

PAPER – 1 : FINANCIAL REPORTING

PART – I : RELEVANT AMENDMENTS, NOTIFICATIONS AND ANNOUNCEMENTS

A. Applicable for November, 2014 examination

(i) Schedule III to the Companies Act, 2013

Students may note that Schedule III to the Companies Act, 2013 (Revised Schedule VI to the Companies Act, 1956 discussed in the existing study material) gives general instructions for preparation of balance sheet and statement of profit and loss of a company. Schedule III to the Companies Act, 2013, also contains general instructions for preparation of consolidated financial statements, at its end in addition to Part I - Balance Sheet and Part II - Statement of Profit and Loss. Students are advised to go through complete Schedule III to the Companies Act, 2013 carefully for preparation of financial statements of companies including consolidated financial statements.

Students may refer Schedule III to the Companies Act, 2013 on the Institute's website www.icai.org>>Students>>Bos knowledge portal>>Final Course>>Paper 1 Financial Reporting>>Additional Reading Material>>Schedule III to the Companies Act, 2013.

However, for quick reference of students, the General Instructions for preparation of Consolidated Financial Statements are being reproduced hereunder:

GENERAL INSTRUCTIONS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Where a company is required to prepare Consolidated Financial Statements, i.e., consolidated balance sheet and consolidated statement of profit and loss, the company shall mutatis mutandis follow the requirements of Schedule III as applicable to a company in the preparation of balance sheet and statement of profit and loss. In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Accounting Standards including the following:
 - (i) Profit or loss attributable to “minority interest” and to owners of the parent in the statement of profit and loss shall be presented as allocation for the period.
 - (ii) “Minority interests” in the balance sheet within equity shall be presented separately from the equity of the owners of the parent.

2. In Consolidated Financial Statements, the following shall be disclosed by way of additional information:

Name of the entity in the	Net Assets, i.e., total assets minus total liabilities		Share in profit or loss	
	As % of consolidated net assets	Amount	As % of consolidated profit or loss	Amount
1	2	3	4	5
Parent Subsidiaries Indian				
1.				
2.				
3.				
.				
.				
Foreign				
1.				
2.				
3.				
.				
.				
Minority Interests in all subsidiaries Associates (Investment as per the equity method)				
Indian				
1.				
2.				
3.				
.				
.				
Foreign				
1.				
2.				
3.				
.				
.				
Joint Ventures (as per proportionate consolidation/investment as per the equity method)				
Indian				
1.				
2.				
3.				
.				

.				
Foreign				
1.				
2.				
3.				
.				
.				
TOTAL				

3. All subsidiaries, associates and joint ventures (whether Indian or foreign) will be covered under consolidated financial statements.
4. An entity shall disclose the list of subsidiaries or associates or joint ventures which have not been consolidated in the consolidated financial statements along with the reasons of not consolidating.

(ii) Buy Back of Securities (Amendment) Regulations, 2013

In exercise of the powers conferred under section 30 of the Securities and Exchange Board of India Act, 1992 read with clause (f) of sub-section (2) of Section 77A of the Companies Act, 1956 SEBI made Securities and Exchange Board of India (Buy-back of Securities) (Amendment) Regulations, 2013 to amend the Securities and Exchange Board of India (Buy back of Securities) Regulations, 1998.

The important provisions of the new regulations (applicable for listed companies) are:

- (i) No offer of buy-back for fifteen per cent or more of the paid up capital and free reserves of the company shall be made from the open market.
- (ii) A company shall not make any offer of buyback within a period of one year reckoned from the date of closure of the preceding offer of buy-back, if any.
- (iii) The company shall ensure that at least fifty per cent of the amount earmarked for buy-back is utilized for buying-back shares or other specified securities.

These new regulations can be downloaded from the link http://203.199.247.102/cms/sebi_data/attachdocs/1375961931576.pdf

(iii) Securities and Exchange Board of India Mutual Funds (Amendment) Regulations, 2013

In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board vide notification No. LAD-NRO/GN/2013-14/03/5652 dated April 16, 2013 had made amendment to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996. These Regulations may be called as the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2013. The SEBI (Mutual Funds) (Amendment) Regulations, 2013 can be downloaded from the link http://www.sebi.gov.in/cms/sebi_data/attachdocs/1366172455558.pdf

(iv) Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2013

In exercise of the powers conferred by section 30, read with clause (c) of sub-section (2) of section 11 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the SEBI made new regulations to further amend the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, namely Securities and Exchange Board of India (Mutual Funds) (Third Amendment) Regulations, 2013. These new regulations can be downloaded from the link http://203.199.247.102/cms/sebi_data/attachdocs/1376972189079.pdf.

(v) Securities and Exchange Board of India (Stock Brokers And Sub-Brokers) (Amendment) Regulations, 2013

In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board vide notification No. LAD-NRO/GN/2013-14/01/8129 dated April 5, 2013 had made amendment to the Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992. These Regulations may be called as the Securities and Exchange Board of India (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2013. The SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2013 can be downloaded from the link http://www.sebi.gov.in/cms/sebi_data/attachdocs/1365161667044.pdf

(vi) Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) (Second Amendment) Regulations, 2013

SEBI has issued Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) (Second Amendment) Regulations, 2013 vide notification No. LAD-NRO/GN/2013-14/25/24775 dated 27th September, 2013. As per these regulations, "clearing corporation, "clearing member" "proprietary trading member" "self-clearing member" and "stock broker" have been defined. These new regulations can be downloaded from the link http://www.sebi.gov.in/cms/sebi_data/attachdocs/1380282501004.pdf.

(vii) Application of AS 30, Financial Instruments: Recognition and Measurement, for the accounting periods ending on or before 31st March 2011 and from 1st April, 2011 onwards

1. Accounting Standard Board of ICAI has issued a clarification regarding applicability of AS 30 (dated 11th February, 2011). It is clarified that in respect of the financial statements or other financial information for the accounting periods commencing on or after 1st April 2009 and ending on or before 31st March 2011, the status of AS 30 would be as below:
 - (i) To the extent of accounting treatments covered by any of the existing notified accounting standards (for eg. AS 11, AS 13 etc.) the existing accounting standards would continue to prevail over AS 30.

- (ii) In cases where a relevant regulatory authority has prescribed specific regulatory requirements (eg. Loan impairment, investment classification or accounting for securitizations by the RBI, etc), the prescribed regulatory requirements would continue to prevail over AS 30.
 - (iii) The preparers of the financial statements are encouraged to follow the principles enunciated in the accounting treatments contained in AS 30. The aforesaid is, however, subject to (i) and (ii) above.
2. From 1st April 2011 onwards,
- (i) the entities to which converged Indian accounting standards will be applied as per the roadmap issued by MCA, the Indian Accounting Standard (Ind AS) 39, Financial Instruments; Recognition and Measurement, will apply.
 - (ii) for entities other than those covered under paragraph 2(i) above, the status of AS 30 will continue as clarified in paragraph 1 above.
3. The abovementioned clarifications would also be relevant to the existing AS 31, Financial Instruments: Presentation and AS 32, Financial Instruments: Disclosures as well as for Ind AS 32, Financial Instruments: Presentation and Ind AS 107, Financial Instruments: Disclosures, after 1st April 2011 onwards.

Note: Ind AS, have not been notified till date. AS 30, 31 and 32 have also not been notified. However, AS 30, 31 and 32 will presumed as encouraged to be followed by all the entities.

B. Not applicable for November, 2014 examination

Ind ASs issued by the Ministry of Corporate Affairs

The Ministry of Corporate Affairs (MCA) has hosted 35 converged Indian Accounting Standards (known as "Ind-AS"), without announcing the applicability date. The issuance of Ind-AS is a significant step towards the implementation of converged standards in India. The MCA will intimate the implementation date later. However, Ind ASs are not made applicable for November, 2014 examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

AS 2

1. (a) Calculate the value of raw materials and closing stock based on the following information:

<u>Raw material X</u>	
Closing balance	500 units

	<u>₹ Per unit</u>
Cost price including excise duty	200
Excise duty (Cenvat credit is receivable on the excise duty paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150
<u>Finished goods Y</u>	
Closing Balance	1200 units
	<u>₹ Per unit</u>
Material consumed	220
Direct labour	60
Direct overhead	40

Total fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units.

Calculate the value of the closing stock, when

- (i) Net Realizable Value of the Finished Goods Y is ₹ 400.
- (ii) Net Realizable Value of the Finished Goods Y is ₹ 300.

AS 3

- (b) Money Ltd., a non financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.
 - (i) Loans and Advances given to the following and interest earned on them:
 - (1) to suppliers
 - (2) to employees
 - (3) to its subsidiaries companies
 - (ii) Investment made in subsidiary Smart Ltd. and dividend received
 - (iii) Dividend paid for the year
 - (iv) TDS on interest income earned on investments made
 - (v) TDS on interest earned on advance given to suppliers
 - (vi) Insurance claim received against loss of fixed asset by fire

Discuss in the context of AS 3 Cash Flow Statement.

AS 4

- (c) For seven companies whose financial year ended on 31st March, 2014, the financial statements were approved by their approving authority on 15th June, 2014.

During 2014-15, the following material events took place:

- a. A Ltd. sold a major property which was included in the balance sheet at ₹ 1,00,000 and for which contracts had been exchanged on 15th March, 2014. The sale was completed on 15th May, 2014 at a price of ₹ 2,50,000.
- b. On 30th April, 2014, a 100% subsidiary of B Ltd. declared a dividend of ₹ 3,00,000 in respect of its own shares for the year ended on 31st March, 2014.
- c. On 31st May, 2014, the mail order activities of C Ltd. (a retail trading group) were shut down with closure costs amounting to ₹ 2.5 million.
- d. On 1st July, 2014 the discovery of sand under D Ltd.'s major civil engineering contract site causes the cost of the contract to increase by 25% for which there would be no corresponding recovery from the customer.
- e. A fire, on 2nd April, 2014, completely destroyed a manufacturing plant of E Ltd. It was expected that the loss of ₹ 10 million would be fully covered by the insurance company.
- f. A claim for damage amounting to ₹ 8 million for breach of patent had been received by F Ltd. prior to the year-end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.
- g. The change in foreign exchange rate of 8% between 1st April, 2014 and 1st June, 2014 has resulted in G Ltd.'s foreign assets being reduced by ₹ 1.3 million.

You are required to state with reasons, how each of the above items numbered (a) to (g) should be dealt with in the financial statement of the various companies for the year ended 31st March, 2014.

AS 5

2. (a) Explain whether the following will constitute a change in accounting policy or not as per AS 5.
- (i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
 - (ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

AS 6

- (b) On 01.04.2010 a machine was acquired at ₹ 4,00,000. The machine was expected to have a useful life of 10 years. The residual value was estimated at 10% of the original cost. At the end of the 3rd year, an attachment was made to the machine at a cost of ₹ 1,80,000 to enhance its capacity. The attachment was expected to have a useful life of 10 years and zero residual value. At the beginning of the 4th year, the original machine was revalued upwards by ₹ 90,000 and remaining useful life was reassessed at 9 years and residual value was reassessed at NIL value.

Find depreciation for the year 2013-14, if

- (i) attachment retains its separate identity.
- (ii) attachment becomes integral part of the machine.

AS 7

- (c) M/s Highway Constructions undertook the construction of a highway on 01.04.2013. The contract was to be completed in 10 years. The contract price was estimated at ₹ 150 crores. Up to 31.03.2014 the company incurred ₹ 120 crores on the construction. The engineers involved in the project estimated that a further ₹ 45 crores would be incurred for completing the work.

What amount should be charged to revenue for the year 2013-14 as per the provisions of AS 7 'Construction Contracts'? Show the extract of the Profit & Loss Account in the books of M/s. Highway Constructions.

AS 9

3. (a) A Ltd. entered into a contract with B Ltd. to dispatch goods valuing ₹ 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of ₹ 1,00,000 and A Ltd. started despatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to despatch goods until further notice though A Ltd. is holding the remaining goods worth ₹ 50,000 ready for despatch. A Ltd. accounted ₹ 50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9.

AS 10

- (b) Amna Ltd. contracted with a supplier to purchase a specific machinery to be installed in Department A in two months time. Special foundations were required for the plant, which were to be prepared within this supply lead time. The cost of site preparation and laying foundations were ₹ 47,290. These activities were supervised by a technician during the entire period, who is employed for this purpose for ₹ 15,000 per month. Technician's services were given to Department A by Department B, which billed the services at ₹ 16,500 per month after adding 10% profit margin.

The machine was purchased at ₹ 52,78,000. Sales tax was charged at 4% on the invoice, ₹ 18,590 transportation charges were incurred to bring the machine to the factory. An Architect was engaged at a fee of ₹ 10,000 to supervise machinery installation at the factory premises. Also, payment under the invoice was due in 3 months. However, the Company made the payment in 2nd month. The company operates on Bank Overdraft @ 11%.

Ascertain the amount at which the asset should be capitalized under AS 10.

AS 11

- (c) Opportunity Ltd. purchased an equipment costing ₹ 24,00,000 lakhs on 1.4.2013 and the same was fully financed by foreign currency loan (US Dollars) payable in four annual equal installments. Exchange rates were 1 Dollar = ₹ 60.00 and ₹ 62.50 as on 1.4.2013 and 31.3.2014 respectively. First installment was paid on 31.3.2014. The entire difference in foreign exchange has been capitalized. You are required to state that how these transactions would be accounted for.

AS 12

4. (a) A Ltd. purchased a machinery for ₹ 40 lakhs. (Useful life 4 years and residual value ₹ 8 lakhs) Government grant received is ₹ 16 lakhs.

Show the Journal Entry to be passed at the time of refund of grant in the third year and the value of the fixed asset after refund of grant, when:

- (1) the grant is credited to Fixed Asset A/c
- (2) the grant is credited to Deferred Grant A/c.

AS 13

- (b) ABC Ltd. wants to re-classify its investments in accordance with AS 13. Decide and state on the amount of transfer, based on the following information:
- (1) A portion of current investments purchased for ₹ 20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.
 - (2) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs.
 - (3) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS 13.

AS 15

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

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

What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

AS 16

5. (a) Growth Ltd. has undertaken a project for expansion of capacity as per the following details:

	Plan (₹)	Actual (₹)
October, 2013	5,00,000	4,00,000
November, 2013	6,50,000	7,95,000
December, 2013	20,00,000	-
January, 2014	2,00,000	50,000
February, 2014	9,00,000	2,00,000
March, 2014	10,00,000	12,00,000

The company pays to its bank interest at a rate of 15% p.a., which is debited on a monthly basis. During the half year, company had ₹ 20 lakhs overdraft up to 31st December, surplus cash in January and again overdraft of ₹ 14 lakhs from 1.2.2014 and ₹ 30 lakhs from 1.3.2014. The company had a strike during December and hence could not continue the work during said period. However, the substantial administrative work related to the project was continued. Onsite work was again commenced on 1st January and all the work were completed on 31st March. Assume that expenditure was incurred on 1st day of each month.

Calculate interest to be capitalized giving reason wherever necessary. Assume overdraft will be less, if there is no capital expenditure.

AS 19

- (b) Lease Ltd. has initiated a lease for four years in respect of a vehicle costing ₹ 20,00,000 with expected useful life of 5 years. The asset would revert to the company under the lease agreement. The other information available in respect of lease agreement is:

- (1) The unguaranteed residual value of the equipment after the expiry of the lease term is estimated at ₹ 2,50,000.
- (2) The implicit rate of interest is 10%.
- (3) The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of asset.

Ascertain in the hand of Lease Ltd.

1. The annual lease payment.
2. The unearned finance income.
3. The segregation of finance income.

Note: (a) PV of residual value for 4th year @ 10% is 0.683.
(b) PV factor for 4 years @ 10% is 3.16987.

AS 20

6. (a) The following information is available in respect of Rise Ltd. for the accounting year 2012-13 and 2013-14:

Net profit for		₹
Year	2012-13	22,00,000
Year	2013-14	30,00,000

Number of shares outstanding prior to right issue 10,00,000 shares.

Right issue: One new share for each five shares outstanding i.e. 2,00,000 shares.

: Right issue price ₹ 25

: Last date to exercise right 31st July, 2013.

Fair value of one equity share immediately prior to exercise of rights on 31.07.2013 is ₹ 32.

You are required to compute:

- (i) Basic earnings per share for the year 2012-13.
- (ii) Restated basic earnings per share for the year 2012-13 for right issue.
- (iii) Basic earnings per share for the year 2013-14.

AS 22

- (b) What is the tax effect of sale of fixed assets, considering the block of assets approach followed in the Income-tax Act, 1961?

A company has a block of assets with a written down value of ₹ 1,00,000 on April 1, 2012 for tax purposes. The book value of the assets for accounting purposes

is also ₹ 1,00,000. The assets are depreciated on written down value basis at 25 percent per annum for both accounting and tax purposes. Of the entire block, assets costing ₹ 5,000 on April 1, 2012, were sold for ₹ 10,000 on March 31, 2014. Compute the deferred tax asset/liability assuming tax rate of 40 per cent.

AS 23

- (c) A Ltd. has a share capital of 50,000 shares @ ₹ 100 per share. H Ltd. acquired 15% shares in A Ltd. on 1.4.2013. It also acquired all the 5,000, 12% convertible debentures of ₹ 100 each of A Ltd. These debentures will be converted at par into equity shares of A Ltd. after 3 years. State whether A Ltd. is an Associate of H Ltd. or not with reasons?

AS 25

7. (a) On what basis, should the following be recognized and measured in the Interim Financial Statements
- (i) Gratuity and other defined benefit schemes;
 - (ii) Year-end bonus;
 - (iii) Provisions;
 - (iv) Foreign currency translation gains and losses.

AS 26

- (b) Religare Ltd. acquired a patent of a drug at a cost of ₹ 20,00,000 for a period of 4 years and the product life-cycle is also 4 years. The company capitalized the cost and started amortizing the asset at ₹ 5,00,000 per annum.

After one year, it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹ 8,00,000, ₹ 12,00,000, ₹ 10,00,000, ₹ 12,50,000 and ₹ 7,50,000.

Find out the amortization of the patent for each of the years?

AS 28

8. (a) A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment.
- What is the cash-generating unit?

AS 29

- (b) A company, incorporated under Section 8 of the Companies Act, 2013, have main objective to promote the trade by organizing trade fairs / exhibitions. When company was organizing the trade fair and exhibitions it decided to charge 5% contingency charges for the participants/outside agencies on the income received from them by the company, while in the case of fairs organized by outside agencies, 5% contingency charges are levied separately in the invoice, the contingency charges in respect of fairs organized by the company itself are inbuilt in the space rent charged from the participants. Both are credited to Income and Expenditure Account of the company.

The intention of levying these charges is to meet any unforeseen liability, which may arise in future. The instances of such unforeseen liabilities could be on account of injury/loss of life to visitors/ exhibitors, etc., due to fire, terrorist attack, stampede, natural calamities and other public and third party liability. The chances of occurrence of these events are high because of large crowds visit the fair. The decision to levy 5% contingency charges was based on assessment only as actual liability on this account cannot be estimated.

The following accounting treatment and disclosure was made by the company in its financial statements:

1. 5% contingency charges are treated as income and matching provision for the same is also being made in accounts.
2. A suitable disclosure to this effect is also made in the notes forming part of accounts.

Required:

- (i) Whether creation of provision for contingencies under the facts and circumstances of the case is in conformity with AS 29.
- (ii) If the answer of (i) is "No" then what should be the treatment of the provision which is already created in the balance sheet.

IFRS vis a vis AS applicable in India

9. Explain the treatment of the following items with reference to Existing Accounting Standards (as applicable in India) vis-a-vis IFRS.
- (1) Statement of Cash Flows
 - (2) Accounting Policies, Changes in Accounting Estimates and Errors.

Corporate Financial Reporting

10. (a) On the basis of available information, show how these items will appear in the Balance Sheet of a Corporate Entity by preparing appropriate notes to accounts which comply with the requirements of the Schedule III to the Companies Act, 2013:

Loan Fund	Schedule No.	As at 31 st March 2014 (₹)
(a) Secured Loans	1	15,11,220
(b) Unsecured loans - Short term loan from Bank		<u>1,24,190</u>
		16,35,410
Schedule 1: Secured Loans		
Term loans from		
Bank		7,45,120
Others		<u>7,66,100</u>
		<u>15,11,220</u>
Other Information:		
Current maturities of long-term loan from bank		1,15,000
Current maturities of long-term loan from other parties		80,940

Note: There was no interest accrued/due as at the end of the year.

- (b) Vasudha Ltd. provides following information:

Raw Material stock holding period : 3.5 months

Work-in-progress holding period : 1 month

Finished goods holding period : 4.5 months

Debtors collection period : 6 months

You are required to compute the operating cycle of Vasudha Ltd. What would happen if the trade payables of the company are paid in 14 months. Whether such trade payables are classified as current or non-current liability?

- (c) The management of Kshitij Ltd. contends that the work in progress is not valued because it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in progress would be more or less the same. Accordingly, the management had not separately disclosed the work in progress in its financial statements. Comment in line with the Schedule III to the Companies Act, 2013.

Accounting for Corporate Restructuring

11. As part of its expansion strategy A Ltd. has decided to amalgamate its business with that of B Ltd. and new company AB Ltd. being incorporated on the 1st December, 2013 having an authorized equity capital of 2 crore shares of ₹ 10 each. AB Ltd. shall in turn acquire the entire ownership of A Ltd. and B Ltd. in consideration for issuing its equity at 25% premium on 1st January, 2014. It is also agreed that the consideration shall be based on

the product of the profits available to equity shareholders of each entity, times its PE multiple. The preference shareholders & debenture holders are to be satisfied by the issue of similar instruments in AB Ltd. on 1st January, 2014 in lieu of their existing holdings. Accordingly the relevant information is supplied to you as under:

	<i>A Ltd.</i>	<i>B Ltd.</i>
Paid up Equity shares of ₹ 10 class (Nos.)	3 Lakhs	1.2 Lakhs
8% Preference Shares ₹ 10 paid (Nos.)		1 Lakh
5% Redeemable Debentures 2019-20 of ₹ 10 each (Nos.)		0.8 Lakh
Profits before Interest & Taxation (₹)	6,00,000	4,40,000
Price to Earnings Multiple	15	10

To augment the cash retention level of AB Ltd. it is decided that on 1st January, 2014 AB Ltd. shall collect full share application money from the issue of 20,00,000 equity shares @ 40% premium under Private Placement. The allotment of the shares will be made on 31st March, 2014 and such shares shall qualify for dividend from 2014-15 only.

AB Ltd. shall also avail a 12.50% TOD of 15 lakhs to meet its preliminary expenses and cost of working which amount to ₹ 12 lakhs and ₹ 2 lakhs respectively. The TOD will be availed on 1st February, 2014 and closed on 31st March, 2014. Preliminary expenditure is tax deductible @ 20% each year.

Due to an accounting omission the opening inventory of B Ltd. of 5 lakhs (actual value) & the closing stock of A Ltd. of 2.20 lakh was understated & overstated by 5% and 10% respectively.

The dividend schedule proposed is that all companies would pay interim dividend for equity, for the period from 1st January, 2014 to 31st March, 2014. The rates of dividend being A Ltd. @ 5%, B Ltd. @ 2% and AB Ltd. @ 3.5%. The preference shareholders & debentureholders dues for the post take over period are discharged on 31st March, 2014.

It is proposed that in the period January-March 2014, AB Ltd. would carry out trade in futures that would generate an absolute post tax return of 18% by using the funds generated from the Private Placement. The trades would be squared off on 31st March, 2014. Proceeds from such transactions are not liable to withholding taxes.

You are required to prepare a projected Profit & Loss A/c for the period ended 31st March, 2014 and a Balance Sheet on that date for AB Ltd.

The corporate tax rate for the company is 40%.

Consolidated Financial Statements of Holding Companies

12. (a) Following are the summarized Balance Sheets of A Ltd., B. Ltd. & C Ltd., as on 31.3.2014:

Liabilities	A Ltd.	B Ltd.	C Ltd.	Assets	A Ltd.	B Ltd.	C Ltd.
	₹	₹	₹		₹	₹	₹
Share capital of ₹ 10 each	5,00,000	3,00,000	2,00,000	Fixed Assets	2,00,000	1,50,000	1,20,000
General Reserves	80,000	60,000	50,000	Investment			
Profit & Loss A/c	1,00,000	80,000	60,000	24,000 Shares in			
Sundry Creditors	70,000	20,000	30,000	B Ltd.	2,50,000		
B Ltd. Balance			40,000	6,000 Shares in	80,000		
C Ltd. Balance	1,20,000			C Ltd.			
				12,000 shares in			
				C Ltd.		1,60,000	
				Stock in trade	1,00,000	60,000	60,000
				Debtors	1,50,000	40,000	80,000
				C Ltd. Balance		30,000	
				A Ltd. Balance			90,000
				Cash and Bank			
				Balance	90,000	20,000	30,000
	<u>8,70,000</u>	<u>4,60,000</u>	<u>3,80,000</u>		<u>8,70,000</u>	<u>4,60,000</u>	<u>3,80,000</u>

Other Information:

- (a) All the investments were made on 1.8.2013 on which date the provisions were as follows:

	B Ltd. (₹)	C Ltd. (₹)
General Reserves	30,000	15,000
Profit & Loss Account	50,000	25,000

- (b) In December 2013, B Ltd. invoiced goods to A Ltd. for ₹ 80,000 at cost plus 25%. The closing stock of A Ltd. includes such goods valued at ₹ 10,000.
- (c) C Ltd. sold to B Ltd. a machinery costing ₹ 27,000 at a profit of 25% on selling price on 31.12.2013. Depreciation at 10% per annum was provided by B Ltd. on this equipment.
- (d) Debtors of A Ltd. include ₹ 12,000 being the amount due from B Ltd.
- (e) A Ltd. proposed dividend at 10%.

You are required to prepare the Consolidated Balance Sheet of the Group as on 31.3.2014 as per Schedule III to the Companies Act, 2013.

Joint Venture in Consolidated Balance Sheet

- (b) The summarized consolidated balance sheets of M Ltd. and its subsidiary N Ltd. and balance sheet of joint venture entity C Ltd. as on 31.3.2014 are as follows:

Liabilities	M Ltd. (CBS) (₹)	C Ltd. (₹)
Share capital :		
Shares of ₹ 100 each	6,00,000	2,00,000
General reserve	2,00,000	--
Profit and loss account	80,000	--
6% Debentures	-	1,50,000
Trade creditors	<u>75,000</u>	<u>67,500</u>
	<u>9,55,000</u>	<u>4,17,500</u>
Assets		
Fixed Assets	4,50,000	1,50,000
Stock-in-trade	1,40,000	60,000
Debtors	80,000	45,000
6% Debentures of C Ltd. acquired at par	90,000	-
Shares of C Ltd. (1,500 shares @ ₹ 80 each)	1,20,000	-
Cash at bank	75,000	12,500
Profit and loss A/c	<u>-</u>	<u>1,50,000</u>
	<u>9,55,000</u>	<u>4,17,500</u>

M Ltd., acquired the shares on 1st August, 2013. The Profit and Loss account of C Ltd., showed a debit balance of ₹ 2,25,000 on 1.4.2013. During June 2013, goods costing ₹ 9,000 were destroyed against which the insurer paid only ₹ 3,000. Trade creditors of C Ltd., include ₹ 30,000 for goods supplied by M Ltd., on which M Ltd., made a profit of ₹ 3,000. Half of the goods were still in stock on 31.3.2014.

Prepare a consolidated balance sheet incorporating the Joint Venture entity operations using proportionate consolidation method.

Financial Instruments

13. Liberal Ltd. granted ₹ 18,00,000 loan to its employees on April 1, 2013 at a concessional interest rate of 5% per annum. Loan is to be repaid in six equal annual instalments along with interest. Market rate of interest for such loan is 10% per annum. Following the principles of recognition and measurement as laid down in AS 30, calculate the value of loan initially to be recognized and amortised cost for all the subsequent years. The present value of ₹ 1 receivable at the end of each year based on discount factor of 10% can be taken as:

Year end	1	0.9090
	2	0.8263
	3	0.7512
	4	0.6829

	5	0.6208
	6	0.5644

Share Based Payments

14. At the beginning of year 1, an enterprise grants 100 stock options to each of its 500 employees. The grant is conditional upon the employee remaining in service over the next three years. The enterprise estimates that the fair value of each option is ₹ 15. The enterprise estimates that 100 employees will leave during the three-year period and therefore forfeit their rights to the stock options.

40 employees left during year 1. By the end of year 1, the share price of the enterprise has dropped, and the enterprise reprices its stock options, and that the repriced stock options will vest at the end of year 3. The enterprise estimates that further 70 employees will leave during years 2 and 3.

During year 2, further 35 employees left, and the enterprise estimates that further 30 employees will leave during year 3. During year 3, 28 employees left. The stock options vested at the end of year 3 to the remaining employees.

The enterprise estimates that, at the date of repricing, the fair value of each of the original stock options granted (i.e., before taking into account the repricing) is ₹ 5 and that the fair value of each repriced stock option is ₹ 8.

Calculate the amount to be recognised towards employees services received in years 1-3.

Mutual Fund

15. (a) Calculate the NAV of a Mutual Fund Scheme from the information given below:

At the beginning of the year:

Number of units outstanding 1 Crore units of ₹ 10 each

Investment at cost ₹ 10 crores (Market Value ₹ 16 crores)

Outstanding Liabilities ₹ 5 crores

Other Information:

- (1) Additional 20 lakhs units were sold during the year at ₹ 24.
- (2) No additional investments were made during the year and as at the year end, 50% of the investment at year beginning were quoted at 80% of the book value.
- (3) 10% of the investments had witnessed a permanent fall of 10% below cost.
- (4) The balance investments were quoted at ₹ 13.60 crores.
- (5) Outstanding liabilities towards custodian charges, salaries and commission etc. applicable to the scheme were 1 crore.

NBFC

- (b) Rental 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 31-03-2012. 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 31-03-2013, but could not collect the second instalment which was due on 31-03-2014. The company was finalising accounts for the year ending 31-03-2014. Till 15-05-2014, 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 1-4-2013? Should the company recognize finance charge for the year 2013-14 as income?
- (ii) What should be the net book value of assets as on 31-03-14 so far Rental 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 the RBI?

Valuation of Goodwill

16. Apex Ltd. gives the following information about past profits:

Year	Profits (₹ in '000s)
2009-10	21,70
2010-11	22,50
2011-12	23,70
2012-13	24,50
2013-14	21,10

On scrutiny it is found (i) that upto 2011-12, Apex Ltd. followed FIFO method of stock valuation and thereafter adopted LIFO method, (ii) that upto 2012-13, it followed straight line depreciation and thereafter adopted written down value method.

Given below are the details of stock valuation:

(₹ in '000s)

Year	Opening Stock		Closing Stock	
	FIFO	LIFO	FIFO	LIFO
2009-10	40,00	39,80	46,00	41,20

2010-11	46,00	41,20	49,20	47,90
2011-12	49,20	47,90	38,90	39,10
2012-13	38,90	39,10	42,00	38,50
2013-14	42,00	38,50	45,00	43,10

Straight line and written down value depreciation were as follows:

Year	Straight Line (₹ '000)	W.D.V. (₹ '000)
2009-10	12,10	17,00
2010-11	14,15	18,10
2011-12	15,00	19,25
2012-13	16,70	19,60
2013-14	18,00	19,40

Determine future maintainable profits that can be used for valuation of goodwill.

Valuation of Shares

17. Following is the Balance Sheet of Survey Ltd. as on 31st March, 2014:

Liabilities	₹	Assets	₹
50,000 equity shares of ₹ 10 each	5,00,000	Building	3,50,000
2,500, 12% Preference shares of ₹ 100 each	2,50,000	Plant and Machinery	4,30,000
Profit & Loss A/c	2,20,000	Patents	80,000
15% Debentures	1,20,000	Sundry debtors	2,00,000
General Reserve	1,80,000	Stock in trade	2,90,000
Creditors	<u>1,50,000</u>	Cash at Bank	<u>70,000</u>
	<u>14,20,000</u>		<u>14,20,000</u>

Buildings & Plant and Machinery were acquired many years ago and should be considered as worth of ₹ 5,00,000 and ₹ 6,30,000 respectively.

The Profits for the last five years were as follows:

Year	Profit (before tax) ₹
2009-10	1,80,000
2010-11	2,50,000
2011-12	60,000
2012-13	3,00,000
2013-14	3,50,000

The company paid a remuneration of ₹ 50,000 p.a. to the managerial personnel, but in future it will be paying ₹ 75,000, the increase having been sanctioned by the Government. During 2011-12, there was a prolonged strike, resulting in low profits. There has been no substantial change in the capital employed. The company has paid a dividend of 12 percent on equity shares consistently and proposes to stick to this rate in the foreseeable future. In the class of business to which the company belongs, the dividend rates have been fluctuating and the asset backing of an equity share is about 2 times. Equity shares with an average dividend of 15% sell at par. The company is anxious to provide funds for replacement of assets when due, for which it is proposed to make 20% provision on PAT. Assume future tax rate to be 40%. Calculate the value of an equity share of Survey Ltd. on yield basis.

Valuation of Brand

18. From the following information, determine the possible value of brand as per potential earning model:

Particulars		₹ in lakhs
(i)	Profit After Tax (PAT)	2,500
(ii)	Tangible Fixed Assets	10,000
(iii)	Identifiable intangible other than brand	1,500
(iv)	Weighted average cost of capital (%)	14%
(v)	Expected normal return on tangible assets [weighted average cost (14%) + normal spread 4%]	18%
(vi)	Appropriate capitalization factor for intangibles	25%

Value Added Statement

19. From the following Profit & Loss Account of Yash Ltd. prepare Gross Value Added Statement and show the reconciliation between Gross Value Added and Profit before Taxation.

Profit and Loss Account for the year ended 31st March, 2014

Particulars		Notes	(₹ in '000s)
Sales less return			<u>21,350</u>
Trading profit		1	1,920
Less: Depreciation	302		
Interest	<u>140</u>	2	(442)
Add: Other income			<u>80</u>
Profit before tax			1,558
Provision for tax		3	<u>(688)</u>

Profit after tax			870
Less: Extraordinary items		4	<u>(15)</u>
			855
Less: Proposed dividend			<u>(340)</u>
Retained profit			<u>515</u>

Notes:

1.	Trading profit is arrived at after charging the following:		(₹ in '000s)
	Salaries, wages etc. to employees		3685
	Director's remuneration		360
	Audit fees		220
	Hire of equipment		290
2.	Interest figure is ascertained as below		
	Interest paid on bank loans and overdrafts	160	
	Interest received	<u>(20)</u>	140
3.	Extraordinary items:		
	Surplus on sale of properties	20	
	Loss of Goods by fire	<u>(35)</u>	(15)
4.	The charge for taxation include a transfer of ₹ 1,48,000 to the credit of deferred tax account		

Economic Value Added

20. (a) The following information (as of 31-03-2014) is supplied to you by ABC Ltd.:

			(₹ in crores)
(i)	Profit after tax (PAT)		205.90
(ii)	Interest		4.85
(iii)	Equity Share Capital	40.00	
	Accumulated surplus	<u>700.00</u>	
	Shareholders fund	740.00	
	Loans (Long term)	<u>37.00</u>	
	Total long term funds		777.00
(iv)	Market capitalization		2,892.00

Additional information:		
(a)	Risk free rate	12.00 percent
(b)	Long Term Market Rate (Based on BSE Sensex)	15.50 percent
(c)	Effective tax rate for the company	25.00 percent
(d)	Beta (β) for last few years	
	Year	
	1	0.48
	2	0.52
	3	0.60
	4	1.10
	5	0.99

Using the above data you are requested to calculate the Economic Value Added of M/s. ABC Ltd. as on 31st March, 2014.

Human Resource Accounting

- (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

SUGGESTED ANSWERS / HINTS

1. (a) Statement showing valuation of Raw Material and Finished Goods at cost

Raw Material X	₹
Cost Price	200
Less: CENVAT credit	(10)
	190
Add: Freight Inward	20
Unloading charges	10
Cost	<u>220</u>

Finished goods Y	₹
Materials consumed	220
Direct labour	60
Direct overhead	40
Fixed overheads (2,00,000/20,000)	<u>10</u>
Cost	<u>330</u>

(i) When Net Realisable Value (NRV) of the Finished Goods Y is ₹ 400

NRV is greater than the cost of Finished Goods Y i.e. ₹ 330

Hence, Raw Material and Finished Goods will be valued at cost

Accordingly, value of closing stock will be:

	<i>Qty</i>	<i>Rate</i>	<i>Amount (₹)</i>
Raw Material X	500	220	1,10,000
Finished Goods Y	1,200	330	<u>3,96,000</u>
Total cost of closing stock			<u>5,06,000</u>

(ii) When Net Realisable Value of the Finished Goods Y is ₹ 300

NRV is less than the cost of Finished Goods Y i.e. ₹ 330

Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV.

Accordingly, value of closing stock will be:

	<i>Qty</i>	<i>Rate</i>	<i>Amount (₹)</i>
Raw Material X	500	150	75,000
Finished Goods Y	1,200	300	<u>3,60,000</u>
Total cost of closing stock			<u>4,35,000</u>

Note: It has been assumed that Raw Material X is used for production of Finished Goods Y.

(b) Treatment as per AS 3 'Cash Flow Statement'

(i) Loans and advances given and interest earned

- | | |
|---------------------------------|--------------------------------------|
| (1) to suppliers | Cash flows from operating activities |
| (2) to employees | Cash flows from operating activities |
| (3) to its subsidiary companies | Cash flows from investing activities |

(ii) Investment made in subsidiary company and dividend received

Cash flows from investing activities

(iii) Dividend paid for the year

Cash flows from financing activities

(iv) TDS on interest income earned on investments made

Cash flows from investing activities

(v) TDS on interest earned on advance given to suppliers

Cash flows from operating activities

(vi) Insurance claim received against loss of fixed asset by fire

Extraordinary item to be shown under a separate heading as 'Cash inflow from operating activities'.

(c) Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

(a)	A Ltd.	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale would be reflected in the financial statements ended on 31.3.2014 and the profit on sale of property ₹ 1,50,000 would be treated as an extraordinary item.
(b)	B Ltd.	The declaration of dividend on 30 th April, 2014 of ₹ 3,00,000 would be treated as a non-adjusting event in the financial statements of 2013-14. This is because, the dividend has been declared after the balance sheet date and no conditions existed on the balance sheet date for such declaration of dividend. Further as per AS 9, right to receive dividend is established when it is declared and not before that.
(c)	C Ltd.	A closure not anticipated at the year-end would be treated as a non-adjusting event. Memorandum disclosure would be required for closure of mail order activities since non disclosure would affect user's understanding of the financial statements.
(d)	D Ltd.	The event took place after the financial statements were approved by the approving authority and is thus outside the purview of AS 4. However, in view of its significance of the transaction, the directors may consider publishing a separate financial statement/additional statement for the attention of the members in general meeting.
(e)	E Ltd.	The event is a non adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be

(f)	F Ltd.	disclosed by way of a note to the financial statements. On the basis of evidence provided, the claim against the company will not succeed. Thus, ₹ 8 million should not be provided in the account, but should be disclosed by means of a contingent liability with full details of the facts as per AS 9. Provision should be made for legal fee expected to be incurred to the extent that they are not expected to be recovered.
(g)	G Ltd.	The change in exchange rates is a non adjusting event since it does not relate to the conditions existing at the balance sheet date. However, they may be of such significance that they may require a disclosure in the report of the approving authority to enable users of financial statements to make proper evaluations and decisions.

2. (a) As per para 31 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

- (i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.
- (ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.

- (b) 1. Depreciation of Original Machine

	₹
Original cost of Machine as on 01.04.2010	4,00,000
Less: Residual Value @ 10%	<u>(40,000)</u>
Depreciable Value (a)	<u>3,60,000</u>
Useful life is 10 years	
Depreciation per year	36,000
Depreciation for 3 years (36,000 x 3) (b)	1,08,000
Written down value at the end of 3 years (as on 31.03.2013) [4,00,000 – 1,08,000]	2,92,000
Add: Revaluation	<u>90,000</u>
Total book value after revaluation	<u>3,82,000</u>
Remaining useful life was reassessed as 9 years	
Depreciation per year from 2013-14	42,444

2. Depreciation of Attachment	₹
Original cost of Attachment as on 01.04.2013	1,80,000
Useful life is 10 years	
Depreciation per year from 2013-14	18,000

Depreciation for the year 2013-14

- (i) When Attachment retains its separate identity:

Depreciation of Original Machine	₹ 42,444
Depreciation of Attachment	<u>₹ 18,000</u>
Total Depreciation for 2013-14	<u>₹ 60,444</u>

- (ii) Attachment becomes integral part of the Machine:

As per para 9 of AS 6 'Depreciation Accounting', any addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is depreciated over the remaining useful life of that asset. Accordingly,

Total value of Machine as on 01.04.2013

Original Machine at revalued cost (W.N.1)	₹ 3,82,000
Cost of attachment	<u>₹ 1,80,000</u>
	<u>₹ 5,62,000</u>
Remaining useful life of Original Machine	9 years
Depreciation for 2013-14	₹ 62,444

(c) Statement showing amount to be charged to revenue

	(₹ in crores)
Cost of construction incurred upto 31.03.2014	120
Add: Estimated future cost	<u>45</u>
Total estimated cost of construction	<u>165</u>
Degree of completion (120/165 x 100)	72.73%
Revenue recognized (72.73% of 150)	109 (approx)
Total Foreseeable loss (165 – 150)	15
Less: Loss for current year (120 – 109)	<u>(11)</u>
Expense loss to be provided for	<u>4</u>

Profit and Loss Account (Extract)

	(₹ in crores)		(₹ in crores)
To Construction Costs	120	By Contract Price	109
To Provision for loss	4	By Net loss	15
	124		124

3. (a) As per para 11 of AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:
- the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
 - no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards and ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete. However, delivery has been postponed at buyer's request. Merely postponement of delivery at buyers request shall not postpone the recognition of sale. Therefore, A Ltd. should recognize the entire sale of ₹ 1,00,000 (₹ 25,000 x 4) and no part of the same should be treated as Advance Receipt against Sales.

(b) Calculation of Cost of Fixed Asset (i.e. Machine) as per AS 10

Particulars		₹
Purchase price	Given	52,78,000
Add: Sales tax at 4%	₹ 52,78,000 x 4%	2,11,120
Site preparation cost	Given	47,290
Technician's salary	Specific/Attributable overheads for 2 months [See Note (ii)]	30,000
Initial delivery cost	Transportation	18,590
Professional fee for installation	Architect's fee	10,000
Total cost of asset		55,95,000

Note:

- Interest on bank overdraft for earlier payment of invoice is not relevant under AS 10.

- (ii) Internally booked profits should be eliminated in arriving the cost of fixed assets as per para 10 of AS 10 'Accounting for Fixed Assets'.
 - (iii) It has been assumed that the purchase price of ₹ 52,78,000 excludes amount of sales tax.
- (c) As per para 13 of AS 11 (Revised 2003) 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, should be recognized as income or expenses in the period in which they arise. Thus, exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets will be recognized as income or expense.

Calculation of Exchange Difference:

Foreign currency loan =	₹ 24,00,000/60 = 40,000 US Dollars
Exchange difference =	40,000 US Dollars × (62.50-60.00) = ₹ 1,00,000
(including exchange loss on payment of first instalment)	

Therefore, entire loss due to exchange differences amounting ₹ 1,00,000 should be charged to profit and loss account for the year.

Note: The above answer has been given on the basis that the company has not availed the option for capitalisation of exchange difference as per para 46/ 46A of AS 11.

However, as per para 46A of the standard, the exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset.

Accordingly, in case Opportunity Ltd. opts for capitalizing the exchange difference, then the entire amount of exchange difference of ₹ 1,00,000 will be capitalised to 'Equipment account'. This capitalized exchange difference will be depreciated over the useful life of the asset.

Cost of the asset on the reporting date

Initial cost of Equipment	₹ 24,00,000
Add: Exchange difference as on 31.3.2014	<u>₹ 1,00,000</u>
Total cost on the reporting date	<u>₹ 25,00,000</u>

4. (a)

In the books of A Ltd.

Journal Entries (at the time of refund of grant)**(1) If the grant is credited to Fixed Asset Account:**

		₹	₹
I	Fixed Asset A/c Dr. To Bank A/c (Being grant refunded)	16 lakhs	16 lakhs

II The balance of fixed assets after charging depreciation for two years was ₹ 16 lakhs (W.N.1) and after refund of grant it will become (₹ 16 lakhs + ₹ 16 lakhs) = 32 lakhs on which depreciation of ₹ 12 lakhs p.a. $[(32 \text{ lakhs} - 8 \text{ lakhs})/2]$ will be charged for remaining two years.

(2) If the grant is credited to Deferred Grant Account:

As per para 14 of AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years (₹ 16 lakhs / 4 years) = ₹ 4 lakhs p.a. x 2 years = ₹ 8 lakhs were credited to Profit and Loss Account and ₹ 8 lakhs was the balance of Deferred Grant Account after two years.

Therefore, on refund in the 3rd year, following entry will be passed:

		₹	₹
I	Deferred Grant A/c Dr. Profit & Loss A/c Dr. To Bank A/c (Being Government grant refunded)	8 lakhs 8 lakhs	16 lakhs

II Deferred grant account will become Nil. The fixed assets will continue to be shown in the books at ₹ 24 lakhs (W.N.2) and depreciation will continue to be charged at ₹ 8 lakhs per annum for the remaining two years.

Working Notes:**1. Balance of Fixed Assets after two years but before refund (under first alternative)**

Fixed assets initially recorded in the books = ₹ 40 lakhs – ₹ 16 lakhs = ₹ 24 lakhs

Depreciation p.a. = (₹ 24 lakhs – ₹ 8 lakhs)/4 years = ₹ 4 lakhs per year

Value of fixed assets after two years but before refund of grant

$$= ₹ 24 \text{ lakhs} - (₹ 4 \text{ lakhs} \times 2 \text{ years}) = ₹ 16 \text{ lakhs}$$

2. Balance of Fixed Assets after two years but before refund (under second alternative)

Fixed assets initially recorded in the books = ₹ 40 lakhs

Depreciation p.a. = $(₹ 40 \text{ lakhs} - ₹ 8 \text{ lakhs}) / 4 \text{ years} = ₹ 8 \text{ lakhs per year}$

$$\begin{aligned} \text{Book value of fixed assets after two years} &= ₹ 40 \text{ lakhs} - (₹ 8 \text{ lakhs} \times 2 \text{ years}) \\ &= ₹ 24 \text{ lakhs.} \end{aligned}$$

(b) As per AS 13, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

(1) In the first case, the market value of the investment is ₹ 25 lakhs, which is higher than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. ₹ 20 lakhs.

(2) In the second case, the market value of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e. ₹ 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. ₹ 6.5 lakhs. The loss of ₹ 8.5 lakhs should be charged to profit and loss account.

As per AS 13, where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

(3) In the third case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 12 lakhs.

(c) Calculation of Defined Benefit Obligation

$$\begin{aligned} \text{Expected last drawn salary} &= ₹ 14,90,210 \times 110\% \times 110\% \times 110\% \times 110\% \times 110\% \\ &= ₹ 24,00,000 \end{aligned}$$

$$\text{Defined Benefit Obligation (DBO)} = ₹ 24,00,000 \times 25\% \times 5 = ₹ 30,00,000$$

Amount of ₹ 6,00,000 will be charged to Profit and Loss Account of the company every year as cost for Defined Benefit Obligation.

Calculation of Current Service Cost

Year	Equal apportioned amount of DBO [i.e. ₹ 30,00,000/5 years]	Discounting @ 8% PV factor	Current service cost (Present Value)
a	b	c	d = b x c
1	6,00,000	0.735 (4 Years)	4,41,000

2	6,00,000	0.794 (3 Years)	4,76,400
3	6,00,000	0.857 (2 Years)	5,14,200
4	6,00,000	0.926 (1 Year)	5,55,600
5	6,00,000	1 (0 Year)	6,00,000

Calculation of Interest Cost to be charged per year

Year	Opening balance	Interest cost	Current service cost	Closing balance
a	b	c = b x 8%	d	e = b + c + d
1	0	0	4,41,000	4,41,000
2	4,41,000	35,280	4,76,400	9,52,680
3	9,52,680	76,214	5,14,200	15,43,094
4	15,43,094	1,23,447	5,55,600	22,22,141
5	22,22,141	1,77,859*	6,00,000	30,00,000

*Due to approximations used in calculation, this figure is adjusted accordingly.

5. (a) Growth Ltd.

Month	Actual Expenditure (₹)	Interest capitalized (₹)	Cumulative amount (₹)
October, 2013	4,00,000	5,000	4,05,000
November, 2013	7,95,000	15,000	12,15,000
December, 2013	-	15,188	12,30,188
January, 2014	50,000	-	12,80,188
February, 2014	2,00,000	17,500	14,97,688
March, 2014	<u>12,00,000</u>	<u>33,721</u>	27,31,409
	<u>26,45,000</u>	<u>86,409</u>	

Note:

- As per para 18 of AS 16, 'Borrowing Cost', capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Therefore, the interest for that period i.e. for the month of December has also been capitalized.
- During January, the company did not incur any interest as there was surplus cash in January. Therefore, no amount should be capitalized during January as per para 14(b) of AS 16.

3. During February, actual overdraft (borrowings) was ₹ 14 lakhs only. Hence, interest of ₹ 17,500 on ₹ 14,00,000 has been calculated even though actual expenditure on project exceed ₹ 14 lakhs.

(b) (1) **Calculation of annual lease payment**

	₹
Cost of the equipment	20,00,000
Unguaranteed residual value	2,50,000
PV of residual value for 4 th year @ 10% (₹ 2,50,000 x 0.683)	1,70,750
Fair value to be recovered from lease payment (₹ 20,00,000 - ₹ 1,70,750)	18,29,250
PV factor for 4 years @ 10%	3.16987
Annual lease payment (₹ 18,29,250 / 3.16987)	5,77,074

(2) **Unearned Finance Income**

	₹
Total lease payments (₹ 5,77,074 x 4)	23,08,296
Add: Residual value	<u>2,50,000</u>
Gross investment	25,58,296
Less: Present value of investment (₹ 18,29,250 + 1,70,750)	<u>(20,00,000)</u>
Unearned Finance Income	<u>5,58,296</u>

(3) **Segregation of Finance Income**

Year	Lease rentals (₹)	Finance charge @ 10% on outstanding amount of the year (₹)	Repayment (₹)	Outstanding Amount (₹)
0	-	-	-	20,00,000
1	5,77,074	2,00,000	3,77,074	16,22,926
2	5,77,074	1,62,293	4,14,781	12,08,145
3	5,77,074	1,20,814	4,56,260	7,51,885
4	<u>8,27,074*</u>	<u>75,189</u>	<u>7,51,885</u>	-
	<u>25,58,296</u>	<u>5,58,296</u>	<u>20,00,000</u>	

* ₹ 5,77,074 + ₹ 2,50,000 = ₹ 8,27,074.

6. (a) Computation of basic earnings per share

	Year 2012-13 (₹)	Year 2013-14 (₹)
EPS for the year 2012-13 as originally reported = Net profit for the year attributable to equity share holders / weighted average number of equity shares outstanding during the year = ₹ 22,00,000/10,00,000 shares	2.20	
EPS for the year 2012-13 restated for the right issue = ₹ 22,00,000 / (10,00,000 x 1.04)	2.12	
EPS for the year 2013-14 (including effect of right issue) = ₹ 30,00,000 / {(10,00,000 x 1.04 x 4/12) + (12,00,000 x 8/12)}		2.62

Working Notes:

1. Computation of theoretical ex-rights fair value per share = (fair value of all outstanding shares immediately prior to exercise of rights + Total value received from exercise of rights) / (number of shares outstanding prior to exercise + number of shares issued on the exercise)
= (₹ 32 x 10,00,000 + ₹ 25 x 2,00,000) / (10,00,000 + 2,00,000)
= ₹ 30.83
2. Computation of adjustment factor
= Fair value per share prior to exercise of rights / Theoretical ex-right value per share
= ₹ 32/₹ 30.83
= 1.04 (approx.)

(b) In the case of a company, the following computations will be made:

2012-13

In this year, depreciation for both accounting and taxation purposes would be ₹ 25,000 (25 per cent of ₹ 1,00,000). Accordingly, no timing difference arises on this account.

2013-14

Depreciation for the year would be ₹ 18,750 (25 percent of ₹ 75,000) as per the books of account, while for tax purposes it would be ₹ 16,250 as sale proceeds of

₹ 10,000 would be reduced from the block of assets prior to the computation of depreciation. Accordingly, the following timing differences arise:

- Depreciation for tax purposes is ₹ 16,250 and for accounting purposes ₹ 18,750 giving rise to a timing difference of ₹ 2,500.
- Profit on sale of fixed asset amounting to ₹ 7,188 (₹ 10,000 - ₹ 2,812 being the WDV of the asset as on 31st March, 2014) is recognized for accounting purposes. However, for tax purposes this income is not considered. This will result in a timing difference of ₹ 7,188.

The net timing difference would be ₹ 4,688 (₹ 7,188 – ₹ 2,500) by which the accounting income would exceed the taxable income, thus requiring creation of a deferred tax liability of ₹ 1,875 (4,688 X 0.4).

The difference of ₹ 4,688 would reverse in future years when depreciation for accounting purposes would be higher as compared to depreciation for tax purposes because depreciation for accounting purposes would be computed on higher carrying amount of fixed assets as compared to carrying amount of those assets for tax purposes.

- (c) As per para 3 of AS 23 'Accounting for Investments in Associates in Consolidated Financial Statements', an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Standard further explains in para 4 that as regards share ownership, if an investor holds, directly or indirectly through subsidiary (ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary (ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

Further as per an explanation to para 4 of the standard, for the purpose of classification of associate, the potential equity shares of the investee held by the investor will not be taken into account for determining the voting power of the investor. In other words the voting power should be determined on the basis of the current outstanding securities with voting rights.

As per the information given in the question, H Ltd. presently holds indirectly 22.7% shares (with and without voting rights) (Refer W.N.) in A Ltd. However, the current outstanding securities with voting rights in A Ltd. is only 15% and the remaining holding is on account of potential equity shares. Since potential equity shares do not have voting rights they will not be taken into consideration while determining the significant influence of H Ltd. on A Ltd. Hence, A Ltd. is not an associate of H Ltd.

Working Note:**Calculation of percentage of holding of shares after conversion**

	₹
Current holding is 15% i.e. 7,500 shares of ₹ 100 each	7,50,000
Potential equity shares i.e. 5,000 shares of ₹ 100 each	<u>5,00,000</u>
	<u>12,50,000</u>

Total share capital of A Ltd. after conversion of debentures into equity shares will be
 = ₹ 50,00,000 + ₹ 5,00,000 = ₹ 55,00,000

Percentage of holding = ₹ (12,50,000/55,00,000) × 100 = 22.7% approx.

7. (a) As illustrated in AS 25, 'Interim Financial Reporting',
- (i) Provisions in respect of gratuity and other defined benefit schemes for an interim period are calculated on a year-to-date basis using the actuarially determined rates at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements or other significant one-time events.
 - (ii) A bonus is anticipated for interim reporting purposes if, and only if,
 1. the bonus is a legal obligation or an obligation arising from past practice for which the enterprise has no realistic alternative but to make the payment, and
 2. a reliable estimate of the obligation can be made.
 - (iii) The enterprise should apply the same criteria for recognizing and measuring a provision at interim date as it would apply at the end of its financial year or as per the preceding annual financial statements.
 - (iv) Foreign currency translation gains and losses are measured for interim financial reporting by the same principles as at financial year end in accordance with the principles as stated in AS 11 'The Effects of Changes in Foreign Exchange Rates'.
- (b) As per para 78 of AS 26 'Intangibles Assets', the amortisation period and the amortisation method should be reviewed at least at each financial year end. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period should be changed accordingly. If there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern.

Accordingly, Religare Ltd. amortized ₹ 5,00,000 per annum for the first year. The remaining carrying cost of ₹ 15,00,000 (₹ 20,00,000 – ₹ 5,00,000) will be amortized

during next 5 years on the basis of net cash flows arising from the sale of the product. The amortization may be calculated as follows:

Year	Net Cash flows (₹)	Amortization basis	Amortization Amount (₹)
1	-	₹ 20,00,000/4 years	5,00,000
2	8,00,000	0.160	2,40,000
3	12,00,000	0.240	3,60,000
4	10,00,000	0.200	3,00,000
5	12,50,000	0.250	3,75,000
6	<u>7,50,000</u>	<u>0.150</u>	<u>2,25,000</u>
	<u>50,00,000</u>	<u>1.000</u>	<u>20,00,000</u>

8. (a) It is likely that the recoverable amount of an individual magazine title can be assessed. Even though the level of advertising income for a title is influenced, to a certain extent, by the other titles in the customer segment, cash inflows from direct sales and advertising are identifiable for each title. In addition, although titles are managed by customer segments, decisions to abandon titles are made on an individual title basis.

Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent one from another and that each magazine title is a separate cash-generating unit.

- (b) (i) Para 14 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets" states that a provision should be recognised when (a) An enterprise has a present obligation as a result of a past event and (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognised.

From the above, it is clear that in the contingencies considered by the company, neither a present obligation exists as a result of past event, nor a reliable estimate can be made of the amount of the obligation. Accordingly, a provision cannot be recognised for such contingencies under the facts and circumstances of the case.

- (ii) "Provision" is the amount retained by the way of providing for any known liability. Since the contingencies stipulated by the company are not known at the balance sheet date, the provision in this regard cannot be created. Therefore, the provision so created by the company shall be treated as a 'Reserve'.

9. Treatment with reference to Existing Indian Accounting Standards vis-a-vis IFRS

<i>Topic</i>	<i>Existing Indian Accounting Standards</i>	<i>IFRS</i>
Statement of Cash flows	Mandatory for listed companies and those companies which fall in the category of Level - I corporate entities.	Mandatory for all entities preparing their financial statements in accordance with IFRS as it is a component of a complete set of financial statements.
	AS 3 permits use of "Direct" or "Indirect" method. However, SEBI mandates listed companies to present cash flows from operating activities in a cash flow statement according to the "indirect method" only.	Cash flow from operating activities may be presented using either direct or indirect method. However, IAS 7 encourages entities to report cash flows from operating activities using direct method.
	There is no specific guidance on treatment of bank overdraft by AS 3. In general, bank overdrafts are treated as financing activities in cash flow statement. However, demand deposits with bank are treated as cash.	Bank borrowings are normally treated as part of financing activities. However, bank overdrafts that are repayable on demand and that form an integral part of an entity's cash management are treated as cash equivalents under IAS 7.
	As per AS 3, interest and dividend paid are treated as cash outflow under financing activities and interest and dividend received are treated as cash inflow from investing activities. AS 3 does not provide any option with regard to classification of interest paid or received.	Under IAS 7, interest and dividend, whether received or paid, may be classified as operating or financing activities dependent upon classification which reflects the economic nature of transactions and in a manner consistent from period to period.
	In AS 3, the cash flows associated with extraordinary items may be classified as arising from operating, investing or financing activities as appropriate and will be disclosed separately.	IFRS does not classify any item as extraordinary item. Hence, no provision related to cash flows from extra-ordinary item has been discussed in IAS 7.

Accounting Policies, Changes in Accounting Estimates and Errors	AS 5 allows a change in an accounting policy in three instances i.e. (a) If the adoption of a different accounting policy 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 the enterprise. AS 5 allows change in an accounting policy in case the change is required by the Statute.	As per IAS 8, an entity can change its accounting policy in two instances i.e. if the change: (a) Is required by an IFRS; or (b) Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. IAS 8 does not permit an entity to change an accounting policy even if it is required by the statute.
	This standard is silent that whether a change in accounting policy to be accounted for either retrospectively or prospectively. Any change in an accounting policy, which has a material effect, should be disclosed. Where the effect of such change is not ascertainable wholly or in part, the fact should be indicated.	If an entity changes an accounting policy voluntarily, it needs to apply the change retrospectively. When a change in an accounting policy is applied retrospectively, an entity should adjust the opening balance of each affected component of equity for the earliest prior period presented and disclose the comparative amounts for each prior period presented.
	AS 5 deals with "Prior period items" which basically cover income and expenses only. AS 5 does not consider fraud as an error i.e. errors are unintentional mistakes which may arise due to several reasons.	IAS 8 uses the term "Prior period errors" which covers all items in the financial statements including assets and liabilities. As per IAS 8, errors also include fraud within its scope. Standard says errors may be intentional or unintentional.

	Since AS 5 does not deal with intentional errors, no such disclosures are discussed in it.	IAS 8 requires disclosure if financial statements do not comply with IFRSs i.e. if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.
	Prior period items are included in the Statement of Profit or Loss of the current period i.e. the period in which the error is discovered. Such errors are separately disclosed in the statement of profit and loss in a manner that the impact on current profit or loss can be perceived. There is no requirement of restating the comparatives of the prior periods.	As per IAS 8, material prior period errors shall be corrected retrospectively in the first set of financial statements authorised for issue after their discovery by: (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; or (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

10. (a) Balance Sheet of a Corporate Entity (An Extract) as on 31st March, 2014

Particulars	Note No.	Amount
Non-Current Liabilities		
Long term borrowings	1	13,15,280
Current liabilities		
Short term borrowing	2	1,24,190
Other current liabilities	3	<u>1,95,940</u>
		<u>16,35,410</u>

Notes to Accounts

1.	Long term Borrowing	₹
	Term loans – secured	
	- from bank	7,45,120
	- from other parties	<u>7,66,100</u>

		15,11,220
	Less: Shown in current maturities of long-term loans	<u>(1,95,940)</u>
		<u>13,15,280</u>
2.	Short-term borrowings (Unsecured-payable on demand) - from bank	1,24,190
3.	Other current liabilities	
	Current maturities of long-term loans	
	From bank	1,15,000
	From others	<u>80,940</u>
		<u>1,95,940</u>

- (b) According to Schedule III to the Companies Act, 2013 “An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents”.

Accordingly, operating cycle of Vasudha Ltd. will be computed as:

Raw material stock holding period + Work-in-progress holding period + Finished goods holding period + Debtors collection period

= 3.5 months + 1 month + 4.5 months + 6 months = 15 months

Further, a liability shall be classified as current when it is expected to be settled in the Company's normal operating cycle.

Since the operating cycle of Vasudha Ltd. is 15 months, trade payables expected to be paid in 14 months should be treated as a current liability.

- (c) Schedule III to the Companies Act, 2013 does not require work-in-progress to be disclosed in the Statement of Profit and Loss. Thus, amounts for which work-in-progress have been completed at the beginning and at the end of the accounting period may not be disclosed. Therefore, the non-disclosure in the financial statements by the company may not amount to violation of the Schedule III to the Companies Act, 2013 if the differences between opening and closing WIP are not material.

11. Projected Profit & Loss Account of AB Ltd. for the period ended 31st March, 2014

Particulars	₹	Particulars	₹
To Working capital expenses	2,00,000	By Profits from Futures Trading	84,00,000
To Interest on TOD	31,250	By Dividends received	1,74,000
To Debenture interest	10,000		

To	Provision for tax @ 40% on pre-tax profit - ₹ 81,58,750	32,63,500		
To	Profit after tax	<u>50,69,250</u>		
		<u>85,74,000</u>		<u>85,74,000</u>
To	Dividends (Equity & Preference)	2,06,760	By Profit for the year after tax	50,69,250
To	Profit transferred to Balance Sheet	<u>48,62,490</u>		
		<u>50,69,250</u>		<u>50,69,250</u>

Projected Balance Sheet of AB Ltd. as at 31-3-2014

Liabilities	₹	Assets	₹
Authorised share capital		Investments in Subsidiaries	
2 crore Equity shares of ₹ 10 each	<u>20,00,00,000</u>	In Equity shares at cost	66,70,000
Issued, subscribed & paid up 25,33,600 Shares of ₹ 10 each (of the above 5,33,600 shares issued for consideration other than cash)	2,53,36,000	In preference shares at cost	10,00,000
Preference Shares		5% Red. Deb 2019-20 of ₹ 10	8,00,000
1 lakh 8% Preference Shares ₹ 10 paid	10,00,000	Current Assets, Loans & Advances	
Reserves & Surplus		Bank Balance	3,49,25,990
Securities Premium Account (93,34,000 – 12,00,000)	81,34,000		
Profit & Loss Account	48,62,490		
Secured loan			
5% Red. Debentures 2019-20 of ₹ 10 each	8,00,000		
Current Liabilities & Provisions			
Provision for taxation	<u>32,63,500</u>		
	<u>4,33,95,990</u>		<u>4,33,95,990</u>

Note:

1. Dividend received is exempted income and is not subject to tax in the hands of recipient. It is assumed that rate of dividend given in the question is net of tax.
2. Dividend distributed by AB Ltd. is subject to dividend distribution tax, if not net of tax.
3. As per the Companies Act, 2013, the balance of securities premium account can be used for writing off the preliminary expenses. As the company is having sufficient balance in the securities premium account, the amount of preliminary expenses is adjusted from the balance of securities premium account. As per para 56 of AS 26, when an expenditure is incurred to provide future economic benefits to an enterprise, but no intangible asset or other asset is acquired or created that can be recognized, then such an expenditure is recognized as an expense when it is incurred. However, whenever there is conflict in the treatment of a particular item as per Law / Statue & Accounting Standards then the Law / Statue will prevail. Accordingly, the above question has been solved by setting off the preliminary expenses from Securities Premium A/c. In this case it will be treated as permanent difference. Hence no DTA/DTL will be created.

Working Notes:**1. Calculation of Rectified Profits**

	<i>A Ltd. (₹)</i>	<i>B Ltd. (₹)</i>
Value of inventory as given	2,20,000 (Overstated)	5,00,000 (Actual)
Adjustment therein due to incorrect valuation will be reduced from profits	$2,20,000 \times 10/110$ = 20,000	$5,00,000 \times 5/100$ = 25,000

2. Computation of Shares to be issued as purchase consideration

	<i>A Ltd.</i> ₹	<i>B Ltd.</i> ₹
Profit before interest & tax	6,00,000	4,40,000
Less: Reduction in profit due to incorrect inventory valuation	(20,000)	(25,000)
Less: Debenture interest	_____	<u>(40,000)</u>
Profit before tax	5,80,000	3,75,000
Less: Tax @ 40%	<u>(2,32,000)</u>	<u>(1,50,000)</u>
Profit after tax (PAT)	3,48,000	2,25,000
Less: Preference dividend	_____ -	<u>(80,000)</u>

Profit available to equity shareholders [A]	<u>3,48,000</u>	<u>1,45,000</u>
Price Earnings Multiple [B]	15	10
Total Purchase Consideration to be given (A x B)	<u>52,20,000</u>	<u>14,50,000</u>
Equity Share Capital (Purchase Consideration x 100/125)	41,76,000	11,60,000
Securities Premium (25% of the above)	10,44,000	2,90,000

3. Bank Account

Date	Particulars		₹	Date	Particulars	₹
1.1.2014	To Share Application Money (20,00,000 x ₹ 14)		2,80,00,000	1.1.2014	By Futures Trading A/c	2,80,00,000
1.2.2014	To 12.5% TOD		15,00,000	1.2.2014	By Preliminary Expenses	12,00,000
31.3.2014	To Future Trading A/c [(2,80,00,000 x (18/100) x (100/60) + 2,80,00,000)]		3,64,00,000	31.3.2014	By Working Capital expenses	2,00,000
31.3.2014	To Dividend received			31.3.2014	By Dividends Paid [(41,76,000 + 11,60,000) x 3.5/100]	1,86,760
	A Ltd (3,00,000 x 10 x 5%)	1,50,000		31.3.2014	By TOD Interest (15,00,000 x 12.5/100 x 2/12)	31,250
	B Ltd. (1,20,000 x 10 x 2 %)	<u>24,000</u>	1,74,000	31.3.2014	By Debenture Interest (80,000 x ₹ 10 x 5/100 x 3/12)	10,000
				31.3.2014	By Preference Dividend (1,00,000 x ₹ 10 x 8/100 x 3/12)	20,000
				31.3.2014	By 12.5% TOD	15,00,000
				31.3.2014	By Balance c/d	<u>3,49,25,990</u>
			<u>6,60,74,000</u>			<u>6,60,74,000</u>

12. (a) Consolidated Balance Sheet of A Ltd. and its subsidiaries B Ltd. and C Ltd. as at 31st March 2014

Particulars	Note No.	₹
I. Equity and Liabilities		
Shareholder's funds		

a. Share capital	1	5,00,000
b. Reserves and surplus	2	2,53,103
Minority Interest (96,000+30,122)		<u>1,26,122</u>
Current liabilities		
(a) Trade payables	3	1,08,000
(b) Short term provision – Proposed Dividend		50,000
(c) Other current liabilities	4	<u>40,000</u>
Total		<u>10,77,225</u>
II. Assets		
Non-current assets		
(a) Fixed assets		
Tangible assets	5	4,61,225
(b) Non-current investment		-
Current Assets		
(a) Inventories	6	2,18,000
(b) Trade receivable	7	2,58,000
(c) Cash and Cash equivalents	8	<u>1,40,000</u>
Total		<u>10,77,225</u>

Notes to Financial Statements

S. No.	Particulars	Amount (₹)	Amount (₹)
1.	Share capital		
	Issued, subscribed and paid up 50,000 equity shares of ₹ 10 each fully paid up		<u>5,00,000</u>
2.	Reserves and Surplus		
	Capital reserves (W.N.3)	30,000	
	Other reserves (W.N.7)	1,31,300	
	Profit & Loss account (W.N.6)	<u>91,803</u>	<u>2,53,103</u>
3.	Trade Payables		
	Sundry Creditors of A Ltd.	70,000	
	B Ltd.	20,000	
	C Ltd.	<u>30,000</u>	
		1,20,000	
	Less: Mutual Owings	<u>(12,000)</u>	<u>1,08,000</u>

4.	Other Current liabilities		
	Due to B Ltd. (40,000 – 30,000)	10,000	
	Due to C Ltd. (1,20,000 – 90,000)	<u>30,000</u>	<u>40,000</u>
5.	Tangible assets		
	A Ltd.	2,00,000	
	B Ltd.	1,50,000	
	C Ltd.	<u>1,20,000</u>	
		4,70,000	
	Less: Unrealised profit on equipment	<u>(8,775)</u>	<u>4,61,225</u>
6.	Inventories		
	A Ltd.	1,00,000	
	B Ltd.	60,000	
	C Ltd.	<u>60,000</u>	
		2,20,000	
	Less: Unrealised profit	<u>(2,000)</u>	<u>2,18,000</u>
7.	Trade Receivable		
	A Ltd.	1,50,000	
	B Ltd.	40,000	
	C Ltd.	<u>80,000</u>	
		2,70,000	
	Less: Mutual Owings	<u>(12,000)</u>	<u>2,58,000</u>
8.	Cash and Cash Equivalents		
	A Ltd.	90,000	
	B Ltd.	20,000	
	C Ltd.	<u>30,000</u>	<u>1,40,000</u>

Working Notes:**1. Statement of analysis of profits of C Ltd.**

	<i>Capital Profit</i>	<i>Revenue reserve</i>	<i>Revenue profit</i>
	₹	₹	₹
General Reserve on 1.8.13	15,000		
Profit and loss A/c on 1.8.13	25,000		
Increase in reserve		35,000	

Increase in profit	<u>40,000</u>	<u>35,000</u>	<u>35,000</u>
Less: Minority Interest (10%)	<u>(4,000)</u>	<u>(3,500)</u>	<u>(3,500)</u>
	36,000	31,500	31,500
Share of A Ltd. (30%)	12,000	10,500	10,500
Share of B. Ltd. (60%)	24,000	21,000	21,000

2. Statement of analysis of profits of B Ltd.

	Capital Profit	Revenue reserve	Revenue profit
	₹	₹	₹
General Reserve on 1.8.13	30,000		
Profit and loss A/c on 1.8.13	50,000		
Increase in reserve		30,000	
Increase in profit	<u>80,000</u>	<u>30,000</u>	<u>30,000</u>
Add: Share in C Ltd. (direct approach)	<u>-</u>	<u>21,000</u>	<u>21,000</u>
	80,000	51,000	51,000
Less: Minority interest (20%)	<u>(16,000)</u>	<u>(10,200)</u>	<u>(10,200)</u>
Share of A Ltd.	<u>64,000</u>	<u>40,800</u>	<u>40,800</u>

3. Statement of cost of control

	₹	₹	₹
Investment in B Ltd.			2,50,000
Investment in C Ltd.		(80,000 + 1,60,000)	<u>2,40,000</u>
			4,90,000
Less: Paid up value of investments			
In B Ltd.	2,40,000		
In C Ltd.	<u>1,80,000</u>	4,20,000	
Capital Profit			
In B Ltd.	64,000		
In C Ltd. (12,000 + 24,000)	<u>36,000</u>	<u>1,00,000</u>	<u>(5,20,000)</u>
Capital reserve			<u>30,000</u>

4. Statement of Minority Interest

	B Ltd. (20%)	C Ltd. (10%)
	₹	₹
Share capital	60,000	20,000
Capital profit	16,000	4,000
Revenue reserve	10,200	3,500
Revenue profit	<u>10,200</u>	<u>3,500</u>
Total	96,400	31,000
Less: Unrealised profit on Stock {20% of (10,000/125 x 25)}	(400)	
Unrealised profit on Machinery (10% of 8,775)		<u>(878)</u>
	<u>96,000</u>	<u>30,122</u>

5. Statement showing unrealised profit on equipment sale

	₹
Cost	27,000
Profit	<u>9,000</u>
Selling price	<u>36,000</u>
Unrealized profit = Total unrealised Profit – Depreciation thereon = [9,000 - (9,000 x 10% x 3/12)]	8,775

6. Statement showing Consolidated Profit and Loss Account

Item	₹
A Ltd.	1,00,000
Less: Proposed dividend	<u>(50,000)</u>
	50,000
Share in B Ltd.	40,800
Share in C Ltd.	<u>10,500</u>
	1,01,300
Less: Unrealised profit on machinery (90% of 8,775)	<u>(7,897)</u>
	93,403
Less: Unrealised profit on stock {80% of (10,000/125 x 25)}	<u>(1,600)</u>
	<u>91,803</u>

7. Statement showing consolidated reserves

Item	₹
A Ltd.	80,000
Share in B Ltd.	40,800
Share in C Ltd.	<u>10,500</u>
	<u>1,31,300</u>

(b) Consolidated Balance Sheet of M Ltd. and its subsidiary N Ltd. and Joint Venture C Ltd. as at 31st March, 2014

Particular	Note No.	₹
I. EQUITY AND LIABILITIES		
1 Shareholders' funds		
a. Share capital	1	6,00,000
b. Reserves and surplus	2	3,19,375
2. Non-current liabilities		
Long-term borrowings [6% Debentures]		1,12,500
3. Current Liabilities		
Trade payables (75,000 + 75% of 67,500)		<u>1,25,625</u>
Total		<u>11,57,500</u>
II ASSETS		
1. Non Current assets		
a. Fixed assets		
i. Tangible assets (4,50,000 +75% of 1,50,000)		5,62,500
ii. Intangible assets [Goodwill] (W.N.2)		1,23,000
b. Non-current investments [6% debentures of C Ltd.]		90,000
2. Current assets		
a. Inventories (W.N.3)		1,83,875
b. Trade receivables (80,000 +75% of 45,000)		1,13,750
c. Cash and cash equivalents [Balances with bank] (75,000 +75% of 12,500)		<u>84,375</u>
Total		<u>11,57,500</u>

Notes to the financial statements**(1) Share capital**

<i>Particulars</i>	<i>₹</i>
Authorised	
Issued, subscribed and fully paid up 60,000 shares of ₹ 100 each	6,00,000

(2) Reserves and Surplus

<i>Particulars</i>	<i>₹</i>
General reserve (W.N.4)	2,00,000
Surplus (W.N.4)	<u>1,19,375</u>
	<u>3,19,375</u>

Note: "Fixed assets" given in the balance sheet question are assumed to be tangible assets.

Working Notes:**1. Statement of analysis of profits of C Ltd.**

		<i>Capital Profit</i> ₹	<i>Revenue Profit</i> ₹
Profit and Loss A/c as on 1.4.2013		(2,25,000)	
Profit and Loss A/c during the year (2,25,000 – 1,50,000)	75,000		
Add: Abnormal loss (9,000 – 3,000)	<u>6,000</u>		
To be divided in the ratio of 4 months : 8 months	<u>81,000</u>	27,000	54,000
Abnormal loss		<u>(6,000)</u>	
		<u>(2,04,000)</u>	<u>54,000</u>
Share of M Ltd. (75%)		1,53,000	40,500

2. Statement showing Cost of control

<i>Particulars</i>	<i>₹</i>
Cost of Investment	1,20,000
Add: Share of loss in net assets	
i. Share capital (75%)	1,50,000

ii. Capital loss (Pre-acquisition)	(1,53,000)	3,000
Goodwill		<u>1,23,000</u>

3. Unrealised profit on stock

Particulars	₹
M Ltd. and its subsidiary	1,40,000
C Ltd. (75% of 60,000)	45,000
Less: Unrealised profit (3,000 x 50% x 75%)	<u>(1,125)</u>
Net balance for Consolidated Balance Sheet	<u>1,83,875</u>

4. Consolidated Reserves and Surplus

Particulars	General Reserve ₹	Profit and Loss A/c ₹
M Ltd. and its subsidiary	2,00,000	80,000
Proportionate share from Joint venture		40,500
Less: Unrealised profit		<u>(1,125)</u>
Net balance for Consolidated Balance Sheet	<u>2,00,000</u>	<u>1,19,375</u>

13. Calculation of initial recognition amount of loan to employees

Year	Cash Inflows		Total ₹	PV factor	Present Value ₹
	Principal ₹	Interest @ 5% ₹			
2013-14	3,00,000	90,000	3,90,000	0.9090	3,54,510
2014-15	3,00,000	75,000	3,75,000	0.8263	3,09,863
2015-16	3,00,000	60,000	3,60,000	0.7512	2,70,432
2016-17	3,00,000	45,000	3,45,000	0.6829	2,35,601
2017-18	3,00,000	30,000	3,30,000	0.6208	2,04,864
2018-19	3,00,000	15,000	3,15,000	0.5644	<u>1,77,786</u>
Present value of loan					<u>15,53,056</u>

Calculation of amortised cost of loan

Year	Amortised cost (Opening balance)	Interest to be recognized @ 10%	Instalments (including interest)	Amortised Cost (Closing balance)
	[1]	[2]	[3]	[4]-[1]+[2]-[3]
2013-14	15,53,056	1,55,306	3,90,000	13,18,362

2014-15	13,18,362	1,31,836	3,75,000	10,75,198
2015-16	10,75,198	1,07,520	3,60,000	8,22,718
2016-17	8,22,718	82,272	3,45,000	5,59,990
2017-18	5,59,990	55,999	3,30,000	2,85,989
2018-19	2,85,989	29,011 (Bal. Fig)	3,15,000	Nil

14. The incremental value is ₹ 3 per stock option (₹ 8 – ₹ 5). This amount is recognised over the remaining two years of the vesting period, along with remuneration expense based on the original option value of ₹ 15.

The amount of expenses recognised towards employees services received in years 1- 3 are as follows:

Year	Calculation	Compensation expense for period (₹)	Cumulative compensation expense (₹)
1	(500 – 110) employees × 100 options × ₹ 15 × 1/3	1,95,000	1,95,000
2	(500 – 105) employees × 100 options × (₹ 15 × 2/3 + ₹ 3 × 1/2) – ₹ 1,95,000	2,59,250	4,54,250
3	(500 – 103) employees × 100 options × (₹ 15 + ₹ 3) – ₹ 4,54,250	2,60,350	7,14,600

15. (a) Calculation of NAV of a Mutual Fund Scheme

Units as at the end of the year		Units in Crores
Number of units at the beginning of the year		1.00
Add: Units issued during the year		<u>0.20</u>
Units as at end of the year		<u>1.20</u>
Net Asset Value of the scheme		₹ in crores
Market value of Investments	(50% of ₹ 10 crores) × 80%	4.00
	10% × ₹ 10 crores - (10% below cost)	0.90
	Balance Investment at Market Price	<u>13.60</u>

Total Market Value		18.50
Less : Mutual fund scheme liabilities		<u>(1.00)</u>
Net asset value of the scheme		<u>17.50</u>
NAV per Unit= B/A=	₹ 17.50 crore/1.2 crore	₹ 14.58

- (b) (i) Since, the hire-purchaser paid the first instalment due on 31.3.2013, the notional principal outstanding on 1-4-2013 was ₹ 50.25 lakhs (refer W.N.).

For the year ended 31.03.2014, the instalment due of ₹ 16 lakhs has not been received. However, it was due on 31.3.2014 i.e. on the balance sheet date, and therefore, it will be classified as standard asset. Rental Ltd. will recognise ₹ 5.24 lakhs as interest income included in that due instalment and it should be treated as finance charge.

(ii) **The net book value of the assets as on 31.3.2014**

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

(iii) **Amount of Provision**

	₹ in lakhs
Overdue instalment	16.00
Instalments not due (₹ 16 lakhs x 3)	<u>48.00</u>
	64.00
Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52) (W.N.)	<u>(8.51)</u>
	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	<u>7.49</u>

Since, the instalment of ₹ 16 lakhs not paid, was due on 31.3.14 only, the asset is classified as standard asset. Therefore, no additional provision has been made for it.

Working Note:

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)
31-3-2012		(60)	-----	---	60.00
31-3-2013	60.00	16	6.25	9.75	50.25
31-3-2014	50.25	16	5.24	10.76	39.49
31-3-2015	39.49	16	4.11	11.89	27.60
31-3-2016	27.60	16	2.88	13.12	14.48
31-3-2017	14.48	16	1.52	14.48	0.00

16. Past profits of Apex Ltd., showed an increasing trend except in the year 2013-14. But the effects of changes in accounting policies should be eliminated to ascertain the true nature of trend. Since the company has adopted LIFO method of stock valuation and W.D.V. method of depreciation, profits shall be recomputed applying these policies consistently in all the past years. Recomputation of profits following uniform accounting policies are shown below:

(₹ in '000s)

Year	Book Profits	LIFO Effect of Valuation of Stock	Effect of W.D.V. Depreciation	Profits after elimination of the effect of changes in Accounting policy
2009-10	21,70	(4,60)	(4,90)	12,20

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

2010-11	22,50	3,50	(3,95)	22,05
2011-12	23,70	1,50	(4,25)	20,95
2012-13	24,50	(20)	(2,90)	21,40
2013-14	21,10	-	-	21,10

After elimination of the effects of changes in accounting policies, increasing trend disappeared. Rather profits were oscillating during the last four years except in the year 2009-10. So a simple average may be taken of the last 4 years profits to arrive at the future maintainable profits:

$$\text{Future Maintainable Profit (₹ in '000s)} = \frac{22,05 + 20,95 + 21,40 + 21,10}{4} = 21,37.50$$

Note: It is assumed that in case of change in the method of calculation of depreciation assets were purchased in 2009-10 only and the effects for the change in the method has been given retrospectively.

Working Note:

Effect of LIFO Valuation:

(₹ in '000s)

2009-10	Increase in stock as per FIFO valuation	6,00
	Less: Increase in stock per LIFO valuation	<u>(1,40)</u>
	Reduction in profit	<u>4,60</u>
2010-11	Increase in stock as per FIFO valuation	3,20
	Less: Increase in stock as per LIFO valuation	<u>(6,70)</u>
	Increase in profit	<u>3,50</u>
2011-12	Decrease in stock as per FIFO valuation	10,30
	Less: Decrease in Stock as per LIFO valuation	<u>(8,80)</u>
	Increase in profit	<u>1,50</u>
2012-13	Opening stock as per FIFO valuation	38,90
	Less: Opening stock as per LIFO valuation	<u>(39,10)</u>
	Reduction in profit	<u>20</u>

17. Calculation of value per share on yield basis (Earnings Capitalisation Method)

Particulars	
Earnings available to equity shareholders (W.N.1)	₹ 1,01,040
Normal Rate of Return (W.N.3)	14.25%
Value of business	₹ 7,09,053

Number of equity shares outstanding	50,000
Value per share	14.18

Working Notes:**1. Computation of FMP available for distribution****a. Weighted average profits**

Year	Profit before tax	Weight	Product
2009-10	1,80,000	1	1,80,000
2010-11	2,50,000	2	5,00,000
2012-13	3,00,000	3	9,00,000
2013-14	3,50,000	<u>4</u>	<u>14,00,000</u>
		<u>10</u>	<u>29,80,000</u>

Note: Profit of the year 2011-12 has not been considered, because it is a year of strike (Abnormal operation).

	₹
Weighted average profit = $\frac{29,80,000}{10}$	2,98,000
Less: Increase in managerial remuneration	<u>(25,000)</u>
PBT	2,73,000
Tax @ 40%	<u>(1,09,200)</u>
PAT	1,63,800
Less: Provision for replacement of fixed assets (₹ 1,63,800 x 20%)	<u>(32,760)</u>
	1,31,040
Less: Dividend for preference shares (₹ 2,50,000 x 12%)	<u>(30,000)</u>
Earnings available for distribution	<u>1,01,040</u>

2. Ascertainment of NRR criteria as applicable to Survey Ltd.**(A) Asset backing:**

Particulars		₹
Total assets as per balance sheet		14,20,000
Add: Increase in the value of building	1,50,000	
Increase in the value of plant & machinery	<u>2,00,000</u>	
		<u>3,50,000</u>
Total		17,70,000

Less: Outside liabilities and preference share capital		
i. Sundry creditors	1,50,000	
ii. 15% debentures	1,20,000	
iii. 12% Preference share capital	<u>2,50,000</u>	<u>(5,20,000)</u>
Assets backing for equity share capital (a-b)		<u>12,50,000</u>
Equity share capital		5,00,000
Asset backing		2.5 times

(B) Dividend Rates:

Dividend rates have been fluctuating in the industry while Survey Ltd. has constant dividend rates.

3. Computation of adjusted Normal Rate of Return as applicable to Survey Ltd.

Particulars	Asset backing	Dividend rates
Industry standard	2 times	fluctuating
Survey Ltd.	2.5 times	constant
Degree of Variance from standard	+25%	N.A.
Impact on risk & consequent adjustment to NRR	↓	↓
Quantum of Adjustment to NRR (assuming 100% variance=1% change)	-0.25%	-0.50% (say)

Adjusted NRR = 15% - 0.25% - 0.50% = 14.25%.

18. Calculation of Possible Value of Brand

	₹ in lakhs
Profit after Tax (PAT)	2,500
Less: Profit allocated to tangible assets [18% of ₹ 10,000]	<u>(1,800)</u>
Profit allocated to intangible assets including brand	<u>700</u>
Capitalization factor 25%	
Capitalised value of intangibles including brand (700 / 25 x 100)	2,800
Less: Identifiable intangibles other than brand	<u>(1,500)</u>
Brand value	<u>1,300</u>

19. Gross Value Added Statement of Yash Ltd. for the year ended on 31st March, 2014

(₹ in '000)

VALUE ADDED	Amount	Amount
Sales less return		21,350
Less: Cost of bought out materials and services (W.N.)		<u>(15,385)</u>
Value added from manufacturing and trading activities		5,965
Add:		
a. Interest received	20	
b. Other income	<u>80</u>	100
Less: Extraordinary items		
a. Surplus on sale transactions	20	
b. Loss of goods by fire	<u>(35)</u>	<u>(15)</u>
Gross value added		6,050
VALUE APPLIED		
Towards employees		
a. Salaries, wages and other benefits	3,685	
b. Director's remuneration	<u>360</u>	4,045
Towards Government		688
a. Provision for tax (including charge for Deferred tax)		
Towards providers of finance		
a. Interest on loans and overdraft	160	
b. Proposed Dividend	<u>340</u>	500
Towards Replacement and Expansion		
a. Depreciation	302	
b. Retained profit	<u>515</u>	<u>817</u>
Gross value applied		<u>6,050</u>

Reconciliation between gross value added and profit before tax

(₹ in '000s)

Particulars	Amount	Amount
Profit before tax		1,558
Add: i. Salaries, wages to employees	3,685	
ii. Remuneration to Director	360	
iii. Interest on loans and overdraft	160	
iv. Depreciation	302	

v. Extraordinary item	<u>(15)</u>	<u>4,492</u>
Gross Value added		<u>6,050</u>

Working Note:**Calculation of Cost bought out materials and services**

Particulars	(₹ in '000s)
Sales	21,350
Less: Trading Profit	<u>(1,920)</u>
Total Cost	19,430
Less: i. Salaries and wages	(3,685)
ii. Director's remuneration	<u>(360)</u>
Cost of bought out materials and services	<u>15,385</u>

20. (a) Net Operating Profit After Tax (NOPAT) = Profit After Tax (PAT) + Interest (net of tax)
 $= 205.90 + 4.85 \times (1 - 0.25) = ₹ 209.54 \text{ crores}$

Debt Capital	₹ 37 crores
Equity capital (40 + 700)	= ₹ 740 crores
Capital employed	= ₹ 37 + ₹ 740 = ₹ 777 crores
Debt to capital employed	= ₹ 37 crores / ₹ 777 crores = 0.0476
Equity to capital employed	= ₹ 740 crores / ₹ 777 crores = 0.952
Interest cost before Tax	₹ 4.85 crores
Less: Tax (25% of ₹ 4.85 crores)	<u>(₹ 1.21 crores)</u>
Interest cost after tax	<u>₹ 3.64 crores</u>
Cost of debt	= (₹ 3.64 crores / ₹ 37 crores) × 100
	= 9.83%

According to Capital Asset Pricing Model (CAPM)

Beta for calculation of EVA should be the highest of the given beta for the last few years.

Accordingly,

$$\begin{aligned}
 \text{Cost of Equity Capital} &= \text{Risk Free Rate} + \text{Beta} (\text{Market Rate} - \text{Risk Free Rate}) \\
 &= 12\% + 1.10 \times (15.50\% - 12\%) \\
 &= 12\% + 1.10 \times 3.5\% = 15.85\%
 \end{aligned}$$

Weighted Average Cost of Capital (WACC) = Equity to Capital Employed (CE) x Cost of Equity Capital + Debt to CE x Cost of Debt

$$= 0.952 \times 15.85 + 0.0476 \times 9.83$$

$$= 15.09 + 0.47 = 15.56\%$$

Cost of Capital Employed (COCE) = WACC x Capital Employed

$$= 15.56\% \times ₹ 777 \text{ crores} = ₹ 120.90 \text{ crores}$$

Economic Value Added (E.V.A.) = NOPAT – COCE

$$= ₹ 209.54 \text{ crores} - ₹ 120.90 \text{ crores} = ₹ 88.64 \text{ crores}$$

(b) Value of skilled employees:

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

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

$$\text{Total value of skilled employees is } ₹ 2,28,322.51 \times 20 = ₹ 45,66,450.20$$

**Applicability of Pronouncements/Legislative Amendments/Circulars etc.
for November, 2014 – Final Examination**

Paper 1: Financial Reporting

I. Statements and Standards

1. Framework for the Preparation and Presentation of Financial Statements.
2. Accounting Standards

AS No.	AS Title
1	Disclosure of Accounting Policies
2	Valuation of Inventories
3	Cash Flow Statements
4	Contingencies and Events Occurring after the Balance Sheet Date
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
6	Depreciation Accounting
7	Construction Contracts (Revised 2002)
9	Revenue Recognition
10	Accounting for Fixed Assets
11	The Effects of Changes in Foreign Exchange Rates (Revised 2003)
12	Accounting for Government Grants
13	Accounting for Investments
14	Accounting for Amalgamations
15	Employee Benefits
16	Borrowing Costs
17	Segment Reporting
18	Related Party Disclosures
19	Leases
20	Earnings Per Share
21	Consolidated Financial Statements
22	Accounting for Taxes on Income
23	Accounting for Investment in Associates in Consolidated Financial Statements
24	Discontinuing Operations
25	Interim Financial Reporting

26	Intangible Assets
27	Financial Reporting of Interests in Joint Ventures
28	Impairment of Assets
29	Provisions, Contingent Liabilities and Contingent Assets
30	Financial Instruments: Recognition and Measurement
31	Financial Instruments: Presentation
32	Financial Instruments: Disclosure

Note: Non-Applicability of Ind ASs for Nov. 2014 Examination

The MCA has hosted on its website 35 Indian Accounting Standards (Ind AS) without announcing their applicability date. Students may note that Ind ASs are not applicable for November, 2014 Examination.

II. Guidance Notes on Accounting Aspects

1. Guidance Note on Treatment of Reserves created on Revaluation of Fixed Assets.
2. Guidance Note on Accrual Basis of Accounting.
3. Guidance Note on Accounting Treatment for Excise Duty.
4. Guidance Note on Terms Used in Financial Statements.
5. Guidance Note on Accounting for Depreciation in Companies.
6. Guidance Note on Availability of Revaluation Reserve for Issue of Bonus Shares.
7. Guidance Note on Accounting Treatment for MODVAT/CENVAT.
8. Guidance Note on Accounting for Corporate Dividend Tax.
9. Guidance Note on Accounting for Employee Share-based Payments.
10. Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, 1961.
11. Guidance Note on Measurement of Income Tax for Interim Financial Reporting in the context of AS 25.
12. Guidance Note on Applicability of Accounting Standard (AS) 20, Earnings per Share.
13. Guidance Note on Remuneration paid to key management personnel – whether a related party transaction.
14. Guidance Note on Applicability of AS 25 to Interim Financial Results.
15. Guidance Note on Turnover in case of Contractors.
16. Guidance Note on the Revised Schedule VI to the Companies Act, 1956 (Schedule III to the Companies Act, 2013).