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SUGGESTED SOLUTION

CA FINAL NOV'19

SUBJECT- FR

Test Code – FNJ 7193

BRANCH - () (Date :)

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Answer 1:

Value Added Statement of A Ltd. for the period ended on 31.3.20X1

		(Rs. in lakhs)
Sales (net) (2,500 – 35)		2,465
Less: Cost of Bought in Materials and Services:		
Raw material consumed (180 + 714 – 240)	654	
Printing and stationary	24	
Auditors' remuneration	15	
Rent paid	172	
Other expenses	88	(953)
Value added by manufacturing and trading activities		1,512

(3 marks)

Application of Value Added

		(Rs. in lakh)	*(Rs. in lakh)*	%
To	Pay Employees:			
	Wages and salaries	352		
	Employees state insurance	32		
	Provident fund contribution	26	410	27.12
To	Pay Government:			
	Income-tax		280	18.52
To	Pay Providers of Capital:			
	Interest on borrowings	40		
	Dividend	85	125	8.27
To	Provide for maintenance and expansion of the company:			
	Depreciation	132		
	Transfer to reserve	120		
	Retained profit	445	697	46.09
			1,512	100

(5 marks)

(ii) **Value Added Per Employee = Value Added/ No. of Employees**

= 1,512 \ 87 = 17.38 **(1 mark)**

(iii) **Average Earnings Per Employee = Average Earnings of Employee / No. of Employees**

= 410 / 87 = 4.71 **(1 mark)**

Answer 2:

Calculation of Basic & Diluted EPS

	2015-2016	*2016-2017*
Profit before amortization of ESOP cost	18,50,000	22,00,000
Less: ESOP cost amortised	(8,37,000)	(7,47,000)
Net profit for shareholders	10,13,000	14,53,000
No. of shares outstanding	6,00,000	6,00,000
Basic EPS	1.69	2.42
Potential equity	19,200	33,000
Total no. of equity shares	6,19,200	6,33,000
Diluted EPS	1.64	2.30

(4 marks)

Working Notes:

Calculation of Potential Equity

		2015-2016	*2016-2017*
a.	Actual no. of employees	960	880
b.	Options granted per employee	100	100
c.	No. of options outstanding	96,000	88,000
d.	Unamortised ESOP cost per option (Rs.)	(Rs. 18-18/2)9	0
e.	Exercise price (Rs.)	55	55
f.	Expected exercise price to be received (c x e) (Rs.)	52,80,000	48,40,000
g.	Unamortised ESOP cost (c x d) (Rs.)	8,64,000	0
h.	Total proceeds (Rs.)	61,44,000	48,40,000
i.	Fair value per share	80	88
j.	No. of shares issued for consideration (h/i)	76,800	55,000
k.	Potential Equity (c-j)	19,200	33,000

(3 marks)

Calculation of ESOP cost to be amortised

	2015-2016	*2016-2017*
Fair value of options per share	Rs. 18	Rs. 18
No. of options expected to vest under the scheme	(930 x 100) 93,000	(880 x 100) 88,000
Fair value of options	16,74,000	Rs. 15,84,000
Value of options recognized as expenses	(Rs. 16,74,000 / 2) 8,37,000	(Rs. 15,84,000 – Rs. 8,37,000) 7,47,000

(3 marks)

Answer 3:

Cost to Company in employing to Mr. X

	Rs.
Salary before tax Rs. 4,00,000 x 12 = 48,00,000 x 0.75	64,00,000*
Add: Employee's PF contribution(50,000 x 12)	6,00,000
	70,00,000
Add: Employer's PF contribution(50,000 x 12)	6,00,000
	76,00,000

(3 marks)

Capital base

	Rs.
Equity Share Capital paid up (5,00,000 shares of Rs. 75 each)	3,75,00,000
Less: Calls in arrears	(1,00,000)
	3,74,00,000
General Reserve	10,00,000
Profit & Loss A/c (balance) at the beginning of the year	(25,00,000)
Loss for the year	(1,80,000)
8% Debentures	8,000,000
Capital base	4,37,20,000
Target Profit 12.5% of capital base (4,37,20,000)	54,65,000
Profits achieved due to Mr. X 54,65,000+ 10% (54,65,000)	60,11,500

(4 marks)

Maximum emoluments that can be paid to Mr. X = Rs. 60,11,500

Thus, the company is advised not to hire him as his CTC Rs. 76,00,000 is more than Rs. 60,11,500. **(1 mark)**

Note: It is assumed that the average income tax rate of 25% given in the question is after considering the impact of Rs. 3 lakhs p.a. i.e., the exemption amount.

Answer 4:

Value Added Statement of Great Ltd.

		(Rs.	in '000)
Sales		24,400	
Less: Operating cost - Cost of bought in material & services (Rs. 21,250 – Rs. 8,250)	13,000		
GST	1,110		
Interest on bank overdraft	75		
		(14,185)	
Value added by trading and manufacturing activities		10,215	
Add: Other income		508	
Total value added		10,723	
Application of value added			%
To Pay Employees:			
Wages, salaries and other benefits		8,250	76.94
To Pay Government: Corporate tax		320	2.98
To Pay providers of capital:			
Interest on 9% debentures	1,200		
Dividends	48	1,248	11.64
To Provide for maintenance and expansion of the company:			
Depreciation	405		
Retained profit	500	905	8.44
		10,723	100.00
Reconciliation			
Profit before tax		868	
Depreciation		405	
Wages, salaries and other benefits		8,250	
Debenture interest		1,200	
		10,723	

(8 marks)

Answer 5:

Calculation of expenses to be recognised in respect of the liability component at the end of each year

Year 1	
Provision required at the year-end 1,000 x Rs. 52.00 x 1/3 =	Rs. 17,333
Less: provision at the beginning of the year	Nil
Expense for the year	Rs. 17,333
Year 2	
Provision required at the year-end 1,000 x Rs. 55.00 x 2/3 =	Rs. 36,667
Less: provision at the beginning of the year	Rs. 17,333
Expense for the year	Rs. 19,334

Year 3	
Provision required at the year-end 1,000 x Rs. 60.00 =	Rs. 60,000
Less: provision at the beginning of the year	Rs. 36,667
Expense for the year	Rs. 23,333

(5 marks)

Journal Entries for each year

Year	*Particulars*		*Rs.*	*Rs.*
1	Employee compensation expense A/c To Provision for liability component of employee share-based payment plan (Being compensation expense recognised in respect of liability component of employee share- based payment plan with cash alternative)	Dr.	17,333	17,333
	Employee compensation expense A/c To Stock Options Outstanding A/c (Being compensation expense recognised in respect of equity component of employee share- based payment plan with cash alternative)	Dr.	2,533	2,533
2	Employee compensation expense A/c To Provision for liability component of employee share-based payment plan (Being compensation expense recognised in respect of liability component of employee share- based payment plan with cash alternative)	Dr.	19,334	19,334
	Employee compensation expense A/c To Stock Options Outstanding A/c (Being compensation expense recognised in respect of equity component of employee share- based payment plan with cash alternative)	Dr.	2,533	2,533
3	Employee compensation expense A/c To Provision for liability component of employee share-based payment plan (Being compensation expense recognised in respect of liability component of employee share- based payment plan with cash alternative)	Dr.	23,333	23,333
	Employee compensation expense A/c To Stock Options Outstanding A/c	Dr.	2,533	2,533

	(Being compensation expense recognised in respect of equity component of employee share- based payment plan with cash alternative)		
	On settlement for each year		
	***Scenario 1*: The cash alternative**		
	Provision for liability component of employee share-based payment plan Dr.	60,000	
	To Bank A/c		60,000
	(Being cash paid on exercise of cash alternative under the employee share-based payment plan)		
	Stock Options Outstanding A/c Dr.	7,600	
	To General Reserve		7,600
	(Being the balance standing to the credit of the Stock Options Outstanding Account transferred to the general reserve upon exercise of cash alternative)		
	Scenario 2: *The equity alternative*		
	Stock Options Outstanding A/c Dr.	7,600	
	Provision for liability component of employee share-based payment plan Dr.	60,000	
	To Share Capital A/c (1,000 shares x Rs. 10)		10,000
	To Securities Premium A/c		57,600
	(Being shares issued on exercise of equity alternative under the employee share-based payment plan)		

(9 marks)

Working Note:

The employee share-based payment plan granted by the enterprise has two components, viz., (i) a liability component, i.e., the employees' right to demand settlement in cash, and (ii) an equity component, i.e., the employees' right to demand settlement in shares rather than in cash. The enterprise measures, on the grant date, the fair value of two components as below:

Fair value under equity settlement 1,200 shares x Rs. 48 = Rs. 57,600

Fair value under cash settlement 1,000 shares x Rs. 50 = Rs. 50,000

Fair value of the equity component (Rs. 57,600 – Rs.50,000) = Rs. 7,600

Fair value of the liability component Rs. 50,000

The expense to be recognised in respect of the equity component at the end of each year is one third of the fair value (Rs. 7,600) determined above