Q1 (A) Suraj Ltd. sells beer to customers. Some of the customers consume the beer in the bars run by Suraj Limited. While leaving the bars, the consumers leave the empty bottles in the bars and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders. Keeping this in view:

(i) Decide whether the inventory of empty bottles is an asset of the company;

(ii) If so, whether the inventory of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS 2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

Answer

In our book: Page no. 2.3 Question no.2.3

- Empty bottles are scrap
- scrap is ordinarily saleable
- thus they are inventory
- inventory is measured at cost or NRV w.e.l.
- thus scrap to be measured at nominal value

Q1 (B) Hygiene Ltd. had received a grant of `50 lakh in 2008 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. The company, however, failed to comply with the said conditions and consequently was required to refund the said amount in 2016. The company debited the said amount to its machinery in 2016 on payment of the same. It also reworked the depreciation for the said machinery from the date of its purchase and passed necessary adjusting entries in the year 2016 to incorporate the retrospective impact of the same. State whether the treatment done by the company is correct or not

In our book: Page no. 12.8 Question no. 12.8

- Grant is deducted from asset value
- When refunded it is treated as extra-ordinary activity
- Such amount to be added back to cost of asset in the year 2016
- Depreciation to be charged prospectively from 2016 on such amount as if it is addition to asset

- Companies contention of retrospective calculation is incorrect

Q2. (a) During the course of the last three years, a company owning and operating Helicopters lost four Helicopters. The company's accountant felt that after the crash, the maintenance provision created in respect of the respective helicopters was no longer required, and proposed to write it back to the Profit and Loss account as a prior period item. Is the company's proposed accounting treatment correct? Discuss

Answer

- Not a prior period item as not created because of error or omission
- Loss due to crash is considered to be extra ordinary, hence to be reflected in P&L as extra ordinary items

Q2. (b) A Washing articles producing company provides the following information:

	Washing Bar	Washing Powder
January, 2016 – September, 2016		
per month	2,00,000	2,00,000
October, 2016 – December, 2016		
per month	1,00,000	3,00,000
January, 2017 - March, 2017		
per month	0	4,00,000

The company has enforced a gradual change in product-line on the basis of an overall plan. The Board of Directors of the company has passed a resolution in March, 2016 to this effect. The company follows calendar year as its accounting year. Should this be treated as a discontinuing operation? Give reasons in support of your answer

In our book: Page no. 24.7 Question no. 24.2

- Gradual phasing out from a product is not discontinuing operations

Q3. (a) A infrastructure company has constructed a mall and entered into agreement with tenants towards license fee (monthly rental) and variable license fee, a percentage on the turnover of the tenant (on an annual basis). Chief Finance Officer wants to account/recognize license fee as income for 12 months during current year under audit and variable license fee as income during next year, since invoice is raised in the subsequent year. Comment whether the treatment desired by the CFO is correct or not.

- License fees recognized as income over the period of 12 months is in parlance with AS 9
- Variable license fees to be recognized in next year is incorrect
- Being related to current year has to be recognized in current year itself

Q3. (b) In May, 2016, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2017 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was `18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2017 amounted to ` 25 lakhs. Can `25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building?

In our book: Page no. 16.15 Question no. 16.20

- Interest is capitalized only upto the date asset is ready to use
- Only 18 lakhs can be capitalized
- Remaining amount to be transferred to P&L of Rs.7 lakhs

4. (a) An enterprise reports quarterly, estimates an annual income of `10 lakhs. Assume tax rates on 1st `5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are `75,000, ` 2,50,000, `3,75,000 and ` 3,00,000. Calculate the tax expense to be recognized in each quarter

In our book: Page no. 25.12 Question no. 25.6

- Determine average tax rate
    - Total income = 75000 + 250000 + 375000 + 300000 = 10,00,000
    - Determine tax amount = 500,000 * 30% + 500000 * 40% = 350,000
    - Average tax rate = 350000 / 10,00,000 = 35%
- Tax provision required each quarter =
    - Q1 = 75000 * 35% =

- Q2 = 250000 * 35% =
- Q3 = 375000 * 35% =
- Q4 = 300000 * 35% =

4. (b) Full Ltd. acquired 30% of Part Ltd. shares for `2,00,000 on 01-06-2016. By such an acquisition, Full Ltd. can exercise significant influence over Part Ltd. During the financial year ending on 31-03-2016, Part earned profits Rs.80,000 and declared a dividend of ` 50,000 on 12-08-2016. Part reported earnings of ` 3,00,000 for the financial year ending on 31 -03 -2017 and declared dividends of ` 60,000 on 12-06-2017. Calculate the carrying amount of investment in:
(i) Separate financial statements of Full Ltd. as on 31-03-2017;
(ii) Consolidated financial statements of Full Ltd.; as on 31-03-2017;
(iii) What will be the carrying amount as on 30-06-2017 in consolidated financial statements?

- Part Ltd. is an associate
- Dividend of 50,000 is declared out of pre-acquisition profits and thus share of dividend received by full Ltd. shall be deducted from cost of investments, i.e. 200000 – 50000 * 30% = 185,000
- In consolidated balance sheet as on 31.3.2017, share of post-acquisition profit also to be included in cost of investment = 185,000 + 300000 * 30% = 275000
- Carrying amount in consolidated balance sheet as on 31.3.2018, we need to deduct dividend received = 275000 – 60000 * 30% = 257000

5. (a) Milk Ltd. entered into an agreement with Curd Ltd. for sale of goods of ` 8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2017. On the same day Curd Ltd. entered into another agreement with Milk Ltd. to resell the same goods at ` 10.80 lakhs on 1st August, 2017. State the treatment of this transaction in the financial statements of Milk Ltd. as on 31.03.2017. The pre-determined re-selling price covers the holding cost of Curd Ltd. Give the Journal Entries as on 31.03.2017 in the books of Milk Ltd

In our book: Page no. 9.13 Question no. 9.20

- It is a financial transaction
- 9.6 lakhs to be shown as liability

- Difference to be treated as interest i.e = 10.8 – 9.6 = 1.2 lakhs and accounted on accrual basis
- Till 31.3.2017 interest to be accounted = 1.2 * 2 / 6 = 40,000

5.b) The following data apply to 'X' Ltd. defined benefit pension plan for the year ended 31.03.2017, calculate the actual return on plan assets

Benefits paid	2,00,000
Employer contribution	2,80,000
Fair market value of plan assets on 31.03.2017	11,40,000
Fair market value of plan assets as on 31.03.2016	8,00,000

In our book: Page no. 15.18 Question no. 15.18

Particulars	Amount	Particular	Amount
Opening	800,000	Benefits Paid	200,000
Contribution made	280,000	closing	11,40,000
Interest (Bal fig)	260,000		

6. (a) Research Ltd. is developing a new production process. During the financial year ending 31st March, 2016, the total expenditure incurred was `50 lakhs. This process met the criteria for recognition as an intangible asset on 1st December, 2015. Expenditure incurred till this date was ` 22 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2017 was 80 lakhs. As at 31st March, 2017, the recoverable amount of know-how embodied in the process is estimated to be 72 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to calculate:

(i) Amount to be charged to Profit and Loss A/c for the year ending 31st March, 2016 and carrying value of intangible as on that date.

(ii) Amount to be charged to Profit and Loss A/c and carrying value of intangible as on 31st March, 2017. Ignore depreciation

In our book: Page no. 26.9 Question no. 26.17

- Amount to be charged to P&L on 31.3.2016 = 22 lakhs
- Amount to be capitalized = 50 – 22 = 28 lakhs
- Amount to be capitalized on 31.3.2017 = 72 – 28 = 44 lakhs

- Amount to be charged to P&L on 31.3.2017 = 80 – 44 lakhs = 36 lakhs

6. (b)ABC Ltd. has initiated a lease for three years in respect of an equipment costing ` 1,50,000 with expected useful life of 4 years. The asset would revert to ABC Limited under the lease agreement. The other information available in respect of lease agreement is:
(i) The unguaranteed residual value of the equipment after the expiry of the lease term is estimated at ` 20,000.
(ii) The implicit rate of interest is 10%.
(iii) 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 hands of ABC Ltd.
(i) The annual lease payment.
(ii) The unearned finance income.
(iii) The segregation of finance income, and also,
(iv) Show how necessary items will appear in its profit and loss account and balance sheet for the various years.

In our book: Page no. 19.13 Question no. 19.12

- Present value of lease payment + Present Value of residual value = cost of asset
- PVAF @ 10% * Lease payment + PVF @ 10% * 20,000 = 150,000
- 2.487 * lease payment + 0.751 * 20000 = 150,000
- 2.487 * lease payment + 15020 = 150,000
- Lease payment = (150000-15020)/2.487
- = 54,275

7. (a) Superb Ltd. supplied the following information. You are required to compute the basic earning per share:

(Accounting year 1.1.2016–31.12.2016)

Net Profit: Year 2016: `20,00,000
Year 2017: `30,00,000
No. of shares outstanding prior to Right Issue: 10,00,000 shares
Right Issue: One new share for each four outstanding i.e., 2,50,000 shares.
Right Issue price –`20
Last date of exercise rights –31.3.2017

Fair value of one Equity share immediately prior to exercise of rights on 31.3.2017 :`25

In our book: Page no. 20.8 Question no. 20.11

- Ex-right price: (25 * 10,00,000 + 20 * 250,000) / 12,50,000
- 3 crore / 12.5 lakhs = Rs.24
- Ex right factor = 25 / 24 = 1.04
- Weighted avg shares = 10,00,000 * 1.04 * 3/12 + 12,50,000 * 9/12
- =11,97,500
- EPS = 30 lakhs / 11.95 lakhs = 2.51

8. (a) The following particulars are stated in the Balance Sheet of Profit Ltd. as on 31.03.2016:

	(`in lakh)
Deferred Tax Liability (Cr.)	20.00
Deferred Tax Assets (Dr.)	10.00

The following transactions were reported during the year 2016-2017:

(i) Tax Rate 50%

(ii) Depreciation – As per Books 50.00

Depreciation – for Tax purposes 30.00

There were no additions to Fixed Assets during the year.

(iii) Items disallowed in 2015-2016 and allowed for Tax purposes in 2016-2017 10.00

(iv) Interest to Financial Institutions accounted in the Books on accrual basis, but actual payment was made on 30.09.2017 20.00

(v) Donations to Private Trusts made in 2016-2017 10.00

(vi) Share issue expenses allowed under 35(D) of the I.T. Act, 1961 for the year 2016-2017(1/10th of `50.00 lakhs incurred in 2012-2013) 5.00

(vii) Repairs to Plant and Machinery `100.00 lakhs was spread over the period 2016- 2017and 2017-2018 equally in the books. However, the entire expenditure was allowed for Income-tax purposes. Indicate clearly the impact of above items in terms of Deferred Tax liability/Deferred Tax Assets and the balances of Deferred Tax Liability/Deferred Tax Asset as on 31.03.2017.

In our book: Page no. 22.18 Question no. 22.17

Transactions	Analysis	Nature of difference	Effect	Amount
Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing difference	Reversal of DTL	Rs. 20 lakhs * 50% = Rs. 10 lakhs
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Responding timing difference	Reversal of DTA	Rs. 10 lakhs * 50% = Rs. 5 lakhs
Interest to financial institutions	It is allowed as deduction under section 43B of the IT Act, if the payment is made before the due date of filing the return of income (i.e. 31st October, 2012).	No timing difference	Not applicable	Not applicable
Donation to private trusts	Not an allowable expenditure under IT Act.	Permanent difference	Not applicable	Not applicable
Share issue expenses	Due to disallowance of full expenditure under IT Act, tax payable in the earlier years was higher.	Responding timing difference	Reversal of DTA	Rs. 5 lakhs * 50% = Rs. 2.5 lakhs
Repairs to plant and machinery	Due to allowance of full expenditure under IT Act, tax payable of the current year will be less.	Originating timing difference	Increase in DTL	Rs. 50 lakhs * 50% = Rs. 25 lakhs

Q8. (b) H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset. Comment on the accuracy of the decision and the treatment of asset by H Ltd. as per Schedule III to the Companies Act, 2013.

- Since operating cycle is 18 months, to be classified as current

Q10. Pulses Ltd. and Cereals Ltd. decided to amalgamate their business with a view to a public share issue. A holding company, Mix Ltd., is to be incorporated on 1st May 2017 with all authorised capital of `60,00,000 in Rs.10 ordinary shares. The company will acquire the entire ordinary share capital of Pulses Ltd. and of Cereals Ltd. in exchange for an issue of its own shares. The consideration for the acquisition is to be ascertained by multiplying the estimated profits available to the ordinary shareholders by agreed price earnings ratio. The following relevant figures are given:

	Pulses Ltd.	Cereals Ltd.
Issued share capital		
Ordinary shares of `10 each	30,00,000	12,00,000
6% Cumulative Preference shares of `100 each	—	10,00,000
5% Debentures, redeemable in 2018		8,00,000
Estimated annual maintainable profits, before deduction		
of debenture interest & taxation	6,00,000	2,40,000
Price / earnings ratio	15	10

The shares in the holding company are to be issued to members of the subsidiaries on 1st June 2017, at a premium of `2.50 a share and thereafter these shares will be marketable on the Stock Exchange.

It is anticipated that the merger will achieve significant economics but will necessitate additional working capital. Accordingly, it is planned that on 31st December 2017, Grains Ltd. will make a further issue of 60,000 ordinary shares to the public for cash at the premium of `3.75 a share. These shares will not rank for dividends until 31st December 2017. In the period ending 31st December 2017, bank overdraft facilities will provide funds for the payment of management etc. expenses estimated at ` 6,000.

It is further assumed that interim dividends on ordinary shares, relating to the period from 1st June to 31st December 2017 will be paid on 31st December 2017 by Grains Ltd. at 3½ %, by Pulses Ltd. at 5% and by Cereals Ltd. at 2%. You are required to project, as on 31st December 2017 for Grains Ltd., (a) the Balance Sheet as it would appear immediately after fully subscribed share issue, and (b) the Profit and Loss Account for the Period ending 31st December 2017. Assume the rate of corporation tax to be 40%. You can make any other assumption you consider relevant

In our revision capsule: Page no. 2.69 Question no. 5

Pulses Ltd. and Cereals Ltd. decided to amalgamate their business with a view to a public share issue. A holding company, Mix Ltd., is to be incorporated on 1st May 2017 with all authorised capital of `60,00,000 in Rs.10 ordinary shares

Note 1: Share Capital

Particulars	Amount
Authorized 6 lakhs Equity shares of Rs.10 each Issued	 60 lakhs

The shares in the holding company are to be issued to members of the subsidiaries on 1st June 2017, at a premium of `2.50 a share and thereafter these shares will be marketable on the Stock Exchange

Page 4: WN1: Purchase Consideration

Particulars	White	Black
Total consideration Allotment Price (10 + 2.5)	 12.5	 12.5

The consideration for the acquisition is to be ascertained by multiplying the estimated profits available to the ordinary shareholders by agreed price earnings ratio. The following relevant figures are given:

	Pulses Ltd.	Cereals Ltd.
Issued share capital		
Ordinary shares of `10 each	30,00,000	12,00,000
6% Cumulative Preference shares of `100 each	—	10,00,000
5% Debentures, redeemable in 2018		8,00,000
Estimated annual maintainable profits, before deduction of debenture interest & taxation	6,00,000	2,40,000
Price / earnings ratio	15	10

Assume the rate of corporation tax to be 40%.

Page 4: WN1: Purchase Consideration

Particulars	White	Black
PBIT	600,000	240,000
Less: Interest (800000 * 5%)		(40,000)
PBT	600,000	400,000
Less: Tax @ 40%	(240,000)	(80,000)
PAT	360,000	120,000
Less: Preference dividend (10,00,000 * 6%)		(60,000)
Profits available to equity shareholders	360,000	60,000
PE Multiple	15	10
Consideration	54,00,000	600,000
Allotment price	12.5	12.5
Shares to be issued	432,000	48,000
Share Capital	43,20,000	480,000
Share Premium	10,80,000	120,000

It is anticipated that the merger will achieve significant economics but will necessitate additional working capital. Accordingly, it is planned that on 31st December 2017, Grains Ltd. will make a further issue of 60,000 ordinary shares to the public for cash at the premium of `3.75 a share. These shares will not rank for dividends until 31st December 2017

WN3: Cash Account

Receipts	Amount	Payment	Amount
Share Capital 60,000 * 10	600,000		
Share Premium 60,000 * 3.75	225,000		

Note 2: Reserves and Surplus

Particulars	Amount
Share Premium (WN1 and WN 4) (10,80,000 + 120,000 + 225,000)	14,25,000

In the period ending 31st December 2017, bank overdraft facilities will provide funds for the payment of management etc. expenses estimated at ` 6,000

WN3: Cash Account

Receipts	Amount	Payment	Amount
Share Capital 60,000 * 10	600,000	Management expense	6,000
Share Premium 60,000 * 3.75	225,000		

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Page 3: Profits and Loss Statement

Particulars	Amount
Revenue	
Expenditure Management Exp	6,000

It is further assumed that interim dividends on ordinary shares, relating to the period from 1st June to 31st December 2017 will be paid on 31st December 2017 by Grains Ltd. at 3½ %, by Pulses Ltd. at 5% and by Cereals Ltd. at 2%.

WN3: Cash Account

Receipts	Amount	Payment	Amount
Share Capital 60,000 * 10	600,000	Management expense	6,000
Share Premium 60,000 * 3.75	225,000	Dividend paid (43,20,000 + 480,000) * 3.5%	168,000
Dividend Pulses	150,000		
Cereals	24,000		

Page 3: Profits and Loss Statement

Particulars	Amount
Revenue Dividend from subsidiaries 30,00,000 * 5% + 12,00,000 * 2%	174,000
Expenditure Management Exp	6,000

Note 2: Reserves and Surplus

Particulars	Amount
Share Premium (WN1 and WN 4) (10,80,000 + 120,000 + 225,000)	14,25,000
Dividend paid	(168,000)

(Note: The allotment of the private placement shares made on 31-12-2010 shall qualify for dividend from 2011 only)

Determine PBT

Page 3: Profits and Loss Statement

Particulars	Amount
Revenue Dividend from subsidiaries 30,00,000 * 5% + 12,00,000 * 2%	174,000
	174,000
Expenditure Management Exp	6,000
	6,000
PBT (174,000 – 6,000)	168,000

Note 2: Reserves and Surplus

Particulars	Amount
Share Premium (WN1 and WN 4) (10,80,000 + 120,000 + 225,000)	14,25,000
Dividend paid	(168,000)
P&L account	168,000

Determine closing cash account and investment account

WN3: Cash Account

Receipts	Amount	Payment	Amount
Share Capital	600,000	Management expense	6,000
60,000 * 10		Dividend paid	
Share Premium	225,000	(43,20,000 + 480,000) *	168,000
60,000 * 3.75		3.5%	
Dividend		Closing	825,000
Pulses	150,000		
Cereals	24,000		

Note 3: Investment

Particulars 2	Amount
Equity shares of Pulses	54,00,000
Equity shares of Cereals	600,000
Total	60,00,000

Page 1: Balance Sheet as on 1.1.2008

Particulars	Amount
Equity and Liability	
1. Equity	
a. Share Capital (Note 1)	
b. R&S (Note 2)	
2. Non-Current Liability	
3. Current Liability	
Total Liabilities	
Assets	
4. Non-Current Assets	
a. Tangible assets	
b. Intangible Assets	
c. Investments (Note 3)	60,00,000
(54,00,000 + 600,000)	
5. Current Assets	825,000
Total Assets	

Close R&S

Note 2: Reserves and Surplus

Particulars	**Amount**
Share Premium (WN1 and WN 4)	14,25,000
(10,80,000 + 120,000 + 225,000)	
Dividend paid	(168,000)
P&L account	168,000
Total	**14,25,000**

Page 1: Balance Sheet as on 1.1.2008

Particulars	**Amount**
Equity and Liability	
1. Equity	
a. Share Capital (Note 1)	
b. R&S (Note 2)	14,25,000
2. Non-Current Liability	
3. Current Liability	
Total Liabilities	
Assets	
4. Non-Current Assets	
a. Tangible assets	
b. Intangible Assets	
c. Investments (Note 3)	60,00,000
5. Current Assets	825,000
Total Assets	

Determine Share Capital

Note 1: Share Capital

Particulars	Amount
Authorized	
6 lakhs Equity shares of Rs.10 each	60 lakhs
Issued	
540,000 Equity shares of Rs.10 each	54 lakhs
Total	**54 lakhs**

Page 1: Balance Sheet as on 1.1.2008

Particulars	Amount
Equity and Liability	
1. Equity	
a. Share Capital (Note 1)	54,00,000
b. R&S (Note 2)	14,25,000
2. Non-Current Liability	
3. Current Liability	
Total Liabilities	**68,25,000**
Assets	
4. Non-Current Assets	
a. Tangible assets	
b. Intangible Assets	
c. Investments (Note 3)	60,00,000
5. Current Assets	825,000
Total Assets	**68,25,000**

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Q11. Following are the summarized Balance Sheets of Mumbai Limited, Delhi Limited, Amritsar Limited and Kanpur Limited as at 31st March, 2017:

Liabilities	Mumbai	Delhi	Amritsar	Kanpur
Share Capital (` 100 face value)	50,00,000	40,00,000	20,00,000	60,00,000
General Reserve	20,00,000	4,00,000	2,50,000	10,00,000
Profit & Loss Account	10,00,000	4,00,000	2,50,000	3,20,000
Trade payables	3,00,000	1,00,000	50,000	80,000
	83,00,000	49,00,000	25,50,000	74,00,000
Assets				
Investments:				
30,000 shares in Delhi Ltd.	35,00,000			
10,000 shares in Amritsar Ltd	11,00,000			
5,000 shares in Amritsar Ltd.		5,00,000		
Shares in Kanpur Ltd. @ `120	36,00,000	18,00,000	6,00,000	
Fixed Assets		20,00,000	15,00,000	70,00,000
Current Assets	1,00,000	6,00,000	4,50,000	4,00,000
	83,00,000	49,00,000	25,50,000	74,00,000

Balance in General Reserve Account and Profit & Loss Account, when shares were purchased in different companies were:

	Mumbai	Delhi	Amritsar	Kanpur
General Reserve Account	10,00,000	2,00,000	1,00,000	6,00,000
Profit & Loss Account	6,00,000	2,00,000	50,000	60,000

Prepare the Consolidated Balance Sheet of the group as at 31st March, 2017 (Calculations may be rounded off to the nearest rupee)

In our revision capsule: Page no. 1.161 Question no. 11

Balance in General Reserve Account and Profit & Loss Account, when shares were purchased in different companies were:

	Mumbai	Delhi	Amritsar	Kanpur
General Reserve Account	10,00,000	2,00,000	1,00,000	6,00,000
Profit & Loss Account	6,00,000	2,00,000	50,000	60,000

Page 2: WN1: Apportionment of Profit

	Delhi			Amritsar			Kanpur		
Particulars	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits
P&L GR	2 2			0.5 1			0.6 6		
MI Amritsar Delhi Mumbai									

Balance sheet Assets side	Mumbai	Delhi	Amritsar	Kanpur
Investments:				
30,000 shares in Delhi Ltd.	35,00,000			
10,000 shares in Amritsar Ltd	11,00,000			
5,000 shares in Amritsar Ltd.		5,00,000		
Shares in Kanpur Ltd. @ `120	36,00,000	18,00,000	6,00,000	

Page 3: WN3: Cost on Control

Cost of Control	Delhi	Amritsar	Kanpur
Share Capital			
-Mumbai in Delhi	30		
-Mumbai in Amritsar		10	
-Delhi in Amritsar		5	
-Mumbai in Kanpur			30
-Delhi in Kanpur			15
-Amritsar in Kanpur			5
Pre-acquisition profits			
-Mumbai in Delhi			
-Mumbai in Amritsar			
-Delhi in Amritsar			
-Mumbai in Kanpur			
-Delhi in Kanpur			
-Amritsar in Kanpur			
	30	**15**	**50**
Cost of investment	35	16	60
Dividend Received			
Capital Reserve/ (Goodwill)			

Balance sheet asset and liability				
	Mumbai	Delhi	Amritsar	Kanpur
Fixed Assets		20,00,000	15,00,000	70,00,000
Current Assets	1,00,000	6,00,000	4,50,000	4,00,000
Trade payables	3,00,000	1,00,000	50,000	80,000

Page 1: Consolidated Balance sheet as on 31.03.2017

Particulars	Amount
Equity and Liabilities	
1. Shareholders fund	
a. Share Capital	
b. R&S (WN5)	
c. Minority Interest (WN2)	
2. Non-Current Liability (WN6)	
3. Current Liabilities (WN6)	5.3
TOTAL	
Assets	
4. Non-Current Assets	
a. Tangible (WN6)	105
b. Intangible (WN3)	
c. Investments (WN6)	
5. Current Assets (WN6)	15.5
Total	

Balance sheet liability side				
	Mumbai	Delhi	Amritsar	Kanpur
Share Capital (100 face value)	50,00,000	40,00,000	20,00,000	60,00,000

Page 3: WN2: Minority Interest

Particulars	Delhi	Amritsar	Kanpur
Share Capital Pre-acquisition profits Post-acquisition reserves Post-acquisition profits	10	5	10

Page 1: Consolidated Balance sheet as on 31.03.2017

Particulars	Amount
Equity and Liabilities	
1. Shareholders fund	
a. Share Capital	50
b. R&S (WN5)	
c. Minority Interest (WN2)	
2. Non-Current Liability (WN6)	
3. Current Liabilities (WN6)	5.3
TOTAL	
Assets	
4. Non-Current Assets	
a. Tangible (WN6)	105
b. Intangible (WN3)	
c. Investments (WN6)	
5. Current Assets (WN6)	15.5
Total	

Balance sheet liability side				
	Mumbai	Delhi	Amritsar	Kanpur
General Reserve	20,00,000	4,00,000	2,50,000	10,00,000
Profit & Loss Account	10,00,000	4,00,000	2,50,000	3,20,000

Page 2: WN1: Apportionment of Profit

	Delhi			Amritsar			Kanpur		
Particulars	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits
P&L GR	2 2	 2	2	0.5 1	 1.5	2	0.6 6	 4	2.6
MI Amritsar Delhi Mumbai									

Page 4: WN5: Consolidated Reserves

Particulars	GR	P&L
Mumbai Delhi Amritsar Kanpur	20	10

Complete apportionment of Profits of Kanpur Ltd.

Page 2: WN1: Apportionment of Profit

	Delhi			Amritsar			Kanpur		
Particulars	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits
P&L	2		2	0.5		2	0.6		2.6
GR	2	2		1	1.5		6	4	
Kanpur		1	0.65		0.33	0.22			
							6.6	4	2.6
MI							1.1	0.67	0.43
Amritsar							0.55	0.33	0.22
Delhi							1.65	1	0.65
Mumbai							3.3	2	1.3

Page 3: WN2: Minority Interest

Particulars	Delhi	Amritsar	Kanpur
Share Capital	10	5	10
Pre-acquisition profits			1.1
Post-acquisition reserves			0.67
Post-acquisition profits			0.41

Page 4: WN5: Consolidated Reserves

Particulars	GR	P&L
Mumbai	20	10
Delhi		
Amritsar		
Kanpur	2	1.3

Page 3: WN3: Cost on Control

Cost of Control	Delhi	Amritsar	Kanpur
Share Capital			
-Mumbai in Delhi	30		
-Mumbai in Amritsar		10	
-Delhi in Amritsar		5	
-Mumbai in Kanpur			30
-Delhi in Kanpur			15
-Amritsar in Kanpur			5
Pre-acquisition profits			
-Mumbai in Delhi			
-Mumbai in Amritsar			
-Delhi in Amritsar			
-Mumbai in Kanpur			3.3
-Delhi in Kanpur			1.65
-Amritsar in Kanpur			0.55
Cost of investment	35	16	60
Dividend Received			
Capital Reserve/ (Goodwill)			

Complete apportionment of Profits of Amritsar Ltd.

Page 2: WN1: Apportionment of Profit

	Delhi			Amritsar			Kanpur		
Particulars	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits
P&L	2		2	0.5		2	0.6		2.6
GR	2	2		1	1.5		6	4	
Kanpur		1	0.65		0.33	0.22			
Amritsar		0.45	0.56						
				1.5	**1.83**	**2.22**	**6.6**	**4**	**2.6**
MI				0.375	0.46	0.55	1.1	0.67	0.43
Amritsar							0.55	0.33	0.22
Delhi				0.375	0.45	0.56	1.65	1	0.65
Mumbai				0.75	0.92	1.11	3.3	2	1.3

Page 3: WN2: Minority Interest

Particulars	Delhi	Amritsar	Kanpur
Share Capital	10	5	10
Pre-acquisition profits		0.375	1.1
Post-acquisition reserves		0.46	0.67
Post-acquisition profits		0.55	0.43

Page 4: WN5: Consolidated Reserves

Particulars	GR	P&L
Mumbai	20	10
Delhi		
Amritsar	0.92	1.11
Kanpur	2	1.3

Page 3: WN3: Cost on Control

Cost of Control	Delhi	Amritsar	Kanpur
Share Capital			
-Mumbai in Delhi	30		
-Mumbai in Amritsar		10	
-Delhi in Amritsar		5	
-Mumbai in Kanpur			30
-Delhi in Kanpur			15
-Amritsar in Kanpur			5
Pre-acquisition profits			
-Mumbai in Delhi			
-Mumbai in Amritsar		0.75	
-Delhi in Amritsar		0.375	
-Mumbai in Kanpur			3.3
-Delhi in Kanpur			1.65
-Amritsar in Kanpur			0.55
Cost of investment	35	16	60
Dividend Received			
Capital Reserve/ (Goodwill)			

Complete apportionment of Profits of Delhi Ltd.

Page 2: WN1: Apportionment of Profit

	Delhi			Amritsar			Kanpur		
Particulars	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits	Pre-acquisition profits	Post-acquisition reserve	Post-acquisition profits
P&L	2		2	0.5		2	0.6		2.6
GR	2	2		1	1.5		6	4	
Kanpur		1	0.65		0.33	0.22			
Amritsar		0.45	0.56						
	4	**3.45**	**3.21**	**1.5**	**1.83**	**2.22**	**6.6**	**4**	**2.6**
MI	1	0.86	0.80	0.375	0.46	0.55	1.1	0.67	0.43
Amritsar							0.55	0.33	0.22
Delhi				0.375	0.45	0.56	1.65	1	0.65
Mumbai	3	2.59	2.41	0.75	0.92	1.11	3.3	2	1.3

Page 3: WN2: Minority Interest

Particulars	Delhi	Amritsar	Kanpur
Share Capital	10	5	10
Pre-acquisition profits	1	0.375	1.1
Post-acquisition reserves	0.86	0.46	0.67
Post-acquisition profits	0.80	0.55	0.43
	12.66	**6.385**	**12.2**
	31.245		

Page 4: WN5: Consolidated Reserves

Particulars	GR	P&L
Mumbai	20	10
Delhi	2.59	2.41
Amritsar	0.92	1.11
Kanpur	2	1.3
	25.51	**14.82**

	40.33

Page 3: WN3: Cost on Control

Cost of Control	Delhi	Amritsar	Kanpur
Share Capital			
-Mumbai in Delhi	30		
-Mumbai in Amritsar		10	
-Delhi in Amritsar		5	
-Mumbai in Kanpur			30
-Delhi in Kanpur			15
-Amritsar in Kanpur			5
Pre-acquisition profits			
-Mumbai in Delhi	3		
-Mumbai in Amritsar		0.75	
-Delhi in Amritsar		0.375	
-Mumbai in Kanpur			3.3
-Delhi in Kanpur			1.65
-Amritsar in Kanpur			0.55
	33	16.125	55.5
Cost of investment	35	16	60
Dividend Received			
Capital Reserve/ (Goodwill)	(2)	0.125	(4.5)
		(6.375)	

Complete balance sheet

Page 1: Consolidated Balance sheet as on 31.03.2017

Particulars	Amount
Equity and Liabilities	
1. Shareholders fund	
a. Share Capital	50
b. R&S (WN5)	40.33
c. Minority Interest (WN2)	31.245
2. Non-Current Liability (WN6)	
3. Current Liabilities (WN6)	5.3
TOTAL	**126.875**
Assets	
4. Non-Current Assets	
a. Tangible (WN6)	105
b. Intangible (WN3)	6.375
c. Investments (WN6)	
5. Current Assets (WN6)	15.5
Total	**126.875**

Q12. On 1st April, 2017, Alpha Ltd. issued `30,00,000, 6% convertible debentures of face value of `100 per debenture at par. The debentures are redeemable at a premium of 10% on 31.03.2021 or these may be converted into ordinary shares at the option of the holder, the interest rate for equivalent debentures without conversion rights would have been 10%. Being compound financial instrument, you are required to separate equity and debt portion as on 01.04.2017

In our book, Pg. no.32.24, Question no.32.26

Present value of the principal repayable after four years	22,44,000
[30,00,000 x 1.10 x .680 at 10% Discount factor]	
Present value of Interest	5,70,600
[1,80,000 x 3.17 (4 years cumulative 10% discount factor)]	
Value of debt component	28,14,600
Value of equity component	1,85,400
Proceeds of the issue	30,00,00

Q13. PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1-4-2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is `18 on the grant date and the exercise price is ` 55 per share. The other information is given as under:

(i) The no. of employees expected to satisfy service condition are 930 in the 1st year and 850 in the 2nd year.

(ii) 40 employees left the company in the 1st year of service and 880 employees have actually completed 2 year vesting period.

(iii) The profit of the enterprise before amortization of the compensation cost on account of ESOP is as follows:

(A) `18,50,000

(B) `22,00,000

(iv) The fair value of share for these years was `80 and 88 respectively.

(v) The company has 6 lakhs shares of `10 each outstanding at the end of both years.

Compute basic and diluted EPS for both the years (ignore the tax impacts).

In our revision capsule: Page no. 4.35 Question no. 8

Answer

PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1-4-2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is `18 on the grant date and the exercise price is ` 55 per share

Particulars	Year 1	Year 2
Fair value	18	18
Options	100	100

The no. of employees expected to satisfy service condition are 930 in the 1st year and 850 in the 2nd year
40 employees left the company in the 1st year of service and 880 employees have actually completed 2 year vesting period

Particulars	Year 1	Year 2
Fair value	18	18
Options	100	100
No. of employees	930	880

The profit of the enterprise before amortization of the compensation cost on account of ESOP is as follows:
(A) `18,50,000
(B) `22,00,000

Particulars	Year 1	Year 2
Fair value	18	18
Options	100	100
No. of employees	930	880
Fair value of options		
Already recognized		
CY expense		
Profit for the year ➡	18,50,000	22,00,000

The fair value of share for these years was `80 and 88 respectively

Particulars	Year 1	Year 2
Fair value	18	18
Options	100	100
No. of employees	930	880
Fair value of options		
Already recognized		
CY expense		
Profit for the year	18,50,000	22,00,000
Less: amortized cost		
Net		
Shares o/s		
Basic EPS		
Amount to be received on actuals		
Unamortized compensation cost on actuals		
Total		
Fair value per share	80	88

The company has 6 lakhs shares of `10 each outstanding at the end of both years

Particulars		Year 1	Year 2
Fair value		18	18
Options		100	100
No. of employees		930	880
Fair value of options			
Already recognized			
CY expense			
Profit for the year		18,50,000	22,00,000
Less: amortized cost			
Net			
Shares o/s		600,000	600,000
Basic EPS			
Amount to be received on actuals			
Unamortized compensation cost on actuals			
Total			
Fair value per share		80	88

Complete table and determine amortized cost

Particulars	Year 1	Year 2
Fair value	18	18
Options	100	100
No. of employees	930	880
Fair value of options	16,74,000	15,84,000
Already recognized	-	837,000
CY expense	837,000	747,000
Profit for the year	18,50,000	22,00,000
Less: amortized cost	837,000	747,000
Net		
Shares o/s	600,000	600,000
Basic EPS		
Amount to be received on actuals		
Unamortized compensation cost on actuals		
Total		
Fair value per share	80	88

Determine Basic EPS

Particulars	Year 1	Year 2
Fair value	18	18
Options	100	100
No. of employees	930	880
Fair value of options	16,74,000	15,84,000
Already recognized	-	837,000
CY expense	837,000	747,000
Profit for the year	18,50,000	22,00,000
Less: amortized cost	837,000	747,000
Net	10,13,000	14,53,000
Shares o/s	600,000	600,000
Basic EPS	1.69	2.42
Amount to be received on actuals		
Unamortized compensation cost on actuals		
Total		
Fair value per share	80	88

Determine assumed shares to be issued for nil consideration

Particulars	Year 1	Year 2
Fair value	18	18
Options	100	100
No. of employees	930	880
Fair value of options	16,74,000	15,84,000
Already recognized	-	837,000
CY expense	837,000	747,000
Profit for the year	18,50,000	22,00,000
Less: amortized cost	837,000	747,000
Net	10,13,000	14,53,000
Shares o/s	600,000	600,000
Basic EPS	1.69	2.42
Amount to be received on actuals		
960 employees * 100 Options * Rs.55	52,80,000	
880 employees * 100 Options * Rs.55		48,40,000
Unamortized compensation cost on actuals		
960 employees * 100 Options * Rs.(18 - 18/2)	864,000	0
Total	61,44,000	48,40,000
Fair value per share	80	88
Shares assumed to be issued		
61,44,000 / 80	76800	
48,40,000 / 88		55,000
Options o/s		
960 employees * 100 Options	96,000	
880 employees * 100 Options		88,000
Shares to be issued for nil consideration	19,200	33,000

Determine Diluted EPS

Particulars	Year 1	Year 2
Profits available to equity shareholders	10,13,000	14,53,000
Shares o/s	600,000	600,000
Add: bonus shares to be issued for free	19,200	33,000
Total	619,200	6,33,000
Diluted EPS	1.64	2.3

Q14. An investor purchased 300 units of a Mutual Fund at `12.25 per unit on 31st December, 2016. As on 31st December, 2017 he has received 1.25 as dividend and `1.00 as capital gains distribution per unit.

Required :

(i) The return on the investment if the NAV as on 31st December, 2017 is 13.00.

(ii) The return on the investment as on 31st December, 2017 if all dividends and capital gains distributions are reinvested into additional units of the fund at `12.50 per unit

Return for the year (all changes on a per year basis)

Particulars	`/Unit
Change in price (`13.00–`12.25)	0.75
Dividend received	1.25
Capital gain distribution	1.00
Total Return	3.00

Return on investment = 3 * 100 / 12.25= 24.49%

If all dividends and capital gain are reinvested into additional units at `12.50 per unit the position would be-

Total amount reinvested = `2.25 × 300 = `675

Additional units added = 675 / 12.5 = = 54 units

Value of 354 units as on 31-12-2017 = `4,602

Price paid for 300 units on 31-12-2016 (300 × 12.25) = `3,675

Return = (4602 – 3675) / 3675 = 25.22%

Q15. Peoples Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2017:

Asset Funded	Interest Overdue but recognized in Profit & loss		Net Book Value of Assets outstanding
	Period Overdue	Interest Amount (`in crore)	(`in crore)
LCD Televisions	Upto 12 months	480.00	20,123.00
Washing Machines	For 24 months	102.00	2,410.00
Refrigerators	For 30 months	50.50	1,280.00
Air Conditioners	For 45 months	26.75	647.00

You are required to calculate the amount of provision to be made

In our revision capsule: Page no. 4.73 Question no. 4

Answer

Particulars		Amount
Where charges are overdue upto 12 months		-
Where hire charges are overdue from 12 – 24 months	10% * 2410	241
Where hire charges are overdue from 24 – 36 months	40% * 1280	512
Where hire charges are overdue from 36 – 48 months	70% * 647	452.9
		1205.9

Q16. On the basis of the following information, calculate the value of goodwill of Price Ltd. at three years' purchase of super profits, if any, earned by the company in the previous four completed accounting years. Summarized Balance Sheet of Price Ltd. as at 31st March, 2017

Liabilities	₹ in lakhs	Assets	₹ in lakhs
Share Capital:		Land and Buildings	1,850
Authorised	7,500	Machinery	3,760
Issued and Subscribed		Furniture and Fixtures	1,015
5 crore equity shares of ₹ 10		Patents and Trade Marks	32
each, fully paid up	5,000	9% Non-trading Investments	600
Capital Reserve	260	Inventory	873
General Reserve	2,983	Trade receivables	614
Surplus i.e. credit balance of Profit and Loss (appropriation) A/c	457	Cash in hand and at Bank	546
Trade payables	568		
Provision for Taxation (net)	22		
	9,290		9,290

The profits before tax of the four years have been as follows:

Year ended 31st March	Profit before tax in lakhs of Rupees
2013	3,190
2014	2,500
2015	3,108
2016	2,900

The rate of income tax for the accounting year 2012-2013 was 40%. Thereafter it has been 38% for all the years so far. But for the accounting year 2016-2017 it will be 35%. In the accounting year 2012-2013, the company earned an extraordinary income of `1 crore due to a special foreign contract. In August, 2013, there was an earthquake due to which the company lost property worth `50 lakhs and the insurance policy did not cover the loss due to earthquake or riots. 9% Non-trading investments appearing in the above-mentioned Balance Sheet were purchased at par by the company on 1st April, 2014. The normal rate of return for the industry in which the company is engaged is 20%. Also note that the company's shareholders, in their general meeting have passed a resolution sanctioning the directors an additional remuneration of `50 lakhs every year beginning from the accounting year 2016-2017.

In our revision capsule: Page no. 3.51 Question no. 4

The profits before tax of the four years have been as follows:

Year ended 31st March	Profit before tax in lakhs of Rupees
2013	3,190
2014	2,500
2015	3,108
2016	2,900

WN2: Future Maintainable profits

Particulars	2012-13	2013-14	2014-15	2015-16
PBT	3190	2500	3108	2900

The rate of income tax for the accounting year 2012-2013 was 40%. Thereafter it has been 38% for all the years so far. But for the accounting year 2016-2017 it will be 35%

WN2: Future Maintainable profits

Particulars	2012-13	2013-14	2014-15	2015-16
PBT	3190	2500	3108	2900
Average profits Less: Income tax @ 35%				

In the accounting year 2012-2013, the company earned an extraordinary income of `1 crore due to a special foreign contract. In August, 2013, there was an earthquake due to which the company lost property worth `50 lakhs and the insurance policy did not cover the loss due to earthquake or riots.

WN2: Future Maintainable profits

Particulars	2012-13	2013-14	2014-15	2015-16
PBT	3190	2500	3108	2900
Less: Extra ordinary income	(100)			
Add: loss due to earthquake		50		
Average profits				
Less: Income tax @ 35%				

9% Non-trading investments appearing in the above-mentioned Balance Sheet were purchased at par by the company on 1st April, 2014.

WN2: Future Maintainable profits

Particulars	2012-13	2013-14	2014-15	2015-16
PBT	3190	2500	3108	2900
Less: Extra ordinary income	(100)			
Add: loss due to earthquake		50		
Less: Income on Non-trade investments			(54)	(54)
	3090	2550	3054	2846
Average profits				
Less: Income tax @ 35%				

The normal rate of return for the industry in which the company is engaged is 20%. Also note that the company's shareholders, in their general meeting have passed a resolution sanctioning the directors an additional remuneration of `50 lakhs every year beginning from the accounting year 2016-2017.

WN2: Future Maintainable profits

Particulars	2012-13	2013-14	2014-15	2015-16
PBT Less: Extra ordinary income Add: loss due to earthquake Less: Income on Non-trade investments	3190 (100)	2500 50	3108 (54)	2900 (54)
	3090	2550	3054	2846
Average profits (3090 + 2550 + 3054 + 2846) / 4 Less: Additional Remuneration to directors Less: Income tax @ 35%	2885 (50)			

Goodwill	Amount
FMP Capital Employed Less: Normal profits @ 20% Super Profits	

Determine Net Assets

WN1: Net Assets

Particulars	Amount
L&B Machinery Furniture Patents Inventory Trade Receivables Cash in hand and bank	1850 3760 1015 32 873 614 546
	8690
Trade payables Provision for tax	568 22
	590
	8100

Determine FMP

WN2: Future Maintainable profits

Particulars	2012-13	2013-14	2014-15	2015-16
PBT	3190	2500	3108	2900
Less: Extra ordinary income	(100)			
Add: loss due to earthquake		50		
Less: Income on Non-trade investments			(54)	(54)
	3090	2550	3054	2846
Average profits (3090 + 2550 + 3054 + 2846) / 4	2885			
Less: Additional Remuneration to directors	(50)			
Less: Income tax @ 35% (2885 – 50) * 35%	(992)			
FMP	**1843**			

Determine Goodwill

Goodwill	Amount
FMP	1843
Capital Employed	8100
Less: Normal profits @ 20%	1620
Super Profits (1843 – 1620)	223
Goodwill 223 * 3	**669**

Q17. The following is the Balance Sheet of Force Ltd. as on 31 March 2017:

Liabilities	₹	Assets	₹
3,00,000 Equity Shares of ₹ 10 each fully paid	30,00,000	Building	20,00,000
		Plant & Machinery	22,00,000
12.5% Redeemable preference shares of ₹ 100 each fully paid	20,00,000	Furniture	10,00,000
		Investments	16,00,000
		Inventory	12,00,000
General Reserve	11,00,000	Trade Receivables	20,00,000
Profit & Loss A/c	3,00,000	Bank Balance	4,00,000
Secured Loan	10,00,000		
Trade Payables	30,00,000		
	1,04,00,000		1,04,00,000

Additional Information:

(i) Fixed assets are worth 20% more than book value. Inventory is overvalued by ` 1,00,000. Trade Receivables are to be reduced by `40,000. Trade investments, which constitute 10% of the total investment are to be valued at 10% below cost.

(ii) Trade investments were purchased on 1.4.2016. 50% of non-trade investments were purchased on 1.4.2015 and the rest on 1.4.2016. Non-trade investments yielded 15% return on cost.

(iii) In 2015-2016, Furniture with a book value of ` 1,00,000 was sold for ` 50,000. This loss should be treated as non-recurring or extraordinary item for the purpose of calculating adjusted average profit.

(iv) In 2014-2015, new machinery costing ` 2,00,000 was purchased, but wrongly charged to revenue. This amount should be adjusted taking depreciation at 10% on reducing value method.

(v) Return on capital employed is 20% in similar business.

(vi) Goodwill is to be valued at two years purchase of super profits based on simple average profits of last four years.

Profit of last four years are as under:

Year	Amount (`)
2013-2014	13,00,000
2014-2015	14,00,000
2015-2016	16,00,000
2016-2017	18,00,000

(vii) It is assumed that preference dividend has been paid till date.

(viii) Depreciation on the overall increased value of assets (worth 20% more than book value) need not be considered. Depreciation on the additional value of only plant and machinery to be considered taking depreciation at 10% on reducing value method while calculating average adjusted profit. Find out the intrinsic value of the equity share. Ignore income tax and dividend tax

In our revision capsule: Page no. 3.51 Question no. 4

Fixed assets are worth 20% more than book value. Inventory is overvalued by ` 1,00,000. Trade Receivables are to be reduced by `40,000. Trade investments, which constitute 10% of the total investment are to be valued at 10% below cost

WN1: Net Assets

Particulars	Amount
Building 2000000 * 120%	24,00,000
Machinery (2200000 +) * 120%	
Furniture 1000000 * 120%	12,00,000
Stock (1200000 – 100000)	11,00,000
Debtors (2000000 – 40000)	19,60,000
Trade Investments (1600000 * 10% * 90%)	144,000

WN2: Future Maintainable profits

Particulars	2013-14	2014-15	2015-16	2016-17
Less: Reduction in value of stock				(100000)
Less: Provision for debtors				(40000)

Intrinsic value	Amount
Capital Employed	
Add: Non-trading Investments (16,00,000 * 90%)	14,40,000

Trade investments were purchased on 1.4.2016. 50% of non-trade investments were purchased on 1.4.2015 and the rest on 1.4.2016. Non-trade investments yielded 15% return on cost

WN2: Future Maintainable profits

Particulars	2013-14	2014-15	2015-16	2016-17
Less: Reduction in value of stock				(100000)
Less: Provision for debtors				(40000)
Less: Income from non-trade investments				
14,40,000 * 15%				(216,000)
14,40,000 * **50%** * 15%			(108,000)	

(iii) In 2015-2016, Furniture with a book value of ` 1,00,000 was sold for ` 50,000. This loss should be treated as non-recurring or extraordinary item for the purpose of calculating adjusted average profit

WN2: Future Maintainable profits

Particulars	2013-14	2014-15	2015-16	2016-17
Less: Reduction in value of stock				(100000)
Less: Provision for debtors				(40000)
Less: Income from non-trade investments				
14,40,000 * 15%				(216,000)
14,40,000 * **50%** * 15%			(108,000)	
Add: Loss on sale of furniture			50,000	

(iv) In 2014-2015, new machinery costing ` 2,00,000 was purchased, but wrongly charged to revenue. This amount should be adjusted taking depreciation at 10% on reducing value method.

WN2: Future Maintainable profits

Particulars	2013-14	2014-15	2015-16	2016-17
Less: Reduction in value of stock				(100000)
Less: Provision for debtors				(40000)
Less: Income from non-trade investments				
14,40,000 * 15%				(216,000)
14,40,000 * **50%** * 15%			(108,000)	
Add: Loss on sale of furniture			50,000	
Add: Machine wrongly charged to revenue		2,00,000		
Less: Depreciation on machinery				
2,00,000 * 10%		(20,000)		
2,00,000 * 90% * 10%			(18,000)	
2,00,000 * 90% * 90% * 10%				(16,200)

WN1: Net Assets

Particulars	Amount
Building 2000000 * 120%	24,00,000
Machinery (2200000 + 145800) * 120%	23,45,800
Furniture 1000000 * 120%	12,00,000
Stock (1200000 – 100000)	11,00,000
Debtors (2000000 – 40000)	19,60,000
Trade Investments (1600000 * 10% * 90%)	144,000

(v) Return on capital employed is 20% in similar business.

(vi) Goodwill is to be valued at two years purchase of super profits based on simple average profits of last four years

Profit of last four years are as under:

Year	Amount (`)
2013-2014	13,00,000
2014-2015	14,00,000
2015-2016	16,00,000
2016-2017	18,00,000

WN2: Future Maintainable profits

Particulars	2013-14	2014-15	2015-16	2016-17
Profit	13,00,000	14,00,000	1600000	1800000
Less: Reduction in value of stock				(100000)
Less: Provision for debtors				(40000)
Less: Income from non-trade investments			(216,000)	
14,40,000 * 15%				(216,000)
14,40,000 * **50%** * 15%		(108,000)		
Add: Machine wrongly charged to revenue		2,00,000		
Less: Depreciation on machinery				
2,00,000 * 10%		(20,000)	(18,000)	
2,00,000 * 90% * 10%				
2,00,000 * 90% * 90% * 10%				(16,200)
Add: Loss on sale of furniture assumed to be non-recurring			50,000	

WN3: Goodwill – Super profits

Particulars	Amount
FMP (WN 2)	
Capital Employed (WN1)	
NRR	20%
Normal Profits	
Super Profits	
Years of Purchase	2
Goodwill	

(vii) It is assumed that preference dividend has been paid till date.
(viii) Depreciation on the overall increased value of assets (worth 20% more than book value) need not be considered. Depreciation on the additional value of only plant and machinery to be considered taking depreciation at 10% on reducing value method while calculating average adjusted profit

This will be deducted from average profits to determine FMP

WN2: Future Maintainable profits

Particulars	2013-14	2014-15	2015-16	2016-17
Profit	13,00,000	14,00,000	1600000	1800000
Less: Reduction in value of stock				(100000)
Less: Provision for debtors				(40000)
Less: Income from non-trade investments			(216,000)	
14,40,000 * 15%				(216,000)
14,40,000 * **50%** * 15%		(108,000)		
Add: Machine wrongly charged to revenue		2,00,000		
Less: Depreciation on machinery				
2,00,000 * 10%		(20,000)	(18,000)	
2,00,000 * 90% * 10%				
2,00,000 * 90% * 90% * 10%				(16,200)
Add: Loss on sale of furniture assumed to be non-recurring				50,000

Total	1300000	1580000	1524000	1427800
Average Less: Additional depreciation (22,00,000 + 145800) * 20% * 10%	1457950 (46,916)			
FMP	14,11,034			

WN3: Goodwill – Super profits

Particulars	Amount
FMP (WN 2) Capital Employed (WN1) NRR Normal Profits Super Profits Years of Purchase Goodwill	14,11,034 20% 2

Continue with asset and liability

WN1: Net Assets

Particulars	Amount
Building 2000000 * 120%	24,00,000
Machinery (2200000 + 145800) * 120%	23,45,800
Furniture 1000000 * 120%	12,00,000
Stock (1200000 – 100000)	11,00,000
Debtors (2000000 – 40000)	19,60,000
Trade Investments (1600000 * 10% * 90%)	144,000
Bank	400,000
	1,00,18,960
Secured Loan Trade Payables	10,00,000 30,00,000
	40,00,000
Capital Employed	60,18,960

WN3: Goodwill – Super profits

Particulars	Amount
FMP (WN 2)	14,11,034
Capital Employed (WN1)	60,18,960
NRR	20%
Normal Profits	
Super Profits	
Years of Purchase	2
Goodwill	

Intrinsic value	Amount
Capital Employed (WN 1)	60,18,960
Add: Non-trading Investments (16,00,000 * 90%)	14,40,000

Complete the Goodwill Valuation

WN3: Goodwill – Super profits

Particulars	Amount
FMP (WN 2)	14,11,034
Capital Employed (WN1)	60,18,960
NRR	20%
Normal Profits	1 12,03,792
Super Profits (1411034-1203792) 2	207,242
Years of Purchase	2
Goodwill (323748 * 2)	3 414484

Intrinsic value	Amount
Capital Employed	60,18,960
Add: Non-trading Investments (16,00,000 * 90%)	14,40,000
Add: Goodwill (WN3)	414,484

Determine Intrinsic Value of the share

Intrinsic value	Amount
Capital Employed	60,18,960
Add: Non-trading Investments (16,00,000 * 90%)	14,40,000
Add: Goodwill (WN3)	414,484
Total	78,73,444
Less: Preference share Capital ①	(20,00,000)
Net Assets available for equity shareholders	58,73,444
No. of equity shares	3,00,000
IV per share ②	19.59

Q18. Wow Ltd. has been preparing Value Added Statements for the past five years. The Human Resource Manager of the company has suggested introducing a value added incentive scheme to motivate the employees for their better performance. To introduce the scheme, it is proposed that the best index performance (favourable to employer) i.e. Employee Costs to Added Value for the last five years, will be used as the target index for future calculations of the bonus to be paid.

After the target index is determined, any actual improvement in the index will be rewarded. The employer and the employee will be sharing any such improvement in the ratio of 1:2. The bonus is given at the end of the year, after the profit for the year is determined. The following information is available for the last 5 years.

Value Added Statement for 5 years

Particulars	`in thousands				
	For the year ended 31st March				
	2012	2013	2014	2015	2016
Sales	5,600	7,600	9,200	10,400	12,000
Less:					
Bought in goods & services	(2,560)	(4,000)	(5,000)	(5,600)	(6,400)
Added Value	3,040	3,600	4,200	4,800	5,600
Employee Costs	1,300	1,520	1,680	1,968	2,240
Dividend	200	300	400	480	600
Taxes	640	760	840	1000	1,120
Depreciation	520	620	720	880	1,120
Debenture Interest	80	80	80	80	80

Retaining Earnings	300	320	480	392	440
Added Value	3,040	3,600	4,200	4,800	5,600

Summarised Profit and Loss Account for the year ended on 31st March, 2017

Particulars	(`in thousand)
Income	
Sales less returns	13,600
Dividends and Interest	500
Miscellaneous Income	500
	14,600
Expenditure	
Production and Operational Expenses:	
Cost of Materials	5,000
Wages & Salaries	1,800
Other Manufacturing Expenses	1,400
	8,200
Administrative Expenses:	
Administrative Salaries	600
Administration Expenses	600
	1,200
Selling and Distribution Expenses:	
Selling and Distribution Salaries	120
Selling Expenses	400
	520
Financial Expenses:	
Debenture Interest	80
Depreciation	1,520
Total Expenditure	11,520
Profit before taxation	3,080
Provision for taxation	(770)
Profit after taxation	2,310

From the above information, prepare Value Added Statement for the year 2016-2017 and determine the amount of bonus payable to employees, if any.

In our revision capsule: Page no. 4.51 Question no. 3

Answer

Wow Ltd. has been preparing Value Added Statements for the past five years. The Human Resource Manager of the company has suggested introducing a value added incentive scheme to motivate the employees for their better performance. To introduce the scheme, it is proposed that the best index performance (favourable to employer) i.e. Employee Costs to Added Value for the last five years, will be used as the target index for future calculations of the bonus to be paid

Best index means the lowest value of all

Particulars	2012	2013	2014	2015	2016
Employee Cost	1300	1520	1680	1968	2240
Value added	3040	3600	4200	4800	5600
%age	42.76%	42.22%	40%	41%	40%

After the target index is determined, any actual improvement in the index will be rewarded. The employer and the employee will be sharing any such improvement in the ratio of 1:2.
The bonus is given at the end of the year, after the profit for the year is determined. The following information is available for the last 5 years

Compute Value Added and current year saving

Particulars	Amount	Amount
Sales		13600
Less: a. Material consumed b. Production exp c. Administration exp d. Selling exp	 5000 1400 600 400	 7400
Add: a. Miscellaneous income b. Dividend and interest	 500 500	 1000
Value added Target Index Target Employee cost		7200 40% 2880
Actual cost a. Wages b. Administration salaries c. Selling and distribution salary	 1800 600 120	 2520
Savings Variable incentive (2/3)		360 240

Q19. From the following information of High Ltd., compute the economic value added:

(i) Share capital	`2,000 lakh
(ii) Reserve and surplus	`4,000 lakh
(iii) Long-term debt	`400 lakh
(iv) Tax rate	30%
(v) Risk free rate	9%
(vi) Market rate of return	16%
(vii) Interest	`40 lakh
(viii) Beta factor	1.05
(ix) Profit before interest and tax	`2,000 lakh

In our revision capsule: Page no. 4.56 Question no. 3

Answer

Weighted average cost of capital

Particulars		
Risk free rate Beta Factor Market price – Risk free rate	 16 – 9	9% 1.05 7%
Cost of Equity	9 + 1.05 * 7	16.35%
Pretax cost of debt Less: tax @ 30%		40 (12)
Cost of Debt		28
Weighted average cost of Capital Equity (2000 + 4000) * 16.35% Debt	 981 28	 1009

Particulars	**Amount**	**Amount**
NOPAT PAT (2000 – 40) * 70% Add: Interest net of tax	 1372 28	 1400
Cost of Capital		1009
Economic Value Added		391

Q 20. A company has a capital base of `1 crore and has earned profits to the tune of `11 lakh. The Return on Investment (ROI) of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by ` 2.5 lakh over and above the target profit. Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

In our revision capsule: Page no. 4.60 Question no. 2

Capital Base =`1,00,00,000

Actual Profit =`11,00,000

Target Profit @ 12.5% =`12,50,000

Expected Profit on employing the particular executive

= `12,50,000 + ` 2,50,000 = ` 15,00,000

Additional Profit = Expected Profit – Actual Profit

= ` 15,00,000 – ` 11,00,000 = ` 4,00,000

Maximum bid price = Additional profit / Rate of return on Investment

= 400,000/ 12.5% = 32,00,000

Maximum salary that can be offered = 12.5% of ` 32,00,000 i.e., `4,00,000

Maximum salary can be offered to that particular executive upto the amount of additional profit i.e., ` 4,00,000