

PAPER – 1 : FINANCIAL REPORTING

Answer **all** questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumption(s) should be made by the candidates.

Question 1

- (a) The following data apply to 'X' Ltd. defined benefit pension plan for the year ended 31.03.09, calculate the actual return on plan assets :

- Benefits paid	2,00,000
- Employer contribution	2,80,000
- Fair market value of plan assets on 31.03.09	11,40,000
- Fair market value of plan assets as on 31.03.08	8,00,000

- (b) U.S.A Ltd. purchased raw material @ Rs. 400 per kg. Company does not sell raw material but uses in production of finished goods. The finished goods in which raw material is used are expected to be sold at below cost. At the end of the accounting year, company is having 10,000 kg of raw material in stock. As the company never sells the raw material, it does not know the selling price of raw material and hence can not calculate the realizable value of the raw material for valuation of inventories at the end of the year. However replacement cost of raw material is Rs. 300 per kg. How will you value the inventory of raw material?
- (c) Moon Ltd. entered into agreement with Sun Ltd. for sale of goods of Rs.8 lakhs at a profit of 20 % on cost. The sale transaction took place on 1st February, 2009. On the same day Sun Ltd. entered into another agreement with Moon Ltd. to resell the same goods at Rs. 10.80 lakhs on 1st August, 2009. State the treatment of this transaction in the financial statements of Moon Ltd. as on 31.03.09. The pre-determined re-selling price covers the holding cost of Sun Ltd. Give the Journal Entries as on 31.03.09 in the books of Moon Ltd.
- (d) XY Ltd. was making provisions for non-moving stocks based on no issues for the last 12 months upto 31.03.08. Based on technical evaluation the company wants to make provisions during the year 31.03.09.

Total value of stock --- Rs. 150 lakhs.

Provisions required based on 12 months issue Rs. 4.0 lakhs.

Provisions required based on technical evaluation Rs. 3.20 lakhs.

Does this amount to change in accounting policy ? Can the company change the method of provision?

(5x4=20 Marks)

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Answer

- (a)
- | | Rs. |
|---|-----------------------|
| Fair value of plan assets on 31.3.08 | 8,00,000 |
| Add: Employer contribution | 2,80,000 |
| Less: Benefits paid | <u>2,00,000</u> |
| (A) | <u>8,80,000</u> |
| Fair market value of plan assets at 31.3.09 | (B) <u>11,40,000</u> |
| Actual return on plan assets | (B-A) <u>2,60,000</u> |
- (b) As per Para 24 of AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. Therefore, in this case, USA Ltd. will value the stock of raw material at Rs. 30,00,000 (10,000 Kg. @ Rs.300 per kg.).
- (c) In the given case, Moon Ltd. concurrently agreed to repurchase the same goods from Sun Ltd. on 1st Feb., 2009. Also the re-selling price is pre-determined and covers purchasing and holding costs of Sun Ltd. Hence, the transaction between Moon Ltd. and Sun Ltd. on 1st Feb., 2009 should be accounted for as financing rather than sale. The resulting cash flow of Rs.9.60 lakhs received by Moon Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition".

Journal Entries in the books of Moon Ltd.

		<i>Rs. in lakhs</i>	
1.02.09	Bank Account	Dr. 9.60	
	To Advance from Sun Ltd*.		9.60
	(Being advance received from Sun Ltd amounting [Rs.8 lakhs + 20% of Rs. 8 lakhs= 9.60 lakhs] under sale and re-purchase agreement)		
31.03.09	Financing Charges Account	Dr. 0.40	
	To Sun Ltd.		0.40
	(Financing charges for 2 months at Rs.1.20 lakhs [10.80 – 9.60] i.e. 1.2 lakhs x 2/6)		
31.03.09	Profit and Loss Account	Dr. 0.40	
	To Financing Charges Account		0.40
	(Being amount of finance charges transferred to P& L Account)		

* The balance of Sun Ltd. account will be disclosed as an advance under the heading liabilities in the balance sheet of Moon Ltd. as on 31st March, 2009.

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- (d) The decision of making provision for non-moving stocks on the basis of technical evaluation does not amount to change in accounting policy as per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies". The method of estimating the amount of provision may be changed, in case, a more prudent estimate can be made by adopting the changed method.

In the given case, considering the total value of stocks, the change in the amount of required provision of non-moving stocks from Rs.4.0 lakhs to Rs.3.20 lakhs is also not material. The disclosure can be made for such change by way of notes to the accounts in the financial statements of XY Ltd. for the year ending on 31.03.09, in the following manner:

"The company has provided for non-moving stocks on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end, the net assets would have been higher by Rs.0.80 lakhs".

Question 2

The following are the Balance Sheets of H Ltd. and S Ltd. as at 31.03.09:

		Rs. in lakhs	
	H Ltd.	S Ltd.	
	Rs.	Rs.	
Share capital			Fixed assets
Share of Rs.10 each	50	10	Investment in S Ltd. (60,000 shares)
General reserve	50	20	Debtors
Profit and Loss	20	15	Inventories
Secured loan	20	3	Cash at Bank
Current liabilities	<u>30</u>	<u>2</u>	
	<u>170</u>	<u>50</u>	

H Ltd. holds 60% of the paid up capital of S Ltd. and balance is held by a foreign company. The foreign company agreed with H Ltd. as under:

- (i) The shares held by the foreign company will be sold to H Ltd. at Rs. 50 above than nominal value of per share.
- (ii) The actual cost per share to the Foreign Company was Rs. 11, gain accruing to Foreign Company is taxable @ 20 % . The tax payable will be deducted from the sale proceeds and paid to Government by H Ltd. 50% of the consideration (after payment of tax) will be remitted to Foreign Company by H Ltd. and also any cash for fractional shares allotted.
- (iii) For the Balance of consideration H Ltd. would issue its shares at their intrinsic value.

It was also decided that H Ltd. would also absorb S Ltd. simultaneously by writing down the fixed assets of S Ltd. by 10 %. The Balance Sheet figure included a sum of Rs. 1 lakh due by S Ltd. to H Ltd, included stock of Rs. 1.5 lakhs purchased from S Ltd. who sold them at cost plus 20 %.

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Pass Journal entries in the books of H Ltd. to record the above arrangement on 31.03.09 and prepare the Balance Sheet of H Ltd. after absorption of S Ltd. Workings should form part of your answer. (16 Marks)

Answer

Journal Entries in the books of H Ltd.

		Rs.	Rs.
1.	Business Purchase A/c To Foreign Company (Being business purchased)	Dr. 24,00,000	24,00,000
2.	Fixed Assets A/c Debtors A/c Inventories A/c Cash at Bank A/c To Current Liabilities A/c To Secured Loan A/c To Investment in S Ltd. A/c To Business Purchase A/c To Capital Reserve A/c (B.F.) (Being various assets and liabilities taken over)	Dr. 16,20,000 Dr. 5,00,000 Dr. 25,00,000 Dr. 2,00,000	2,00,000 3,00,000 6,00,000 24,00,000 13,20,000
3.	Profit and Loss A/c To Inventories A/c (Being elimination of unrealised profit)	25,000	25,000
4.	Current Liabilities A/c To Debtors A/c (Being elimination of mutual owings)	Dr. 1,00,000	1,00,000
5.	Foreign Company To Tax Payable A/c To Bank A/c (Rs.10,04,000 + Rs.20) To Equity Share Capital A/c To Securities Premium A/c (Being payment made to foreign company)	Dr. 24,00,000	3,92,000 10,04,020* 3,34,660 6,69,320

* It is assumed that payment of fractional shares has also been routed through Bank A/c along with 50% payment remitted to Foreign Company.

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6.	Tax Payable A/c	Dr.	3,92,000	
	To Bank A/c			3,92,000
	(Being tax paid to Government)			

Balance Sheet of H Ltd. (After Absorption)

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
5,34,466 Shares of Rs.10 each	53,34,660	Fixed Assets	76,20,000
(out of above, 33,466 shares issued for consideration other than cash)		(60,00,000+16,20,000)	
General Reserve	50,00,000	Sundry Debtors	39,00,000
Profit & Loss (20,00,000– 25,000)	19,75,000	(35,00,000 – 1,00,000)	
Capital Reserve	13,20,000	+5,00,000)	
Securities Premium	6,69,320		
Secured Loan (20,00,000+3,00,000)	23,00,000	Inventories (30,00,000– 25,00,000+25,00,000)	54,75,000
Current Liabilities			
(30,00,000+2,00,000–1,00,000)	31,00,000	Cash at Bank	27,03,980
		(39,00,000+2,00,000– 10,04,020–3,92,000)	
	<u>196,98,980</u>		<u>196,98,980</u>

Working Notes:

1. Amount payable to foreign company

Price per share of S Ltd. = Rs.50 + Rs.10 (Nominal value) = Rs.60

Value of 40% shares held by foreign company = $10,00,000 \times 40\% \times \frac{60}{10} = \text{Rs. } 24,00,000$

Capital gain = $\text{Rs. } 24,00,000 - (4,00,000 \times \frac{11}{10}) = \text{Rs. } 19,60,000$

Tax on capital gain = $\text{Rs. } 19,60,000 \times 20\% = \text{Rs. } 3,92,000$

Amount payable to Foreign Company after tax = $\text{Rs. } 24,00,000 - \text{Rs. } 3,92,000 = \text{Rs. } 20,08,000$

50% of Rs.20,08,000 = Rs.10,04,000 to be remitted to foreign company.

2. Intrinsic value of shares of H Ltd. and balance payment to foreign company

	<i>Rs.</i>	<i>Rs.</i>
Total assets (Excluding Investment in S Ltd.)		1,64,00,000
Add: Investment in S Ltd. (60,000 shares × Rs.60)		<u>36,00,000</u>
		2,00,00,000

Less: Liabilities:

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Secured Loan	20,00,000	
Current Liability	<u>30,00,000</u>	<u>50,00,000</u>
		<u>1,50,00,000</u>
No. of equity shares		5,00,000
Intrinsic value per share		Rs.30
Number of shares to be issued for payment of 50% balance amount		
$\frac{\text{Rs.10,04,000}}{30} = 33,466 \text{ shares}$		

Cash for fractional shares = Rs.10,04,000 – (33,466 x Rs.30) = Rs.20

Question 3

P Ltd. owns 80% of S and 40% of J and 40% of A. J is jointly controlled entity and A is an associate. Balance Sheet of four companies as on 31.03.09 are:

	<i>P Ltd.</i>	<i>S</i>	<i>J</i>	<i>A</i>
			<i>(Rs. in lakhs)</i>	
<i>Investment in S</i>	800	-	-	-
<i>Investment in J</i>	600	-	-	-
<i>Investment in A</i>	600	-	-	-
<i>Fixed assets</i>	1000	800	1400	1000
<i>Current assets</i>	<u>2200</u>	<u>3300</u>	<u>3250</u>	<u>3650</u>
<i>Total</i>	<u>5200</u>	<u>4100</u>	<u>4650</u>	<u>4650</u>
<i>Liabilities:</i>				
<i>Share capital Re. 1</i>				
<i>Equity share</i>	1000	400	800	800
<i>Retained earnings</i>	4000	3400	3600	3600
<i>Creditors</i>	<u>200</u>	<u>300</u>	<u>250</u>	<u>250</u>
<i>Total</i>	<u>5200</u>	<u>4100</u>	<u>4650</u>	<u>4650</u>

P Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were Rs. 520 lakhs. P Ltd. acquired its shares in 'J' at the beginning of the year when 'J' retained earnings were Rs. 400 lakhs. P Ltd. acquired its shares in 'A' on 01.04.08 when 'A' retained earnings were Rs. 400 lakhs.

The balance of goodwill relating to S had been written off three years ago. The value of goodwill in 'J' remains unchanged.

Prepare the Consolidated Balance Sheet of P Ltd. as on 31.03.09 as per AS 21, 23, and 27.

(16 Marks)

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Answer

Consolidated Balance Sheet of P Ltd.

<i>Liabilities</i>	<i>Rs. in lakhs</i>	<i>Assets</i>	<i>Rs. in lakhs</i>
Share Capital	1,000	Goodwill (W.N.1)	120
Retained Earnings(W.N.2)	8,800	Fixed Assets	2,360
		[1,000 + 800 + 560 (1400 x 40%)]	
Creditors (200+ 300 + 40% of 250)	600	Current Assets	6,800
		[2,200+3,300+1,300(3,250x 40%)]	
Minority Interest (W.N.3)	<u>760</u>	Investment in Associates (W.N.4)	<u>1,880</u>
	<u>11,160</u>		<u>11,160</u>

Working Notes:

1. Computation of Goodwill

S (subsidiary)

		<i>Rs. in lakhs</i>
Cost of investment		800
Less:Paid up value of shares acquired	320	
Share in pre- acquisition profits of S Ltd. (520 × 80%)	<u>416</u>	<u>736</u>
Goodwill		<u>64</u>

J (Jointly Controlled Entity)

		<i>Rs. in lakhs</i>
Cost of Investment		600
Less:Paid up value of shares acquired (40% of 800)	320	
Share in pre-acquisition profits (40% of 400)	<u>160</u>	<u>480</u>
Goodwill		<u>120</u>

Note:Jointly controlled entity 'J' to be consolidated on proportionate basis i.e. 40% as per AS 27

Associate A (AS 23)

		<i>Rs. in lakhs</i>
Cost of investment		600
Less:Paid up value of shares acquired (800 x 40%)	320	
Share in pre-acquisition profits (400 x 40%)	<u>160</u>	<u>480</u>
Goodwill		<u>120</u>

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Goodwill shown in the Consolidated Balance Sheet

	<i>Rs. in lakhs</i>
Goodwill of 'J'	120
Goodwill of 'S'	64
Less: Goodwill written off of 'S'	<u>64</u>
Goodwill	<u>120</u>

2. Consolidated Retained Earnings

	<i>Rs. in lakhs</i>
P Ltd.	4,000
Share in post acquisition profits of S - 80% (3,400 – 520)	2,304
Share in post acquisition profits of J - 40% (3,600 – 400)	1,280
Share in post acquisition profits of A - 40% (3,600 – 400)	1,280
Less: Goodwill written off	<u>(64)</u>
	<u>8,800</u>

3. Minority Interest 'S'

	<i>Rs. in lakhs</i>
Share Capital (20% of 400)	80
Share in Retained Earnings (20% of 3,400)	<u>680</u>
	<u>760</u>

4. Investment in Associates

	<i>Rs. in lakhs</i>
Cost of Investments (including goodwill Rs. 120 lakhs)	600
Share of post acquisition profits	<u>1,280</u>
Carrying amount of Investment (including goodwill Rs. 120 lakhs)	<u>1,880</u>

Question 4

- (a) On 1 April, 2008 Delta Ltd. issued Rs.30,00,000, 6 % convertible debentures of face value of Rs. 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31.03.12 or these may be converted into ordinary shares at the option of the holder, the interest rate for equivalent debentures without conversion rights would have been 10%.

Being compound financial instrument, you are required to separate equity and debt portion as on 01.04.08.

The present value of Re. 1 receivable at the end of the end of each year based on discount rates of 6% and 10% can be taken as:

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	6%	10%
End of year 1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

- (b) When general price index was 100, Standard Ltd. purchased fixed assets of Rs. 2 crore and it had also permanent working capital of Rs.80 lakhs. The entire amount required for purchase of fixed assets and permanent working capital was financed by way of 12 % redeemable share capital. Standard Ltd. wants to maintain its physical capital.

On 31.03.09, the company had reserves of Rs. 3.50 crores. The general price index on that was 200. The written down value of fixed assets was Rs. 20 lakhs and they were sold for 3 crores. The proceeds were utilized for redemption of shares. On the same day (31.03.09), the company purchased new factory for Rs. 20 crores. The ratio of permanent working capital to cost of assets to be maintained at 0.4 : 1.

The company raised the additional funds required for the purpose by issue of equity shares.

(A) Calculate the amount of equity capital raised.

(B) Show the Balance Sheet as on 01.04.09.

(8+8 = 16 Marks)

Answer

(a) Computation of Equity and Debt Component of Convertible Debentures as on 1.4.08

Rs.

Present value of the principal repayable after four years	
[30,00,000 × 1.10 × 0.68 (10% Discount factor)]	22,44,000
Present value of Interest [1,80,000 × 3.17 (4 years cumulative 10% discount factor)]	<u>5,70,600</u>
Value of debt component	28,14,600
Value of equity component	<u>1,85,400</u>
Proceeds of the issue	<u>30,00,000</u>

(b)

Amount of equity capital raised	<i>Rs. in crores</i>
Amount required for purchase of new factory	20.00
Permanent working capital requirement at 40%	<u>8.00</u>
	28.00
Less: Existing working capital (W.N. 3)	<u>6.30</u>
Fresh equity capital raised	<u>21.70</u>

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Balance Sheet of Standard Ltd. as on 1st April, 2009

		(Rs. in crores)	
<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital	21.70	Fixed Assets	20.00
Reserves and Surplus (Bal. figure)	<u>6.30</u>	Working Capital	<u>8.00</u>
	<u>28.00</u>		<u>28.00</u>

Working Notes:

(Rs. in crores)

1. Preference share capital on 31st March, 2009

Fixed assets	2.00
Working capital	<u>0.80</u>
Financed by 12% Redeemable preference share capital	<u>2.80</u>

To maintain physical capital, the company needs to evaluate the financial capital on 31st March, 2009 which is required to maintain the existing operating capability of the physical assets. On the basis of price index data available, it can be worked out as follows:

$$\text{Rs. 2.80 crore} \times \frac{200}{100} = \text{Rs. 5.60 crores}$$

2. Working capital on 31st March, 2009

(before sale of fixed assets and redemption of preference shares)

Preference share capital	2.80
Reserves	<u>3.50</u>
	6.30
Less: Written down value of fixed assets	<u>0.20</u>
Working capital	<u>6.10</u>

As the physical capital on the basis of price index is Rs. 5.6 crores which is less than the actual working capital on 31st March, 09, therefore, physical capital is maintained.

3. Working capital as on 31st March, 2009

(after sale of fixed assets and redemption of preference shares)

Working capital before sale of fixed assets and redemption	6.10
Add: Sale proceeds of fixed assets	<u>3.00</u>
	9.10
Less: Redemption of preference shares	<u>2.80</u>
Working capital available after sale of fixed assets and redemption of pref. shares	<u>6.30</u>

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Question 5

- (a) A Mutual Fund raised 100 lakh on April 1, 2009 by issue of 10 lakh units of Rs. 10 per unit. The fund invested in several capital market instruments to build a portfolio of Rs. 90 lakhs. The initial expenses amounted to Rs. 7 lakh. During April, 2009, the fund sold certain securities of cost Rs. 38 lakhs for Rs. 40 lakhs and purchased certain other securities for Rs. 28.20 lakhs. The fund management expenses for the month amounted to Rs. 4.50 lakhs of which Rs. 0.25 lakh was in arrears. The dividend earned was Rs. 1.20 lakhs. 75% of the realized earnings were distributed. The market value of the portfolio on 30.04.2009 was Rs. 101.90 lakh.

Determine NAV per unit.

- (b) From the following details, compute according to Lev and Schwartz (1971) model, the total value of human resources of the employee groups skilled and unskilled.

	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement age	Rs.50,000	Rs.30,000
(ii) Age of retirement	65 years	62 years
(iii) Discount rate	15%	15%
(iv) No. of employees in the group	20	25
(v) Average age	62 years	60 years
	(8+8 = 16 Marks)	

Answer

(a)

	Rs. in lakhs	Rs. in lakhs
Opening bank balance [(100- 90-7)Rs. lakhs]	3.00	
Add: Proceeds from sale of securities	40.00	
Dividend received	<u>1.20</u>	44.20
Less:		
Cost of securities	28.20	
Fund management expenses [(4.50-0.25) Rs. lakhs]	4.25	
Capital gains distributed [75% of (40.00 – 38.00) Rs. lakhs]	1.50	
Dividends distributed (75% of Rs. 1.20 lakhs)	<u>0.90</u>	<u>(34.85)</u>
Closing bank balance		9.35
Closing market value of portfolio		<u>101.90</u>
		111.25

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Less: Arrears of expenses	<u>0.25</u>	
Closing net assets	<u>111.00</u>	
Number of units		10,00,000
Closing Net Assets Value (NAV)		Rs. 11.10

- (b) According to Lev and Schwartz, the value of human capital embodied in a person of age τ is the present value of his remaining future earnings from employment. Their valuation model for a discrete income stream is given by the following formula:

$$V_{\tau} = \sum_{t=\tau}^t \frac{I(t)}{(1+r)^{t-\tau}}$$

Where,

V_{τ} = the human capital value of a person τ years old.

$I(t)$ = the person's annual earnings up to retirement.

r = a discount rate specific to the person.

t = retirement age.

Value of skilled employees:

$$= \frac{50,000}{(1+0.15)^{(65-62)}} + \frac{50,000}{(1+0.15)^{(65-63)}} + \frac{50,000}{(1+0.15)^{(65-64)}}$$

$$\text{Rs. } 32,875.81 + \text{Rs. } 37,807.18 + \text{Rs. } 43,478.26 = \text{Rs. } 1,14,161.25$$

$$\text{Total value of skilled employees is Rs. } 1,14,161.25 \times 20 = \text{Rs. } 22,83,225.$$

Value of unskilled employees

$$= \frac{30,000}{(1+0.15)^{(62-60)}} + \frac{30,000}{(1+0.15)^{(62-61)}}$$

$$= \frac{30,000}{(1+0.15)^2} + \frac{30,000}{(1+0.15)}$$

$$= 22,684.31 + 26,086.96 = 48,771.27$$

$$\text{Total value of the unskilled employees} = \text{Rs. } 48,771.27 \times 25 = \text{Rs. } 12,19,282$$

$$\therefore \text{Total value of human resources (skilled and unskilled)} = \text{Rs. } 22,83,225 + \text{Rs. } 12,19,282 \\ = \text{Rs. } 35,02,507.$$

Question 6

- Capital adequacy ratio for Non-Banking Financial Companies (NBFC)
- Treatment of refund of Government grants.
- Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of

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AS 24, but that might do so in combination with other circumstances.

- (d) From the following information compute diluted earnings per share.

Net profit for the year 2008	Rs.12,00,000
Weighted average number of equity shares outstanding during year 2008	5,00,000 shares
Average fair value of one equity share during the year 2008	Rs.20
Weighted average number of shares under option during the year 2008	1,00,000 shares
Exercise price per share under option during the year 2008	Rs.15
(4x4= 16 Marks)	

Answer

- (a) Non-Banking Financial Companies (NBFC) are required to maintain adequate capital. Every NBFC shall maintain a minimum capital ratio consisting of Tier I¹ and Tier II² capital which shall not be less than 12% of its aggregate risk-weighted assets. The total of Tier II capital, at any point of time, shall not exceed 100% of Tier I capital. Capital adequacy is calculated as under:

$$\frac{\text{Tier I + Tier II Capital}}{\text{Risk Adjusted Assets}} \times 100$$

- (b) As per Para 11 of AS 12 "Accounting for Government Grants", government grant that becomes refundable should be treated as an extraordinary item. The amount refundable in respect of a government grant related to revenue is applied first against any unamortized deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement. The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset. Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfillment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve.
- (c) Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to Paragraph 9 of AS 24, examples of activities that

¹ "Tier-I Capital" means owned fund as reduced by investment in shares of other NBFCs and in shares, debenture, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, 10% of the owned fund.

² "Tier-II capital" includes (i) Preference shares, (ii) Revaluation reserves at discounted rate of 55%, (iii) General provisions and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets, (iv) hybrid debt capital instruments, (v) subordinated debt.

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do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

- (i) Gradual or evolutionary phasing out of a product line or class of service;
- (ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;
- (iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and
- (iv) Closing of a facility to achieve productivity improvements or other cost savings.

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries.

(d) Computation of diluted earnings per share

	<i>Earnings</i>	<i>Shares</i>	<i>Earning per share</i>
	(Rs.)		(Rs.)
Net profit for the year 2008	12,00,000		
Weighted average number of equity shares outstanding during the year 2008		5,00,000	
Basic earnings per share (12,00,000/5,00,000)			2.40
Weighted average number of shares under option		1,00,000	
Number of shares that would have been issued at fair value (1,00,000 × 15.00)/20.00)		<u> * </u> (75,000)	
Diluted earnings per share (12,00,000/5,25,000)	<u>12,00,000</u>	<u>5,25,000</u>	<u>2.29</u>

*The earnings have not been increased as the total number of shares has been increased only by the number of shares (25,000) deemed for the purpose of computation to have been issued for no consideration (Para 37(b) of AS 20).