Further, revised Schedule VI defines that an operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. However, when the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

As per the facts given in the question, the process of manufacturing of lotus wine takes around 18 months; therefore, its realisation into cash and cash equivalents will be done only when it is ready for sale i.e. after 18 months. This means that normal operating cycle of the product is 18 months. Therefore, the contention of the company's management that the operating cycle of the product lotus wine is 18 months and not 12 months is correct. H. Ltd. will classify the raw material purchased & held in stock as current asset in its Balance Sheet.

Question 7

*Answer any **four** of the following:*

(a) Goodluck Limited grants 180 share options to each of its 690 employees. Each grant containing condition on the employees working for Goodluck Ltd. over the next 4 years. Goodluck Ltd. has estimated that the fair value of option is ₹ 15. Goodluck Ltd. also estimated that 30% of employees will leave during four year period and hence forfeit their rights to the share option. If the above expectations are correct, what amount of expenses to be recognised during vesting period?

(b) P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.

How would you assess the situation from the view point of AS 18 on related party disclosures?

(c) An oil company has been contaminating land for several years. It does not clean up because there is no legislation requiring cleaning up. At 31st March 2012, it is virtually certain that a law requiring a clean up of land already contaminated will be enacted shortly after the year end. Is provisioning presently necessary?

(d) Vijaya Ltd. had to pay delayed cotton clearing charges over and above the negotiated price for taking delayed delivery of cotton from the supplier's godown. Upto 2010-11, the company has regularly included such charges in the valuation of closing stock. This charge, being in the nature of interest, the company has decided to exclude it from closing stock valuation. This would result in decrease of profit by ₹ 8.60 lakhs.

What is the treatment in the Final Statement of accounts for the year ended 31-03-2012? Also draft a suitable note for disclosure.

(e) Write short note on "Market Value Added." (4 x 4 = 16 Marks)

Answer

(a) Expense to be recognized during 4 years' vesting period

Year	*Calculation*	*Expenses for the period* ₹	*Cumulative expenses* ₹
1	690 employees x 180 options x 70% x ₹ 15 x 1/4	3,26,025	3,26,025
2	[690 employees x 180 options x 70% x ₹ 15 x 2/4 years] – ₹ 3,26,025	3,26,025	6,52,050
3	[690 employees x 180 options x 70% x ₹ 15 x 3/4	3,26,025	9,78,075

	years] – ₹ 6,52,050		
4	[690 employees x 180 options x 70% x ₹ 15 x 4/4 years] – ₹ 9,78,075	3,26,025	13,04,100

Total amount of the expenses to be recognized during 4 years' vesting period will be ₹ 13,04,100.

(b) P Ltd. has direct economic interest in R Ltd. to the extent of 14%, and through Q Ltd. (in which it is the majority shareholders) it has further control of 12% in R Ltd. (60% of Q Ltd.'s 20%). These two taken together (14% + 12%) make the total control of 26%.

AS 18 'Related Party Disclosures', defines *related party* as one that has at any time during the reporting period, the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Since, P Ltd. has total control of 26% (directly and indirectly by Q Ltd.) in R Ltd. which is less than half of the voting power of R Ltd., P Ltd. is said to have significant influence over R Ltd. Also it is given in the question that R Ltd. is a listed company and regularly supplies goods to P Ltd. Therefore, related party disclosure, as per AS 18, is required by R Ltd. in its financial statements, in respect of goods supplied to P Ltd.

(c) As per para 29 of AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a past event will lead to present obligation when the enterprise has no realistic alternative to settle the obligation created by the past event.

However, when environmental damage is caused there may be no obligation to remedy the consequences. The causing of the damage will become an obligating event when a new law requires the existing damage to be rectified. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted.

In the given case it is virtually certain that law will be enacted requiring clean-up of a land already contaminated. Therefore, an oil company has to provide for such clean up cost in the year in which the law is virtually certain to be enacted.

(d) AS 5 (Revised) 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" states that a change in an accounting policy should be made only if

a. it is required by statute, or

b. for compliance with an accounting standard, or

c. if it is considered that the change would result in a more appropriate presentation of the financial statements of an enterprise.

The change in the method of stock valuation is justified in view of the fact that the change is in line with the recommendations of AS 2 (Revised) 'Valuation of Inventories' and would result in more appropriate preparation of the financial statements.

Accordingly, cost formula used for inventory valuation will exclude the delayed cotton clearing charges being in the nature of interest. Due to change in the cost formula, the value of inventory and resulting profit will decrease by ₹ 8.60 lakhs.

Disclosure: As per AS 2, the accounting policy adopted for valuation of inventories including the cost formula used should be disclosed in the financial statements by way of a note.

Also, appropriate disclosure of the change and the amount by which any item in the financial statements is affected by such change, is necessary as per AS 1, AS 2 and AS 5. Therefore, the under mentioned note should be given in the annual accounts.

"In compliance with the Accounting Standards issued by the ICAI, delayed cotton clearing charges which are in the nature of interest have been excluded from the valuation of closing stock unlike preceding years. Had the company continued the accounting practice followed earlier, the value of closing stock as well as profit before tax for the year would have been higher by ₹ 8.60 lakhs."

(e) Market value added is the market value of capital employed in the firm less the book value of capital employed. Market value added is calculated by summing up the paid up value of equity and preference share capital, retained earnings, long term and short term debts and subtracting this sum from the market value of equity and debt.

Market value added (MVA) measures cumulatively the performance of corporate entity.

A high market value added means that the company has created substantial wealth for shareholders. On the other hand, negative MVA means that the value of management's actions and investments are less than the value of capital contributed to the company by the capital market or that the wealth and value has been destroyed.