Guideline Answers to May 2013 Exam 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]

1(a): AS – 10: Computation of Cost of Asset M 13 (5 Marks)

J Ltd. purchased a Machinery from K Ltd on 31.08.2012. Quoted price was ₹275 Lakhs. The vendor offers 2% Trade discount. Sales tax on quoted price is 6%. J Ltd spent ₹60,000 for transportation and ₹45,000 for architect's fees. They borrowed money from HDFC Bank of ₹ 250 Lakhs for acquisition of asset @ 15% p.a. They also spent ₹ 15,000 for Material, ₹10,000 for Labour and ₹4,000 as overheads during trial run of the machine. The machine was ready for use on 15.01.2013 but it was put to use on 15.03.2013.

1. Find out the original cost of the machine.
2. Also suggest the accounting treatment for costs incurred between the date the machine was ready for use and the date at which it was actually put to use.

Solution:Similar to Q.No.15 / Page 10.5 of Padhuka's Students' Referencer on Accounting Standards

	Particulars	₹ Lakhs
	Quoted Price of Machinery	275.00
	Sales Tax at 6% of Quoted Price of 275.00	16.50
	Transportation Cost (Cost of bringing the asset to present location)	0.60
	Architect Fees	0.45
	Pre–Operative Cost (assuming directly relatable to the Machinery) (0.15 + 0.10 + 0.04)	0.29
	Total Original Cost	**292.84**
Less:	Trade Discount (2.00% of Quoted Price)	(5.50)
	Net Cost	**287.34**
Add:	Interest Cost for 3 Months from 31.08.2012 to 15.01.2013 (₹ 250 Lakhs × 15% × 4.5/12)	14.06
	Total Capitalized Cost of the Machinery	**301.40**

Note:

1. It is assumed that 4.5 months constitutes "substantial period of time" for CTL, for the purpose of capitalizing Interest Cost in accordance with AS–16.
2. Interest Cost for the period from 15.01.2013 to 15.03.2013 should not be capitalized, since interest cost is to be capitalized only till the date where the Plant is substantially ready for its intended use (15.01.2013).

1(b): AS – 21: Sale of Holding during the year M 13 (5 Marks)

A Ltd had acquired 80% shares in B Ltd for ₹ 15 Lakhs. The Net Assets of B Ltd on the day are ₹ 22 Lakhs. During the year A Ltd sold the Investment for ₹ 30 Lakhs and Net Assets of B Ltd as on the date of disposal of was ₹ 35 Lakhs. Calculate the Profit or Loss on disposal of this Investment to be recognised in Consolidated Financial Statement.

Solution:Similar to Q.No.49 / Page 21.20 of Padhuka's Students' Referencer on Accounting Standards

	Particulars		₹ Lakhs
	Proceeds from the Sale of Investment		30.00
Less:	A Ltd's Share in Net Assets of B Ltd on date of disposal		
	Net Assets of B Ltd **excluding** Minority Interest at 20% (₹ 35 Lakhs **Less** 20%)		28.00
	Balance		**2.00**
Add:	Capital Reserve in the Consolidated Financial Statements (As on the date of Acquisition)		
	A Ltd's Share in Net Assets on date of acquisition (₹ 22 Lakhs × 80%)	17.60	
Less:	Cost of Investment	15.00	2.60
	Profit on Sale of Investment		**4.60**

1(c): AS – 19: Sale and Lease Back M 13 (5 Marks)

On 1st January, 2011 Santa Ltd sold equipment for ₹ 6,14,460. The carrying amount of the equipment on the date was ₹ 1,00,000. The sale was part of the package under which Banta Ltd leased the asset to Santa Ltd for 10 year term. The economic life of the asset is estimated at 10 years. The Minimum Lease Rents payable by the Leaser has been fixed at ₹ 1,00,000 payable annually beginning 31st December, 2011. The incremental borrowing Interest Rate of Santa Ltd is estimated at 10% p.a. Calculate the net effect on the Profit and Loss Account.

Solution:Similar to Q.No.45 / Page 19.21 of Padhuka's Students' Referencer on Accounting Standards

A. In the books of the Lessee:

1. It is assumed that the asset is depreciated on SLM Basis. Since the lease period covers the balance useful life of the asset, it is a Finance Lease.
2. PV of MLP = 6.1446 × 1,00,000 = **₹ 6,14,460.**
3. The Asset is sold at PV of MLP (₹ 6,14,460). Hence the same is capitalized in Lessor's Books.
4. Depreciation to be charged for the next 10 years = 6,14,460 ÷ 10 = ₹ 61,446 p.a.
5. Profit on Sale & Lease Back = Revised Book Value – Old Book Value = ₹ 6,14,460 – ₹ 1,00,000 = ₹ 5,14,460
   This Profit will be credited to P&L A/c in the next 10 years, in proportion to the depreciation charge. In this case, **₹ 51,446 p.a.** will be credited to the P & L A/c over the next 10 years. (Since Depreciation is constant on SLM basis)
6. Interest Charge to be debited in P&L A/c is determined as under –

Year	Opening Balance	Interest at 10% on Opening Balance	Lease Payment	Balance Principal repaid	Closing Balance
1	6,14,460	61,446	1,00,000	38,554	5,75,906
2	5,75,906	57,591	1,00,000	42,409	5,33,497
3	5,33,497	53,350	1,00,000	46,650	4,86,847
4	4,86,847	48,685	1,00,000	51,315	4,35,532
5	4,35,532	43,553	1,00,000	56,447	3,79,085
6	3,79,085	37,909	1,00,000	62,091	3,16,994
7	3,16,994	31,699	1,00,000	68,301	2,48,693
8	2,48,693	24,869	1,00,000	75,131	1,73,562
9	1,73,562	17,356	1,00,000	82,644	90,918
10	90,918	9,082	1,00,000	90,918	–

Note: In the 10th year, the Balance Principal to be repaid is taken as 90,918 and the balancing figure is treated as towards Interest.

1(d): AS – 19: Sale and Lease Back M 13 (5 Marks)

X Ltd purchased a Fixed Asset four years ago for ₹ 150 Lakhs and depreciates it at 10% p.a. on Straight Line Method. At the end of the 4th year it has revalued the Asset at ₹ 75 Lakhs and has written off the loss on revaluation to P&L A/c. However on the date of revaluation, the Market Price is ₹ 67.50 Lakhs and expected disposal costs are ₹ 3 Lakhs.

What will be the treatment of Impairment Loss on the basis that fair value for revaluation purpose is determined by market value and market value in use is estimated at ₹ 60 Lakhs?

Solution:Similar to Q.No.10 / Page 28.5 of Padhuka's Students' Referencer on Accounting Standards

1. Recognition of Loss on Revaluation:

Particulars	Computation	₹ Lakhs
1. Original Cost of the Asset	Given	150.00
2. Accumulated Depreciation for four years	150.00 × 10% × 4 years	60.00
3. Carrying Amount before Revaluation	Net Book Value (1) – (2)	90.00
4. Fair Value = Revalued Amount	Given	75.00
5. Loss on Revaluation debited to P & L Account	(3) – (4)	15.00
6. Carrying Amount after Revaluation	(3) – (5) [or] Fair Value (Market Value)	75.00

2. Recognition of Impairment Loss:

Particulars	₹ Lakhs
1. Net Selling Price = Market Value – Disposal Costs = 67.50 – 3.00	₹ 64.50
2. Value in Use	₹ 60.00
3. Recoverable Amount = Net Selling Price or Value in Use, whichever is high = (1) or (2), whichever is high	₹ 64.50
4. Carrying Amount after revaluation	₹ 75.00
5. **Impairment Loss** = Carrying Amount **Less:** Recoverable Amount	**₹ 10.50**

2: Consolidated Financial Statements – Cross Holdings including Revaluation of Assets M 13 (16 Marks)

The summarized Balance sheet of two companies, Major Ltd. and Minor Ltd. as at 31st December, 2012 are given below:

Particulars	Major Ltd	Minor Ltd
Assets:		
Plant and Machinery	4,14,000	1,00,800
Furniture	14,000	9,200
18,000 Ordinary Shares in Minor Ltd	2,40,000	–
4,000 ordinary shares in Major Ltd	–	48,000
Stock in trade	96,000	2,28,000
Sundry Debtors	1,40,000	1,70,000
Cash at bank	34,000	26,000
	9,38,000	5,82,000
Liabilities:		
Ordinary shares of ₹ 10 each	3,60,000	2,00,000
7.5% preference shares of ₹10 each	3,00,000	1,60,000
Reserves	52,000	60,000
Sundry Creditors	1,06,000	1,22,000
Profit and loss account	1,20,000	40,000
	9,38,000	5,82,000

Major Ltd acquired the shares of Minor Ltd on 1st July, 2012. As on 31st December, 2011, the Plant & Machinery stood in the books at ₹ 1,12,000, the Reserve at ₹ 60,000 and the Profit and Loss Account at ₹ 16,000. The Machinery was revalued by Major Ltd on the date of acquisition of shares of Minor Ltd at ₹ 1,20,000 but no adjustments were made in the books of Minor Ltd.

On 31st December, 2011, the Debit Balance of Profit and Loss Account was ₹ 45,500 in the books of Major Ltd. Both the Companies have provided depreciation on all their Fixed Assets at 10% p.a. You are required to prepare a Consolidated Balance sheet as on 31st December, 2012 as per Revised Schedule VI and supporting Schedule for Computation.

Solution: **Similar to Q.No.57 / Page 3.115**

1. Basic Information

Company Status	Dates	Holding Status
Holding Company = Major Ltd	**Acquisition:**	Holding in Subsidiary = 90%
Subsidiary = Minor Ltd	Major Ltd in Minor Ltd 90.00% – 01.07.2012	Minority Interest = 10%
	Minor Ltd in Major Ltd 11.11% – 31.12.2011	
	Consolidation: 31.12.2012	Subsidiary in Holding = 11.11%

2. Analysis of Reserves & Surplus of Minor Ltd

(a) Profit & Loss Account

Balance as on 31.12.2012 ₹ 40,000

31.12.2011 Prev. B/s ₹ 16,000 **Capital**

Profit for 2012 (balancing figure) **₹ 24,000**

1.1.2012 to 30.6.2012 (Previous Balance Sheet to acquisition) 24,000 × 6 /12 = **₹ 12,000** **Capital**

1.7.2012 to 31.12.2012 (acquisition to Consolidation) 24,000 × 6 /12 = **₹ 12,000** **Revenue**

Total Capital Profits: 16,000 + 12,000 = **₹ 28,000**; **Total Revenue Profits: ₹ 12,000**

(b) General Reserve = ₹ 60,000 (continuing from Date of Acquisition) **Capital Profit**

(c) Gain / Loss on Revaluation of Assets

Book Value of Machinery on 31.12.2011	₹ 1,12,000
Book Value of Machinery on 31.12.2012	1,00,800
Depreciation provided for the Year	**11,200**
Therefore **Rate of Depreciation** = 11,200 / 1,12,000 =	**10%**

Note: The above computation is made to confirm the depreciation rate given in the question.

	Revalued Amount on 1.7.2012		1,20,000
Less:	**Book Value on 1.7.2012 (DOA)**		
	Value on 1.1.2012	1,12,000	
Less:	Depreciation for 6 Months (10% × 1,12,000 × 6/12)	5,600	1,06,400
	Revaluation Gain (Capital Profit)		**13,600**

Depreciation on Revaluation Gain can be calculated as under:

Depreciation on Revalued Amount = ₹ 1,20,000 × 6/12 × 10% =	₹ 6,000
Depreciation already provided in the books =	₹ 5,600
Additional Depreciation to be provided =	**₹ 400 (Revenue Loss)**

Alternative Working for Gain / Loss on Revaluation of Assets
Depreciation on Revaluation Gain for 6 Months (10% × ₹ 13,600 × 6/12) = (680) **Revenue Loss**

3. Analysis of Reserves and Surplus of Major Ltd (Holding Company)

Reserves		**Profit & Loss Account**		
Balance as on 31.12.2012 ₹ 52,000		Balance as on 31.12.2009 ₹ 1,20,000		
31.12.2011 (Prev. B/s)	Transfer in 2012	31.12.2011 (Prev. B/s)	Profit in 2012	1,65,500
₹ 52,000	**₹ NIL**	**(45,500)**		
Capital	**Revenue**	**Capital**	1.1.12 to 30.6.12	1.7.12 to 31.12.12
			1,65,500 ÷ 2	1,65,500 ÷ 2
			₹ 82,750	**₹ 82,750**
			Capital	**Revenue**
Total Capital Profit = 52,000;		**Total Capital Profit =** (45,500) + 82,750 = **₹ 37,250**		
Total Revenue Profit = ₹ NIL		**Total Revenue Profit = ₹ 82,750**		

4. Computation of Capital Profits

	Particulars	**Major Ltd**	**Minor Ltd**
	Reserves	52,000	60,000
	Profit & Loss Account	37,250	28,000
	Revaluation Gain	—	13,600
	Total Capital Profits before Inter Company Share	**89,250**	**1,01,600**
Add:	Inter Company Share	9 / 10 × Y	1 / 9 × X
	Total Capital Profits	**X**	**Y**

The following two equations can be derived: (1) 89,250 + 9Y/10 = X; (2) 1,01,600 + X/9 = Y

X	= 89,250 + 9Y/10	
X	= 89,250 + 9/10 [1,01,600 + X/9]	*[Substituting Equation (2) for Y]*
10X	= 8,92,500 + (9 × 1,01,600) + X	*[Multiplying both sides by 10]*
10X – X = 9X	= 8,92,500 + 9,14,400	= 18,06,900
X	= 18,06,900 / 9	= **₹ 2,00,767**
Y	= 1,01,600 + (2,00,767/9)	= **₹ 1,23,907**

5. Computation of Revenue Profits

	Particulars	**Major Ltd**	**Minor Ltd**
	Reserves	NIL	NIL
	Profit & Loss Account	82,750	12,000
	Depreciation on Revaluation Gain	—	(400)
	Total Revenue Profits before Inter Company Share	**82,750**	**11,600**
Add:	Inter Company Share	9 / 10 × Y	1 / 9 × X
	Total Capital Profits	**X**	**Y**

The following two equations can be derived: (1) 82,750 + 9Y/10 = X; (2) 11,600 + X/9 = Y

X	= 82,750 + 9Y/10	
X	= 82,750 + 9/10 [11,600 + X/9]	*[Substituting Equation (2) for Y]*
10X	= 8,27,500 + (9 × 11,600) + X	*[Multiplying both sides by 10]*
10X – X = 9X	= 8,27,500 + 1,04,400	= 9,31,900
X	= 9,31,900 / 9	= **₹ 1,03,544**
Y	= 11,600 + (1,03,544/9)	= **₹ 23,105**

6. Consolidation of Balances

Particulars	Total	Minority Interest	Pre-Acqn.	Post Acquisition	
Minor Ltd (Holding – 90%, Minority – 10%)				**Reserves**	**P&L A/c**
Equity Capital	2,00,000	20,000	1,80,000	—	—
Preference Share Capital	1,60,000	1,60,000	—	—	—
Reserves	60,000	6,000	54,000		
Profit and Loss Account	40,000	4,000	25,200 (28000×.9)		10,800 (12000×.9)
Revaluation Gain	13,600	1,360	12,240		
Additional Depreciation on Revaluation	(400)	(40)			(360)
Transfer from Major Ltd (1/9 × 1,03,544)	11,505	1,151			10,354
Pre Acquisition Reserves from Major Ltd	22,307	2,231	20,076		
Total		**1,94,702**	**2,91,516**		
Cost of Investment [Dr.]					
Major Ltd in Minor Ltd			(2,40,000)		
Minor Ltd in Major Ltd			(48,000)		
Equity Capital – Minor Ltd in Major Ltd			40,000		
Holding Company's Balances (Major Ltd)				52,000	1,20,000
Transfer of Minor Ltd's Share of Pre Acquisition Reserves of Major Ltd ₹ 22,307 (1/9 × 2,00,767) (in the ratio of Balances considered for Capital Profit i.e. 52,000 : 37,250)				(12,997)	(9,310)
Transfer of Minor Ltd's Share of Post Acquisition Reserves of Major Ltd					(11,505)
For Consolidated Balance Sheet		**1,94,702**	**43,516**	**39,003**	**1,19,979**
		Minority	**Cap.Res.**	**Reserves**	**P&L A/c**

7. Consolidated Balance Sheet of Major Ltd and its subsidiary Minor Ltd as at 31.12.2012

	Particulars	Note	This Year	Previous Year
I	**Equity and Liabilities**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	6,20,000	
	(b) Reserves and Surplus	**2**	2,02,498	
(2)	**Minority Interest**		1,94,702	
(3)	**Current Liabilities**			
	Trade Payables [1,06,000 + 1,22,000]		2,28,000	
	Total		**12,45,200**	
II	**Assets**			
(1)	**Non–Current Assets**			
	Tangible Fixed Assets	**3**	5,51,200	
(2)	**Current–Assets**	**4**	6,94,000	
	Total		**12,45,200**	

Schedules to the Balance Sheet

Schedule 1: Share Capital

Particulars	This Year	Previous Year
Authorised: ..... Equity Shares of ₹ .... Each		
..... 7½% Preference Shares of ₹ .... each		
Issued, Subscribed & Paid Up:		
32,000 (36,000 – 4,000 held by Minor Ltd) Equity shares of ₹ 10 each	3,20,000	
30,000 7½% Preference shares of ₹ 10 each	3,00,000	
Total	**6,20,000**	

Schedule 2: Reserves and Surplus

Particulars	This Year	Previous Year
Capital Reserve on Consolidation	43,516	
Reserves	39,003	
Profit & Loss Account	1,19,979	
Total	**2,02,498**	

Schedule 3: Tangible Fixed Assets

Particulars	This Year	Previous Year
Plant and Machinery [4,14,000 + 1,00,800 + 13,600 – 400]	5,28,000	
Furniture [14,000 + 9,200]	23,200	
Total	**5,51,200**	

Schedule 4: Current Assets

Particulars	This Year	Previous Year
Inventories (96,000 + 2,28,000)	3,24,000	
Trade Receivables (1,40,000 + 1,70,000)	3,10,000	
Cash and Cash Equivalents (34,000 + 26,000)	60,000	
Total	**6,94,000**	

3: Corporate Restructuring – Computation of Purchase Consideration (Fractional Shares paid in Cash) M 13 (16 Marks)

Sun Limited agreed to absorb Moon Limited on 31.03.2012, whose summarized Balance Sheet is as follows:

Equity and Liabilities	₹	Assets	₹
Share Capital: 1,20,000 shares of ₹ 10 each fully paid	12,00,000	Fixed Assets	10,50,000
General Reserve	1,50,000	Stock in trade	1,50,000
Sundry Creditors	1,50,000	Sundry Debtors	3,00,000
Total	15,00,000	Total	15,00,000

The consideration was agreed to be paid as follows:

1. A payment in cash of ₹ 5 per share in Moon Ltd and
2. The issue of shares of ₹ 10 each in Sun Ltd on the basis of two Equity Shares (valued at ₹ 15) and one 10% Cumulative Preference Share (valued at ₹10) for every five shares held in Moon Ltd.

The whole of the share capital consist of shareholdings in exact multiple of except the following holding –
P – 174, Q – 114, R – 108, S – 42 and other individuals – 12 (Twelve Members holding one share each)

It was agreed that Sun Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in Moon Ltd. i.e. ₹ 65 for five shares of ₹ 50 paid. Prepare a statement showing the purchase consideration receivable in Shares and Cash.

Solution: **Similar to Q.No.10 / Page 2.31**

1. Analysis of Fractional Holdings and Exchange of Shares

Name of Shareholder	Shares Held	Exchangeable in Multiples of five	Exchange in Equity Shares	Exchange in Preference Shares	Non Exchangeable
P	174	170	170 × 2/5 = 68	170 × 1/5 = 34	4
Q	114	110	110 × 2/5 = 44	110 × 1/5 = 22	4
R	108	105	105 × 2/5 = 42	105 × 1/5 = 21	3
S	42	40	40 × 2/5 = 16	40 × 1/5 = 8	2
Others	12	–	–	–	12
Total	**450**	**425**	**170**	**85**	**25**

2. Computation of Shares Exchangeable

Particulars	Shares in Moon Ltd	Equity Shares of Sun Ltd	Pref. Shares of Sun Ltd
Fractional Holdings (as above)	450	170	85
Other Holdings	1,20,000 – 450 = 1,19,550	1,19,550 × 2/5 = 47,820	1,19,550 × 1/5 = 23,910
Total	**1,20,000**	**47,990**	**23,995**

3. Cash Payment for Fractional Holdings: There are 25 shares in Moon Ltd which are not capable of exchange into Equity & Preference Shares of A Ltd. Hence, they will be paid cash as 25 Shares × ₹ 10 Paid Up Value × 65 / 50 = ₹ 325

4. Settlement of Purchase Consideration:

	Particulars	₹
	47,990 Equity Shares at ₹ 15 each	7,19,850
	23,995 Preference Shares at ₹ 10 each	2,39,950
	Cash for 1,20,000 – 25 = 1,19,975 Shares at ₹ 5 each	5,99,875
	Total	15,59,675
Add:	Cash for 25 Shares fractional holding non–exchangeable	325
	Total Purchase Consideration	**15,60,000**

4(a): Valuation of Shares – Risk Adjustments on Normal Rate of Return (Coverage, Debt–Equity) M 13 (12 Marks)

The Capital Structure of VWX Ltd is as follows as on 31.03.2012:

Particulars	₹
45,000, Equity Shares of ₹ 100 each fully paid	45,00,000
12,500, 12% Preference Shares of ₹ 100 each fully paid	12,50,000
12% Secured Debentures	12,50,000
Reserves	12,50,000
Profit before interest and tax during the year	18,00,000
Tax Rate	40%

Normally the Return on Equity Shares in this type of Industry is 15%. Find out the value of the Equity Shares subject to the following:

1. Profit after tax covers Fixed Interest and Fixed Divided at least 4 times.
2. Debt–Equity Ratio is at least 2.
3. Yield on shares is calculated at 60% of the distributed profits and 10% on undistributed profits.
4. The Company has been paying regularly an Equity Dividend of 15%.
5. Risk Premium for Dividends is generally assumed at 1%.

Solution: **Similar to Q.No.11 / Page 1.77**

1. Profitability Statement

	Particulars	₹
	Profit before Interest and Tax	18,00,000
Less:	Debenture Interest (₹ 12,50,000 × 12%)	1,50,000
	Profit Before Tax	16,50,000
Less:	Tax Expense at 40% (₹ 16,50,000 × 40%)	6,60,000
	Profit After Tax	9,90,000
Less:	Preference Dividends (₹ 12,50,000 × 12%)	1,50,000
	Earnings available for Equity Shareholders	8,40,000
Less:	Equity Dividend at 15% (₹ 45,00,000 × 15%)	6,75,000
	Retained Profit / Undistributed Profit	**1,65,000**

2. Computation of relevant indicators

a. Fixed Interest & Dividend Coverage = (PAT + Interest) / (Interest + Preference Dividends) = ₹ 11,40,000 / ₹ 3,00,000	**3.80 times**
b. Debt–Equity Ratio = (Secured Debentures) / (ESC + PSC + Reserves) = ₹ 12,50,000 / ₹ 70,00,000	**0.18 times**
c. Total Yield = 60% of Distributed Profit + 10% of Retained Profit	
= (60% × ₹ 6,75,000) + (10% × ₹ 1,65,000) = ₹ 4,05,000 + ₹ 16,500	₹ 4,21,500
Yield as a percentage of Equity Share Capital = ₹ 4,21,500 ÷ ₹ 45,00,000	**9.37%**

3. Analysis of indicators by comparison with norms

Particulars	**Coverage Ratio**	**Debt–Equity Ratio**
a. Indicator for Chakradhar Co. Ltd	3.80 times	0.18 times
b. Industry Norm (i.e. for similar Companies)	4.00 times	2.00 times
c. Variation and its nature	0.20 (negative)	1.82 (positive)
d. Variation as a % of Norm (c ÷ b)	5.00%	91.60%
e. Effect on risk perception of Equity Shareholders	High Risk	Low Risk

Explanatory Notes:

- **Coverage Ratio:** If Interest and Preference Dividend coverage ratio is low, risk of equity investors (who are entitled to residual earnings only) tends to be high. Hence, they expect additional risk premium over and above the normal rate of return.
- **Debt–Equity Ratio:** Industry Norm for Debt–Equity Ratio is 2 times whereas this Company's ratio is 0.18 times. Hence, the risk perception attributed to a highly geared Company will not be applicable in this case.

4. Expected Return on Equity Shares and Value per Share

	Normal Rate of Return (given)	15.00%
Add:	Premium for lower Coverage Ratio (5% × 15%) *[See Note]*	0.38%
Less:	Effect of Debt–Equity Ratio (91.60% × 15%)	(6.87%)
Add:	Risk Premium for Dividends (Given)	1.00%
	Expected Rate of Return on Equity Shares	**9.51%**
	Value per Equity Share = (Face Value × Actual Yield) / Expected Yield	
	= (₹ 100 × 9.37%) ÷ 9.51%	**₹ 98.53**

Note, Assumptions and Alternative Treatment:

- Instead of assigning a risk premium based on the variation % of the normal return, the variation itself can be taken as risk effect. Hence Expected Return will be 15% + 0.05% (for lower Coverage) + 1% (for Dividends) – 0.916% (for Favourable Debt Equity) = 15.134%. Value per share in such case will be **₹ 61.91.**
- Alternatively, risk premium can also be added at a token rate of 1% for the adverse risk variation. Hence, Expected Return can also be taken at 15% + 1% (for lower Coverage) + 1% (for Dividends) = 17%. Value per share in such case will be **₹ 55.12.**
- Since the question states that the risk premium for dividends is 1%, it can also be presumed that the adverse effect of low coverage ratio is covered by that 1%. Hence, Expected Return can be taken at NRR + Premium = 15% + 1% = 16%. In this case, Value per share = **₹ 58.56.**
- Alternatively, favourable position in Debt Equity Ratio can be ignored, on grounds of conservatism on estimating the value.

4(b): Employees' Stock Purchase Plan M 13 (4 Marks)

On 01.04.2012, a Company offered 100 shares to each of its employees at ₹ 40 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under this plan will be subject to lock–in on transfer for three years from the grant date. The market price on the grant date is ₹ 50 per share. However, the fair value of shares issued under this plan is ₹ 48 per share. On 30.04.2012, 400 employees accepted the offer and paid ₹ 40 per share. Nominal value of each share is ₹ 10.

Record the issue of shares in the books of the company under the aforesaid plan.

Solution: **Similar to Q.No.8 / Page 4.14**

1. Computation of Expense to be recognized

	Particulars	Value
	Fair Value per Share under the Plan	₹ 48
Less:	Issue Price	(₹ 40)
	Fair Value of Option per share	**₹ 8**
	Number of Shares expected to vest under the Scheme = 400 Employees × 100 Shares	40,000
	Total Fair Value of Options= 40,000 Shares × ₹ 8	₹ 3,20,000
	Expected Vesting Period	One Month
	Expense recognized in 2006–2007	₹ 3,20,000

2. Journal Entry (₹)

Date	Particulars	Debit	Credit
30.04.12	Bank A/c Dr. (40,000 Shares × ₹ 40)	16,00,000	
	Employees' Compensation A/c Dr. (40,000 Shares × ₹ 8)	3,20,000	
	To Share Capital A/c (40,000 Shares × ₹ 10)		4,00,000
	To Securities Premium A/c (40,000 Shares × ₹ 38)		15,20,000
	(Being 40,000 ESOP Shares issued at a premium of ₹ 38 per share)		

5(a): Valuation of Goodwill – Abnormal Loss M 13 (10 Marks)

The Balance Sheet of Domestic Ltd as on 31.03.2013 is as under –

Liabilities	₹ (Lakhs)	Assets	₹ (Lakhs)
Equity shares of ₹ 10 each	3,000	Goodwill	744
Reserves (Incl. provision for taxation of ₹ 300 Lakhs)	1,000	Premises and Land at cost	400
5% Debentures	2,000	Plant and Machinery	3,000
Secured Loans	200	Motor Vehicles (Purchased on 01.10.2012)	40
Sundry Creditors	300	Raw Materials at cost	920
Profit & Loss Account:		Work–In–Progress at cost	130
Balance from Previous year ₹ 32		Finished Goods at cost	180
Profit for the year (after taxation) ₹ 1,100	1,132	Book Debts	400
		Investment (meant for replacement of Plant & Machinery)	1,600
		Cash at Bank & Cash in Hand	192
		Discount on Debentures	10
		Underwriting Commission	16
Total	7,632	Total	7,632

1. The resale value of Premises and Land is ₹ 1,200 Lakhs and that of Plant and Machinery is ₹ 2,400 Lakhs.
2. Depreciation @ 20% is applicable to Motor Vehicles.
3. Applicable depreciation on Premises and Land is 2% and that on Plant and Machinery is 10%.
4. Market Value of the Investments is ₹ 1,500 Lakhs.
5. 10% of book debts are bad.
6. The Company also revealed that the depreciation was not charged to Profit and Loss Account and that the provision for taxation already made is sufficient.
7. In a similar Company the market value of Equity Shares of the same denomination is ₹ 25 per share and in such Company dividend is consistently paid during the last 5 years @ 25%. Contrary to this, Domestic Ltd is having a market upward or downward trend in the case of dividend payment.
8. In 2007–2008 and in 2008–2009 the normal business was hampered. The Profit earned during 2007–2008 is ₹ 67 Lakhs, but during 2008–2009 the Company incurred a loss of ₹ 1,305 Lakhs.
9. Past 3 years' profits of the company were as under
   2009–2010 – ₹ 469 Lakhs
   2010–2011 – ₹ 546 Lakhs
   2011–2012 – ₹ 405 Lakhs
10. The unusual negative profitability of the Company during 2008–2009 was due to the lock out in major manufacturing unit of the company which happened in the beginning of the second quarter of the year 2007–2008 and continued till the last quarter of 2008–2009.

Value the Goodwill of the Company on the basis of 4 years' purchase of the Super Profit.

Solution: **Similar to Q.No.18 / Page 1.48**

1. Computation of Capital Employed (based on Closing Balances) (₹ Lakhs)

Particulars	₹	₹
Assets		
Premises and Land (Revalued Figure)		1,200
Plant and Machinery (Revalued Figure)		2,400
Motor Vehicles		40
Raw materials at cost		920
Work-in-progress at cost		130
Finished Goods at cost		180
Book Debts	400	
Less: Bad Debts at 10% of ₹ 400	(40)	360
Investment (meant for replacement of Plant and Machinery)		1,500
Cash at Bank and Cash in hand		192
Total of Assets		**6,922**
Liabilities		
5% Debentures	2,000	
Secured Loans	200	
Sundry Creditors	300	
Provision for Taxation (included in Reserves)	300	**(2,800)**
Net Assets as at 31.03.2013		**4,122**

2. Computation of Future Maintainable Profits (₹ Lakhs)

	Particulars	₹ Lakhs
	Profits for 2009–2010	469
	2010–2011	546
	2011–2012	405
	2012–2013 [1100 – Bad Debts 40]	1,060
	Total Profits for 4 Years	**2,480**
	Average Profits [₹ 2,520 Lakhs ÷ 4 Years]	**620**
Less:	Additional Depreciation on Upward Revaluation of Premises — 2% of Upward Revaluation ₹ 800 [Revalued Figure ₹ 1200 – Book Value ₹ 400]	(16)
Less:	Additional Depreciation on Motor Vehicles [See Note] ₹ 40 × 20% × 50%	(4)
Add:	Depreciation on Downward Revaluation of Plant – 10% of Downward Revaluation ₹ 600 [Book Value ₹ 3,000 – Revalued ₹ 2,400]	60
	Future Maintainable Profits	**660**

Note:
(a) In the absence of tax rate, tax effect is ignored.
(b) Since the Motor Vehicles were acquired only in 1.10.2012, only 50% of the Depreciation would have been claimed. Since in the subsequent periods, depreciation would be claimed in full, additional depreciation i.e. 50% of Depreciation Rate of 20% i.e. 10% of ₹ 40 Lakhs i.e. ₹ 4 Lakhs is reduced from Future Maintainable Profits.

3. Computation of Expected Capitalisation Rate (Return on Net Assets)

(a) Computation of Risk Factor (Standard Deviation)

Note: It is assumed that Domestic Ltd would have declared dividend based on its profitability. Therefore, it is taken that no dividend would have been declared for the second year, and the earnings for the next three years would have been declared as dividend. The dividend rate is rounded off for the purpose of computation. (₹ Lakhs)

Since profits for the year 2012–2013 is completely retained as per the Balance Sheet, no dividend would have been declared by Domestic Ltd. Assuming this to be the case for the representative Company, inconsistency in dividend distribution is measured using profits of Years 2007–2008 to 2011–2012.

Years	Weights (P)	Earnings	Dividend Rate (R)	Expected Return	Deviation (D)	D^2	Variance ($P \times D^2$)
(1)	(2)	(3)	(4)	(5) = (2) × (4)	(6) = (4) – Σ(5)	(6)	(7) = (2) × (6)
2007–08	0.20	67	67 / 3000 = 2%	0.4	2 – 10 = –8	64	12.8
2008–09	0.20	(1,305)	0%	0.0	0 – 10 = –10	100	20.0
2009–10	0.20	469	469 / 3000 = 16%	3.2	16 – 10 = 6	36	7.2
2010–11	0.20	546	546 / 3000 = 18%	3.6	18 – 10 = 8	64	12.8
2011–12	0.20	405	405 / 3000 = 14%	2.8	14 – 10 = 4	16	3.2
				10.0			**56.0**

Standard Deviation = Risk Factor = $\sqrt{\text{Variance}} = \sqrt{56}$ **= 7.48% or 7.50%**

(b) Computation of Normal Rate of Return

Particulars	Value
Market Price of Share of Representative Company	₹ 25
Face Value of Share of Representative Company	₹ 10
Dividend Rate	20%
Dividend in ₹ [Face Value ₹ 10 × Dividend Rate 20%]	₹ 2
Expected Rate of Return (Normal Rate of Return) = Dividend ₹ 2 ÷ Market Price ₹ 25	8%

(c) Computation of Expected Return Rate

Particulars		Value
	Normal Rate of Return	8.0%
Add:	Risk Premium (for inconsistency in Dividend payments)	7.5%
	Expected Rate of Return	**15.5%**

Note: Alternatively, a nominal rate of 1% or 2% may be added as Risk Premium, to the Normal Rate of Return for uncertainty associated with dividend distribution.

4. Computation of Goodwill

Particulars			Value
	Future Maintainable Profits of the Company	[A]	₹ 660
	Net Assets of the Company		₹ 4,122
	Expected Rate of Return		15.50%
	Expected Profit of the Company [₹ 4,122 Lakhs × 15.50%]	[B]	₹ 639
	Super Profits	[A – B]	**₹ 21**
	Years of Super Profits Purchased		4
	Goodwill [₹ 21 Lakhs × 4 Years]		**₹ 84**

Therefore, Goodwill of the Company is ₹ 84 Lakhs.

Notes and Assumptions:

1. Income from investments for replacement of machine is assumed to be equal to additional income that will be generated from the commissioning of new machines in the future. Hence, not adjusted in the above computations.
2. Alternative Goodwill can be computed by considering Average Capital Employed.

5(b): AS – 15: Return on Plan Assets M 13 (6 Marks)

On 01.04.2011, the fair value of Plan Assets were ₹ 2,50,000 in respect of a pension plan of Q Ltd. On 30.09.2011, the plan paid out benefits of ₹ 47,500 and received further contribution of ₹ 1,22,500. On 31.03.2012, the fair value of Plan Asset was ₹ 3,75,000 and the present value of the benefit obligation was ₹ 3,69,800. Actuarial losses on the obligation for 2011–2012 were ₹ 1,500. On 01.04.2011, the Company had made the following estimates:

Particulars	%
Interest and Dividend Income after tax payable by the fund	9.25
Realized and unrealized gain on Plan Asset (after tax)	2.0
Fund Expenses	(1.0)
Expected Rate of Return	10.25

Find out the expected and unexpected return on plan assets.

Solution:Similar to Q.No.55 / Page 15.23 of Padhuka's Students' Referencer on Accounting Standards

	Particulars	₹
	Return on ₹ 2,50,000 held for 12 months at 10.25%	25,625
Add:	Return on ₹ 75,000 held for 6 months at 5% (equivalent to 10.25% annually, compounded every 6 months) [₹ 75,000 = Inflow ₹ 1,22,500 **Less** Payments ₹ 47,500]	3,750
	Expected Return on Plan Assets for 20X1	**29,375**
	Fair Value of Plan Assets at 31.03.2012	3,75,000
Less:	Fair Value of Plan Assets at 01.04.2011	(2,50,000)
Less:	Contributions Received	(1,22,500)
Add:	Benefits paid during the year	47,500
	Actual Return on Plan Assets	**50,000**
	Difference Between Expected Return & Actual Return on Plan Assets (50,000 – 29,375)	Gain 20,625
Less:	Actuarial Loss on the obligation (given)	Loss 1,500
	Net Actuarial Gain to be recognised in the Statement of Profit and Loss.	**Gain 19,125**

Note: The Expected Return on Plan Assets for 2012–2013 will be based on market expectations at 01.04.2012 for returns over the entire life of the obligation.

The Actual Return on Plan Assets can also be computed in T–Form, by preparing **Plan Assets A/c** as under –

Particulars	₹	Particulars	₹
To balance b/d (given) (Fair Value of Plan Assets at year beginning)	2,50,000	By Benefits paid out of Plan Assets (Outflow out of Plan Assets)	47,500
To Employer's Contribution for the period (Inflow to create more Plan Assets)	1,22,500	By balance c/d (given) (Fair Value of Plan Assets at year end)	3,75,000
To Surplus **(balancing figure)** (being Actual Return on Plan Assets)	**50,000**		
Total	**4,22,500**	**Total**	**4,22,500**

6(a): Gross Value Added Statement – Calculation of Excise Duty M 13 (8 Marks)

From the following Profit and Loss account of B Co. Ltd prepare a Gross Value Added Statement for the year ended 31.12.2012. Also show the reconciliation between Gross Value Added and Profit Before Taxation.

Profit and Loss Account for the year ended 31.12.2012

		Notes	(₹ in '000)	(₹ in '000)
Income:	Sales		6,240	
	Other income		55	6,295
Expenditure:	Production and operational Expenditure	1	4,320	
	Administrative expenses	2	180	
	Interest and other charges	3	624	
	Depreciation		16	(5,140)
Profit before Tax				1,155
Provision for Tax				(55)
Profit after Tax				1,100
Balance as per Balance sheet				60
				1,160
Transferred to Fixed Assets				
Replacement Reserve			400	
Dividend paid			160	(560)
Surplus carried to Balance Sheet				600

Notes:
1. Production and operation Expenses: Consumption of Raw Materials – 3,210, Consumption of Stores – 40, Local Tax – 8, Salaries to Administrative staff – 620, Other Manufacturing Expenses – 442
2. Administration Expenses include Salaries and commission to directors – 5
3. Interest and other charges include: Interest in bank over draft (overdraft is of temporary nature) – 109, Fixed loan from ICICI – 51, Working Capital loan from IFCI – 20
4. Excise duty amounts to one–tenth of the total value added by manufacturing and trading activities.

Solution: **Similar to Q.No.4 / Page 5.13**

Value Added Statement of B Co. Ltd for the year ended 31.12.2012

Particulars			₹ 000s	₹ 000s	%
	Sales			6,240	
Less:	Cost of Bought In Materials and Services:				
	Production and Operational Expenses	(4,320 – 8 – 620)	3,692		
	Administrative Expenses	(180 – 5)	175		
	Interest on Bank Overdraft		109		
	Interest on Working Capital Loan		20		
	Excise Duties	(Refer to Working Note)	180		
	Other/Miscellaneous Charges	(444 – 180)	264	4,440	
	Value Added by Manufacturing and Trading Activities			1,800	
Add:	Other Income			55	
	TOTAL VALUE ADDED FROM OPERATIONS			**1,855**	

Application of Value Added:				
1. To pay Employees:	Salaries to Administrative Staff		620	33.42
2. To pay Directors:	Salaries and Commission		5	0.27
3. To pay Government:	Local Tax	8		
	Income Tax	55	63	3.40
4. To pay providers of Capital:	Interest on Fixed Loan	51		
	Dividend	160	211	11.37
5. To provide for maintenance and expansion of the Company:				
	Depreciation	16		
	Fixed Assets Replacement Reserve	400		
	Retained Profit (600 – 60)	540	956	51.54
TOTAL APPLICATION OF VALUE ADDED			**1,855**	**100.00**

Reconciliation between Total Value Added and Profit before Taxation

Particulars		₹ 000s	₹ 000s
	Profit Before Tax		1,155
Add back:	Depreciation	16	
	Salaries to Administrative staff	620	
	Directors Remuneration	5	
	Interest on Fixed Loan	51	
	Local Tax	8	700
	Total Value Added		**1,855**

Working Note on Calculation of Excise Duty:
- Interest and Other Charges ₹ 624 include Interest on Bank Overdraft, ICICI Loan and IFCI Loan. Excluding these, the balance amount constitutes Excise Duty and Other Charges.
- Thus, Excise Duty + Other Charges = 624 – 109 – 51 – 20 = 444
- Assuming that these Other Charges have to be deducted for arriving at Value Added, the Excise Duty is determined in the following manner –
  Let Excise Duty be ₹ E; Thus Other Charges = 444 – E
  Excise Duty is 1/10th of Value Added. Hence, E = 1/10 × [6,240 – (3,692 + 175 + 109 + 20 + E + (444 – E)]
  Therefore, E = 1/10 × [6,240 – 4,440] = 1/10 × 1,800 = **180**; Excise Duty = 180
  Thus, Other Charges = 444 – 180 = **264.**

Alternatively, if Other Charges is considered as an application of Value Added (i.e. not deducted at deriving the Value Added, the computation of Excise Duty (E) will be as follows –

E = 1/10 × [6,240 – (3,692 + 175 + 109 + 20 + E)]
E = 1/10 × [2244 – E]
11E = 2,244; Hence, **E = 204.** In this case, Other Charges will be 444 – 204 = 240.
The Total Value Added in this case will be 1,800 + 240 + 55 (Other Income) = 2,095

6(b): Accounting for Investment by Mutual Fund M 13 (8 Marks)

The Investment Portfolio of a Mutual Fund Scheme includes 5,000 shares of X Ltd and 4,000 Shares of Y Ltd acquired on 31.12.2010. The cost of X Ltd Shares is ₹ 40 while that of Y Ltd is ₹ 60. The market value of these shares at the end of 2010–2011 was ₹ 38 and ₹ 64 respectively. On 30.06.2012, Shares of both the companied were disposed off realizing ₹ 37 per X Ltd shares and ₹ 67 per Y Ltd shares. Show important accounting entries in books of the fund for the Accounting Year 2010–2011 and 2011–2012.

Solution: **Accounting Entries in the Books of the Fund**

Date	Particulars	Debit	Credit
31.12.10	Investment in Shares of X Ltd A/c Dr. (5,000 Shares × ₹ 40)	2,00,000	
	Investment in Shares of Y Ltd A/c Dr. (4,000 Shares × ₹ 60)	2,40,000	
	To Bank A/c		4,40,000
	(Being Investments made by the fund in Shares of X Ltd and Y Ltd recorded at cost)		
31.03.11	Revenue A/c Dr. [5,000 Shares × (40–38)]	10,000	
	To Provision for Depreciation in Value of Investments A/c		10,000
	(Being Investment in shares of X Ltd marked to market on Balance sheet date and Depreciation in value of the Investments provided)		
31.03.11	Investment in Shares of Y Ltd A/c Dr. [4,000 Shares × (64–60)]	16,000	
	To Unrealised Appreciation Reserve A/c		16,000
	(Being Investment in shares of Y Ltd marked to market on Balance sheet date and Appreciation in value of the Investments recorded)		
30.06.12	Bank A/c Dr. [5,000 Shares × 37]	1,85,000	
	Provision for Depreciation in Value of Investments A/c Dr. (Available Balance)	10,000	
	Revenue A/c Dr. **(Balancing Figure)**	5,000	
	To Investment in Shares of X Ltd A/c (Carrying Amount)		2,00,000
	(Being Investment in shares of X Ltd sold in the current year and resultant Loss on sale first adjusted towards balance in Provision Account and Balance charged towards Revenue Account)		
30.06.12	Bank A/c Dr. [4,000 Shares × 67]	2,68,000	
	Unrealised Apreciation Reserve A/c Dr. (Available Balance)	16,000	
	To Investment in Shares of Y Ltd A/c (Carrying amount of 2,40,000 + 16,000)		2,56,000
	To Revenue A/c **(Balancing Figure)**		28,000
	(Being Investment in shares of Y Ltd sold in the current year and resultant profit on sale completely recognised in the Revenue Account)		

7(a): Provisioning by NBFC M 13 (5 Marks)

While closing its books of accounts on 31.03.2012 a Non–Banking Finance Company has its advances classified as follows:

Particulars	₹ in lakhs
Standard Assets	16,800
Sub–Standard Assets	1,340
Secured Portion of Doubtful Debts:	
– Upto one year	320
– One year to three years	90
– More than three years	30
Unsecured Portion	97
Loss Assets	48

Calculate the amount of provision to be made against the advances.

Solution: **Similar to Q.No.3 / Page 5.59**

Particulars	Loan ₹ Lakhs	Provision %	Provision ₹ Lakhs
Standard Assets	16,800	0.25%	42
Sub–Standard Assets	1,340	10%	134
Secured Portions of Doubtful Debts – up to one year	320	20%	64
– 1 year to 2 years	90	30%	27
– more than 3 years	30	50%	15
Unsecured Portions of Doubtful Assets	97	100%	97
Loss Assets	48	100%	48
Total			**427**

7(b): AS – 20: Diluted Earnings Per Share M 13 (5 Marks)

From the following information relating to W Ltd, calculate diluted Earnings Per Share as per AS – 20.

1. Net Profit for the Current Year – ₹ 5,00,00,000
2. Number of Equity Shares outstanding – 1,00,00,000
3. 11% convertible Debentures of ₹ 100 each (Nos.) – 1,25,000
4. Interest Expenses for current year – ₹ 13,75,000
5. Tax saving relating to interest expense – 30%
6. Each Debenture is convertible into eight Equity Shares.

Solution:Similar to Q.No.39 / Page 20.16 of Padhuka's Students' Referencer on Accounting Standards

Computation of Basic and Diluted EPS

Particulars	For Basic EPS	Adjustment for Dilution	For Adjusted EPS
(1)	(2)	(3)	(4) = (2) + (3)
1. Net Profit for the period attributable to Equity Shareholders	Given ₹ 5,00,00,000	**(Note)** ₹ 9,62,500	₹ 5,09,62,500
2. Weighted Avg No. of Equity Shares	Given 1,00,00,000	1,25,000 × 8 = 4,00,000	1,10,00,000
3. EPS = 1 ÷ 2	Basic EPS = **₹ 5.00**		Diluted EPS = **₹ 4.63**

Note:

Tax Adjusted Interest on Convertible Debentures = Interest Expense for the year – Tax Saving relating to Interest Exp.
= 13,75,000 – 4,12,500 = **₹ 9,62,500**

7(c): Guidance Note: CENVAT on Capital Goods M 13 (5 Marks)

W Ltd purchased Machinery for ₹ 80 Lakhs from X Ltd during the year 2010–2011 and installed the same immediately. Price includes Excise Duty of ₹ 8 Lakhs. During the year 2010–2011, the Company produced Exciseable Goods on which Excise Duty of ₹ 7.20 Lakhs was charged. Give necessary entries explaining the treatment of CENVAT Credit.

Solution: **Similar to Illustration 3 / Page 6.26**

1. Journal Entries

S.No.	Transaction and Entry	Debit	Credit
1	Machinery A/c Dr.	72,00,000	
	CENVAT Credit Rec'ble (Capital Goods) A/c Dr.	4,00,000	
	CENVAT Credit Deferred (Capital Goods) A/c Dr.	4,00,000	
	To X Ltd / Bank A/c		80,00,000
	(Being Plant purchased recorded, including immediate CENVAT Credit available of 50%, balance 50% (assumed) credit available in subsequent year)		
2	Excise Duty A/c Dr.	4,00,000	
	To CENVAT Credit Recble(Capital Goods)		4,00,000
	(Being set off of CENVAT Credit during the year)		
3	Excise Duty A/c Dr.	3,20,000	
	To Bank		3,20,000
	(Being balance Excise Duty payable ₹ 7,20,000 – ₹ 4,00,000 set–off, now settled)		
	Subsequent Financial Year		
4	CENVAT Credit Rec'ble (Capital Goods) A/c Dr.	4,00,000	
	To CENVAT Credit Deferred (Cap. Goods)		4,00,000
	(Being transfer of balance CENVAT Credit available on Capital Goods)		

2. Balance Sheet (abstract)

Liabilities	₹	Assets	₹
		Fixed Assets: Plant at Cost	72,00,000
		Less: Depreciation	??
		Current Assets, Loans and Advances:	
		CENVAT Credit Deferred (Cap. Goods)	4,00,000

7(d): AS – 32: Disclosure Requirements M 13 (5 Marks)

Write short notes on "Disclosure of carrying amounts of Financial Assets and Financial Liabilities in Balance Sheet".

Solution: Refer Q.No.4 / Page 32.3 of Padhuka's Students' Referencer on Accounting Standards

7(e): AS – 29: Estimation of Contingent Losses M 13 (5 Marks)

Vishnu Company has at its Financial Year ended 31.03.2013, fifteen law suits outstanding none of which has been settled by the time the accounts are approved by the directors. The Directors have estimated that the possible outcomes as below –

Result	Probability	Amount of loss
For first ten cases:		
Win	0.6	
Loss–low damages	0.3	90,000
Loss–high damages	0.1	1,60,000
For remaining five cases:		
Win	0.5	
Loss–low damages	0.3	60,000
Loss–high damages	0.2	95,000

The directors believe that the outcome of each case is independent of the outcome all the others. Estimate the amount of Contingent Loss and state the accounting treatment of such Contingent Loss.

Solution:

1. **Nature of Obligation:** The probability of winning the suits is 60% for first ten cases and 50% for the remaining five cases. Thus the probability of losing is 40% and 50% respectively. As the loss does not appear to be probable, the possibility of an outflow of resources embodying economic benefits is not probable. Therefore, the proper treatment is to disclose the Contingent Liability (and not Provision) as required under AS – 29.

2. **Determination of Probable Losses:**

Category	Probable Loss per case	Total Probable Loss	Total Maximum Loss
First Ten Cases	90,000 × 0.3 = 27,000 1,60,000 × 0.1 = 16,000 Total = 43,000	₹ 43,000 × 10 cases = ₹ 4,30,000	₹ 1,60,000 × 10 cases = ₹ 16,00,000
Remaining Five Cases	60,000 × 0.3 = 18,000 95,000 × 0.2 = 19,000 Total = 37,000	₹ 37,000 × 5 cases = ₹ 1,85,000	₹ 95,000 × 5 cases = ₹ 4,95,000
Total		**₹ 6,15,000**	**₹ 20,95,000**

3. **Disclosure:**
   (a) Disclosure of Contingent Liability on the basis of maximum loss at ₹ 20,95,000 will be highly unrealistic since it does not recognize the probability of winning some cases and paying low damages in some cases.
   (b) It will be advisable to disclose the overall expected loss of ₹ 6,15,000 as Contingent Liability not provided for in the accounts.