

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

1. (a)

Balance Sheet of Super Star Ltd.

As on 31st Mar'2011

Particulars	Note No	Amount
Non Current Liabilities		
Long term borrowings	4	5,61,738
Current Liabilities		
Short term borrowings	5	36,112
Other current liabilities	6	<u>45,376</u>
		<u>6,43,226</u>

Notes to Accounts

4. Long-Term Borrowings	
Term loans – Secured	
- from banks	295,002
- from other parties	<u>312,112</u>
	607,114
Less : Shown in current maturities of long-term debt (Refer Note 6)	<u>45,376</u>
	<u>5,61,738</u>
5. Short-Term Borrowings	
(Unsecured – payable on demand)	
- from bank	36,112
6. Other Current Liabilities	
Current maturities of long-term debt	
From banks	30,000
From other	<u>15,376</u>
	<u>45,376</u>

It is assumed the Note 1 is for 'Significant Accounting Policies', Note 2 for 'Share Capital', Note 3 for 'Reserves and Surplus'.

(b)

Allocation of Earnings	Old Unit Holders	New Unit Holders	Total
	[36 lakhs units] ₹ in lakhs	[4 lakhs units] ₹ in lakhs	₹ in lakhs
First half year (₹ 5 per unit)	180.00	Nil	180.00
Second half year (₹ 3.60 per unit)	<u>129.60</u>	<u>14.40</u>	<u>144.00</u>
	309.60	14.40	324.00
Add: Equalization payment recovered (₹ 5 per unit x 4 lakhs units)	-	-	<u>20.00</u>
Total available for distribution			<u>344.00</u>

	Old Unit Holders ₹	New Unit Holders ₹
Dividend distributed (344 lakhs / 40 lakhs)	8.60	8.60
Less: Equalization payment	<u>-</u>	<u>(5.00)</u>
	<u>8.60</u>	<u>3.60</u>

Journal Entries

(₹ in lakhs)			
30.9.2011	Bank A/c Dr.	300.00	
	To Unit Capital		40.00
	To Reserve		240.00
	To Dividend Equalization		20.00
	(Being the amount received on sale of 4 lakhs unit at a NAV of ₹70 per unit)		
31.3.2012	Dividend Equalization Dr.	20.00	
	To Revenue A/c		20.00
	(Being the amount transferred to Revenue Account)		
30.9.2012	Revenue A/c Dr.	344.00	
	To Bank		344.00
	(Being the amount distributed among 40 lakhs unit holders @ ₹ 8.60 per unit)		

(c)

Journal Entries

Date	Particulars		₹	₹
31.3.2012	Employees compensation Expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP – Refer W.N.)	Dr.	4,02,500	4,02,500
31.3.2012	Bank A/c (42,500 X ₹20) ESOS outstanding A/c To Equity share capital (42,500 x ₹ 10) To Securities premium A/c (42,500 X ₹40) (Being 42,500 options exercised at an exercise price of ₹ 50 each)	Dr. Dr.	8,50,000 12,75,000	4,25,000 17,00,000
	Profit and Loss A/c To Employees compensation expenses A/c (Being compensation expenses charged to Profit & Loss A/c)	Dr.	4,02,500	4,02,500
	ESOS outstanding A/c To General Reserve A/c (Being ESOS outstanding A/c at the end of exercise of option period transferred to General Reserve A/c)	Dr.	37,500	37,500

Working Note:

Statement showing compensation expenses to be recognised

Particulars	Year 1 (31.3.2010)	Year 2 (31.3.2011)	Year 3 (31.3.2012)
Number of options expected to vest	47,500 options	45,500 options	43,750 options
Total compensation expenses accrued @ 30 (i.e. 50-20)	<u>₹ 14,25,000</u>	<u>₹ 13,65,000</u>	<u>₹ 13,12,500</u>
Compensation expenses of the year	14,25,000 x 1/2 = ₹7,12,500	13,65,000 x 2/3 = ₹9,10,000	₹ 13,12,500

Compensation expenses recognized previously	<u>Nil</u>	<u>₹7,12,500</u>	<u>₹ 9,10,000</u>
Compensation expenses to be recognized for the year	<u>₹7,12,500</u>	<u>₹ 1,97,500</u>	<u>₹ 4,02,500</u>

(d) **Original cost of the machine**

<i>Particulars</i>	<i>₹</i>	<i>₹</i>
Quoted price	45,00,000	
Less: Discount @1.25%	<u>(56,250)</u>	44,43,750
Add: VAT @12.5%		5,62,500
Transportation @ 2.5%		1,12,500
Erection cost @ 1.5%		67,500
Pre-operative cost		2,50,000
Finance cost (12.5% on ₹ 25 lakhs for the period 01.10.11 to 31.12.11)		<u>78,552</u>
Total		<u>55,14,802</u>

Finance cost amounting ₹ 77,698 (12.50% on ₹ 25 lakhs for the period 01.01.2012 to 31.03.2012) will be charged to profit and loss account as per AS 16 "Borrowing Costs".

Note: Interest has been calculated on the basis of no. of days and F.Y. 2011-12 has been taken of 366 days.

2. **Consolidated Balance Sheet of AH Ltd. and its subsidiary AS Ltd.**
as on March 31, 2012

Particulars	Note No.	Amount (₹)
Equity and Liabilities		
Shareholders' Funds		
Share Capital	1	3,00,000
Reserves and Surplus	2	1,35,300
Minority Interest		1,39,750
Non-Current Liabilities		
Long Term Borrowings	3	40,000
Current Liabilities		
Trade Payables	4	1,67,300
Other Current Liabilities	5	<u>900</u>
Total		<u>7,83,250</u>

Assets**Non-Current Assets**

Fixed Assets

-Tangible Assets	6	5,00,000
-Intangible Assets	7	9,750

Current Assets

Inventories	8	95,000
Trade Receivables	9	70,900
Cash and cash equivalents	10	40,100
Other Current Assets	11	<u>67,500</u>
Total		<u>7,83,250</u>

Notes to Accounts

Note No.	Particulars	Amount (₹)	Amount (₹)
1.	Share Capital: Authorised, Issued and paid up capital Issued, Subscribed and Paid up 30,000 equity shares of ₹ 10 each fully paid		---- 3,00,000
2.	Reserves and Surplus: General Reserve Profit and Loss A/c AH Ltd. on 1.4.2011 Profit during 2011 - 2012 Add: Accrued Debenture Interest	50,000 25,000 <u>60,000</u> 85,000 <u>300</u> <u>85,300</u>	 1,35,300
3.	Long Term Borrowings: 6% Debentures AH Ltd. AS Ltd. Less: Common Debt	25,000 <u>20,000</u> 45,000 <u>5,000</u>	 40,000
4.	Trade Payables: Sundry Creditors AH Ltd. AS Ltd.	90,000 <u>77,300</u>	 1,67,300
5.	Other Current Liabilities: Debenture interest accrued Less: Common debt	1,200 <u>300</u>	 900

6.	Tangible Assets: Plant & Machinery AH Ltd. 2,50,000 AS Ltd. <u>2,50,000</u>		5,00,000
7.	Intangible Assets: Goodwill on consolidation (W.N.)		9,750
8.	Inventories: Stock AH Ltd. 40,000 AS Ltd. <u>55,000</u>		95,000
9.	Trade Receivables: Debtors AH Ltd. 35,900 AS Ltd. <u>35,000</u>		70,900
10.	Cash and cash equivalents: Cash & Bank AH Ltd. 20,100 AS Ltd. <u>20,000</u>		40,100
11.	Other Current Assets: Other Current Assets AH Ltd. 34,000 AS Ltd. <u>33,500</u> 67,500 Add: Accrued debenture Interest of AH Ltd. <u>300</u> 67,800 Less: Common debt of accrued debenture interest <u>300</u>		67,500

Working Notes:

- As shares are acquired on the date of the balance sheet, total reserve and surplus of AS Ltd., is pre-acquisition and, thus capital profit.

	₹	₹
Profit and Loss Account		
Profit for equity shareholders on 1.4.2011		12,500
Profit for the year 2011-2012	32,500	
Add: Wrong recording of repair of machinery	<u>15,000</u>	
	47,500	

Less: Depreciation on 15,000 @ 10%	<u>1,500</u>	
Correct profit	46,000	
Less: Preference dividend	<u>8,000</u>	
Profit for the year 2011-2012 for equity shareholders		38,000
Add: General Reserve		40,000
Add: Profit on Revaluation of plant & machinery:		
Value on 31.3.2012	2,20,000	
Add: Effect of wrong recording of repair (15,000 – 1,500)	<u>13,500</u>	
Correct value on the date of revaluation	2,33,500	
Less: Revalued figure	<u>2,50,000</u>	<u>16,500</u>
		<u>1,07,000</u>

Share of AH Ltd. = 1,07,000 X 75% = ₹ 80,250

Share of Minority = 1,07,000 X 25% = ₹ 26,750

2. **Calculation of cost of control**

Investment in S Ltd.		1,65,000
Less: Cost of shares:		
Share capital	75,000	
Capital profit	<u>80,250</u>	<u>1,55,250</u>
Goodwill		<u>9,750</u>

3. **Calculation of Minority Interest**

Minority Interest = Share in equity share capital + Share in 10% preference share capital + share in profits for equity + share in dividend for preference shareholders

$$= 25,000 + 80,000 + 26,750 + 8,000 = ₹ 1,39,750.$$

3. (i) **Profit for calculation of interest and fixed dividend coverage:** ₹

Average profit of the Company (before interest and taxation)	10,00,000
Less: Debenture interest (15% on ₹ 16,00,000)	<u>2,40,000</u>
	7,60,000
Less: Tax @ 40%	<u>3,04,000</u>
Profit after interest and taxation	4,56,000
Add back: Debenture interest	<u>2,40,000</u>
Profit before interest but after tax	<u>6,96,000</u>

(ii) Calculation of interest and fixed dividend coverage: ₹

Fixed interest and fixed dividend:

Debenture interest	2,40,000
Preference dividend	<u>1,00,000</u>
	3,40,000

Fixed interest and fixed dividend coverage

$$= 6,96,000/3,40,000=2.05 \text{ times}$$

Interest and fixed dividend coverage 2.05 times is less than the prescribed three times.

(iii) Capital gearing ratio:

$$\begin{aligned} \text{Equity share capital + reserves} &= ₹ 20,00,000 + ₹ 8,00,000 \\ &= ₹ 28,00,000 \end{aligned}$$

$$\text{Preference share capital + debentures} = ₹ 10,00,000 + ₹ 16,00,000 = ₹ 26,00,000$$

$$\text{Capital Gearing Ratio} = 0.93 \text{ (approximately)}$$

$$26,00,000/28,00,000$$

Ratio 0.93 is more than the prescribed ratio of 0.75.

(iv) Yield on equity shares:

		₹
Average profit after interest and tax		4,56,000
Less: Preference Dividend	1,00,000	
Equity Dividend (10% on ₹ 20,00,000)	<u>2,00,000</u>	<u>3,00,000</u>
Undistributed profit		<u>1,56,000</u>
50% of distributed profit (50% of ₹ 2,00,000)	1,00,000	
5% of undistributed profit (5% of ₹ 1,56,000)	<u>7,800</u>	1,07,800
Yield on equity shares= 107,800/20,00,000 x100		5.39%

(v) Expected yield of equity shares:

	%
Normal return	12.00
Add: For low coverage of fixed interest and fixed dividends (2.05 < 3) (See Note 1)	0.50
Add: For high capital gearing ratio (0.93 > 0.75)(See Note 2)	<u>0.50</u>
	<u>13.00</u>

(vi) Value per equity share of ₹ 100 each:

$$=(5.39/13.00) \times 100$$

$$=₹ 41.46$$

Notes:

1. When interest and fixed dividend coverage is low, riskiness of equity investors is high. So they should claim additional risk premium over and above the normal rate of return. Here, the additional risk premium is assumed to be 0.50%.
2. Similarly, higher the ratio of fixed interest and dividend bearing capital to equity share capital plus reserves, higher is the risk and so higher should be risk premium. Here also the additional risk premium has been assumed as 0.50%.

4. (a) Statement showing value added of Getex Ltd. for 2012

			₹
Turnover			27,600
Less: Cost of bought-in materials and services			
Raw Material consumed			
Opening stock	1,920		
Add: Purchases	<u>7,500</u>		
	9,420		
Less: Closing stock	<u>2,400</u>	7,020	
Add: Printing and Stationery		264	
Audit remuneration		336	
Rent, Rates and Taxes		1,980	
Other Expenses		<u>1,020</u>	<u>10,620</u>
Value added			16,980
Applied as:			
To pay employees:			
Wages and salaries		3,924	
E.S.I.		420	
P.F. Contribution		<u>336</u>	4,680
To pay providers of capital:			
Dividend		1,752	
Interest		<u>480</u>	2,232
To pay Government:			
Income tax			3,312

To provide Maintenance & Expansion:

Depreciation	3,300	
Retained profits	<u>3,456</u>	<u>6,756</u>
		<u>16,980</u>

Value-added ratios:

Value added per employees = $16,980/20 = ₹ 849$

Average earning per employee = $4,680/20 = ₹ 234$

Sales per employee = $27,600/20 = ₹ 1,380$

(b) Valuation of Goodwill

	C Ltd. ₹	D Ltd. ₹
Average annual profit	9,00,000	6,20,000
Less: Debenture Interest	(1,20,000)	(80,000)
	7,80,000	5,40,000
Less: Depreciation on amount increased on revaluation (W.N.2)	(80,000)	-
Add: Depreciation on amount reduced on revaluation (W.N.2)	-	40,000
Less: Omission of claim	-	(20,000)
Average profit	7,00,000	5,60,000
Less: Normal profit @ 15% on closing capital employed (W.N.1)	(6,60,000)	(2,07,000)
Super profit	40,000	3,53,000
Goodwill valued at four years' purchase of super profits	1,60,000	14,12,000

Working Notes:

1. Calculation of Closing Capital Employed

	C Ltd.	D Ltd.
	₹	₹
Tangible Fixed Assets (Revalued)	42,00,000	24,00,000
Current Assets (Revalued)	20,00,000	8,00,000
	62,00,000	32,00,000
Less: Debentures	(12,00,000)	(8,00,000)
Creditors	(6,00,000)	(10,00,000)
Claim	-	(20,000)
Closing Capital Employed	44,00,000	13,80,000

2. Excess / short depreciation

	<i>C Ltd.</i>	<i>D Ltd.</i>
	₹	₹
Revalued Assets	42,00,000	24,00,000
Less: Tangible Assets as per the Balance Sheet	(34,00,000)	(28,00,000)
Upward/(Downward) revaluation	8,00,000	(4,00,000)
(Increase)/Decrease in depreciation @ 10%	(80,000)	40,000

5. (a) Statement showing the total value of Human Capital of 'X' Limited

(Value in ₹)

Particulars	Age Group 30 – 39 years	Age Group 40 – 49 years	Age Group 50 – 54 years	
Unskilled Employee	1,26,22,200.00	74,04,750.00	25,58,790.00	2,25,85,740.00
Semiskilled Employee	1,38,27,060.00	71,74,327.50	28,43,100.00	2,38,44,487.50
Skilled Employee	2,25,45,960.00	1,25,05,275.00	42,64,650.00	<u>3,93,15,885.00</u>
				<u>8,57,46,112.50</u>

Working Notes:

Particulars	No	Annual Salary	Total Salary	PV Factor	Present Value
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Unskilled Employees

Age Group 30 – 39 Years (Assuming that all 50 employees are just 30 years old)

For next 10 years	50	22,500	11,25,000	6.1446	69,12,675.00
For year 11 – 20	50	37,500	18,75,000	2.3690	44,41,875.00
For year 21 – 25	50	45,000	22,50,000	0.5634	<u>12,67,650.00</u>
					<u>1,26,22,200.00</u>

Age Group 40 – 49 Years (Assuming that all 25 employees are just 40 years old)

For next 10 years	25	37,500	9,37,500	6.1446	57,60,562.50
For year 11 – 15	25	45,000	11,25,000	1.4615	<u>16,44,187.50</u>
					<u>74,04,750.00</u>

Age Group 50 – 54 Years (Assuming that all 15 employees are just 50 years old)

For next 5 years	15	45,000	6,75,000	3.7908	25,58,790.00
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Semiskilled Employees

Age Group 30 – 39 Years (Assuming that all 30 employees are just 30 years old)

For next 10 years	30	45,000	13,50,000	6.1446	82,95,210.00
For year 11 – 20	30	60,000	18,00,000	2.3690	42,64,200.00
For year 21 – 25	30	75,000	22,50,000	0.5634	<u>12,67,650.00</u>
					<u>1,38,27,060.00</u>

Age Group 40 – 49 Years (Assuming that all 15 employees are just 40 years old)

For next 10 years	15	60,000	9,00,000	6.1446	55,30,140.00
For year 11 – 15	15	75,000	11,25,000	1.4615	<u>16,44,187.50</u>
					<u>71,74,327.50</u>

Age Group 50 – 54 Years (Assuming that all 10 employees are just 50 years old)

For next 5 years	10	75,000	7,50,000	3.7908	28,43,100.00
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Skilled Employees

Age Group 30 – 39 Years (Assuming that all 20 employees are just 30 years old)

For next 10 years	20	1,05,000	21,00,000	6.1446	1,29,03,660.00
For year 11 – 20	20	1,50,000	30,00,000	2.3690	71,07,000.00
For year 21 – 25	20	2,25,000	45,00,000	0.5634	<u>25,35,300.00</u>
					<u>2,25,45,960.00</u>

Age Group 40 – 49 Years (Assuming that all 10 employees are just 40 years old)

For next 10 years	10	1,50,000	15,00,000	6.1446	92,16,900.00
For year 11 – 15	10	2,25,000	22,50,000	1.4615	<u>32,88,375.00</u>
					<u>1,25,05,275.00</u>

Age Group 50 – 54 Years (Assuming that all 05 employees are just 50 years old)

For next 5 years	05	2,25,000	11,25,000	3.7908	42,64,650.00
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(b)					₹
Net Profit after Tax					23,74,500
Add: Interest on Secured Loan (Net of tax) [30 lakhs × 8% × (1-0.40)]					1,44,000
Add: Interest on Unsecured Loan (Net of tax) [40 lakhs × 10% × (1-0.40)]					<u>2,70,000</u>
NOPAT (Return to providers of Capital)					<u>27,88,500</u>
Cost of capital = [(Interest X (1 - Effective Tax Rate)) / Debt] × 100					

Cost of secured loan = $\left[\frac{\{2.40 \text{ lakhs} \times (1 - 0.40)\}}{30 \text{ lakhs}} \right] \times 100 = 4.8\%$

Cost of unsecured loan = $\left[\frac{\{4.5 \text{ lakhs} \times (1 - 0.40)\}}{45 \text{ lakhs}} \right] \times 100 = 6\%$

Cost of equity = 12% (given)

Weighted Average Cost

	Cost after Tax	Weights (a)	Weighted Cost (b)	(a) × (b)
Equity	150 lakhs	12%	0.667 (150/225)	8.0%
Secured loan	30 lakhs	4.8%	0.133 (30/225)	0.6%
Unsecured loan	45 lakhs	6%	0.200 (45/225)	1.2%
	225 lakhs			9.8%

Capital Charge = Capital Employed × Weighted Average Cost

= 225 lakhs × 9.8% = 22.05 lakhs

Economic Value Added

= Return to providers of Capital - Capital Charge

= ₹ 27,88,500 - ₹ 22,05,000 = ₹ 5,83,500

6.

**Balance Sheet of CXY Ltd.
as at 1st April, 2012**

Particulars	Note No.	(₹ in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	3,600
(b) Reserves and Surplus	2	6,900
(2) Non-Current Liabilities		
Long-term borrowings	3	180
(3) Current Liabilities		
Trade payables	8	2,130
Total		12,810
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
i. Tangible assets	4	4,650
ii. Intangible assets	5	2,310

(b) Non-current investments	6	600
(2) Current assets		
(a) Stock		1,800
(b) Trade receivables	7	1,950
(c) Cash and cash equivalents		1,500
Total		12,810

Notes to Accounts

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Equity share capital (W.N.2)		
	2,10,00,000 Equity shares of ₹ 10 each	2,100	
	15,00,000 Preference shares of ₹ 100 each	1,500	
	(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		3,600
2.	Reserves and surplus		
	Securities Premium Account		6,900
3.	Long-term borrowings		
	12% Debentures (120 + 60)		180
4.	Tangible assets		
	Land and Building	2,850	
	Plant and Machinery	1,800	4,650
5.	Intangible assets		
	Goodwill [W.N. 2]		2,310
6.	Non-current Investments		
	Investments		600
7.	Trade receivables		
	Sundry Debtors	1,650	
	Bills receivable	300	1,950
8.	Trade payables		
	Sundry creditors	1,170	
	Acceptances	<u>960</u>	2,130

Working Notes:

		(₹ in lakhs)	
		AX Ltd.	BY Ltd.
(1)	Computation of Purchase consideration		
	(a) Preference shareholders:		
	9,00,00,000/100 Shares x ₹ 140 each	1,260	
	6,00,00,000/100 Shares x ₹ 140 each		840
	(b) Equity shareholders:		
	(24,00,00,000/100 x 5) Shares ₹ 40 each	4,800	
	(22,50,00,000/100 x 4) Shares ₹ 40 each		<u>3,600</u>
	Amount of Purchase Consideration	<u>6,060</u>	<u>4,440</u>
(2)	Net Assets Taken Over		
	Assets taken over:		
	Land and Building	1,650	1,200
	Plant and Machinery	1,050	750
	Investments	450	150
	Stock	1,050	750
	Sundry Debtors	750	900
	Bills receivable	150	150
	Cash and bank	<u>900</u>	<u>600</u>
		6,000	4,500
	Less: Liabilities taken over:		
	Debentures [(180×8%)/12%]	120	
	[90×8%)/12%]		60
	Sundry Creditors	810	360
	Bills payable	<u>600</u>	<u>360</u>
		<u>(1,530)</u>	<u>(780)</u>
	Net assets taken over	4,470	3,720
	Purchase consideration	<u>6,060</u>	<u>4,440</u>
	Goodwill	<u>1,590</u>	<u>720</u>

7. (a) Para 11 of AS 20 states that “for the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to Equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period”.

With an emphasis on the phrase “attributable to equity shareholders”, it may be construed that amounts appropriated to Mandatory Reserves as described in this case, though not available for distribution as dividend, are still attributable to equity shareholders.

Therefore, the appropriation made to mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS. The treatment made by the company is not correct.

- (b) As per AS 31 "Financial Instruments: Presentation", a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In the given case, M/s KS Ltd. has entered into a contract with KN Ltd. and company settles its account by delivery, and does not give rise to any financial asset or financial liability. Hence there is no option.

Since, the above transaction does not give rise to a financial asset of one entity and a financial liability or equity instrument of another entity; this is not a financial instrument. It is only a financial contract.

- (c) According to AS 17 "Segment Reporting", segment assets do not include income tax assets. Therefore, the revised total assets are 11.4 crores [15 crores – (1.5+1.2+0.90)]. Segment K holds total assets of 1.5 crores (3 crores – 1.5 crores); Segment S holds 3.3 crores (4.5 crores – 1.2 crores); and Segment T holds 6.6 crores (7.5 crores – 0.9 crores). Thus all the three segments hold more than 10% of the total assets, all segments are reportable segments.

- (d) According to AS 5(Revised) "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", the term prior period item refers only to income or expenses which arise in the current period as a result of errors or omission in the preparation of the financial statements of one or more prior periods.

The term does not include other adjustments necessitated by circumstances, which though related to prior periods are determined in the current period. The full amount of wage arrears paid to workers will be treated as an expense of current year and it will be charged to profit and loss account as current expenses and not as prior period expenses.

- (e) As per para 8.2 and 13 of Accounting Standard 4 'Contingencies and Events occurring after the Balance Sheet Date', assets and liabilities should be adjusted for events occurring after the date of balance sheet, that provide additional evidence to assist estimation of amounts relating to conditions existing at the Balance Sheet Date.

Therefore, in the given case, full provision for bad debt amounting ₹ 8 lakhs should be made to cover the loss arising due to insolvency in the final accounts for the year ended 31st March, 2012 as earthquake took place before the balance sheet date.