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# SUGGESTED SOLUTION

## FINAL MAY 2019 EXAM

**SUBJECT- FR**

## Test Code – FNJ 7098

**BRANCH - () (Date :)**

**Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.**

**Tel : (022) 26836666**

**Answer 1:**

**(A)**

1. No. This may not be capitalized as subsequent expenditure, since it merely maintains the originally assessed standard of performance of the asset.
2. Yes. An impairment loss should have been recognized when the damage occurred and any insurance payment received as compensation should have been recognized as income in the Statement of Profit and Loss when received.

   When expenditure is incurred to restore the asset, such expenditure is added to the carrying amount of the asset to the extent that it is probable that future economic benefits will flow to the enterprise.
3. Yes. The cost of such modifications may be added to the carrying amount of the asset, since it will increase its output in future.
4. Yes. Such costs may be capitalized, since it will extend the life of the lathe thereby increasing the production capacity.
5. Yes. Such costs may be capitalized, since it will raise the quality of the output.
6. Yes. Such costs may be capitalized if it increases the production capacity. **(5 marks)**

**(B)**

As per the "General Instructions for preparation of Statement of Profit and Loss" given in Schedule III to the Companies Act, 2013, **"Other Income" does not include operating income**. The term "Revenue from operations" has not been defined under Schedule III to the Companies Act, 2013. However, as per the Guidance Note on Schedule III to the Companies Act, 2013 this would include revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue - generating activities. Whether a particular income constitutes "Revenue from operations" or "Other income" is to be decided based on the facts of each case and detailed understanding of the company's activities. The classification of income would also depend on the **purpose** for which the particular asset is acquired or held.

As per the information given in the question, Achal Ltd. is a group engaged in manufacture and sale of industrial and FMCG products and its one of the division deals in leasing of properties –

Mobile Towers. Since its one division is continuously engaged in leasing of properties, it shall be considered as its principal or ancillary revenue-generating activities. Therefore, the rent arising from such leasing shall be shown under the head "Revenue from operations" and not as "other income".

Hence, the presentation of rent arising from the leasing of such properties as **"other income"** in the Statement of Profit and Loss is not correct. It should be shown under the head "Revenue from operations". **(5 marks)**

**(C)**

**Calculation of cost for closing inventory (Finished Goods)**

| ***Particulars*** | ***Rs.*** |
| --- | --- |
| Cost of raw material consumed (Refer W.N.) (20,400 kg. x Rs. 10 per kg.) | 2,04,000 |
| Direct labour | 1,53,000 |
| Fixed overhead $\frac{1,50,000}{30,000} \times 20,400$ | 1,02,000 |
| Cost of production | 4,59,000 |
| Cost of closing inventory of finished goods per unit (4,59,000/20,400) | Rs. 22.50 |
| Net realisable value (NRV) per unit | Rs. 20.00 |

Since net realisable value is less than cost, closing inventory of finished goods will be valued at Rs. 20 per unit.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. Rs. 9.50 per kg.

Therefore, value of closing inventory:

| | |
|---|---|
| Finished goods (2,400 units x Rs. 20 per unit) | Rs. 48,000 |
| Raw materials (1,800 kg x Rs. 9.50 per kg) | Rs. 17,100 |
| | Rs. 65,100 |

**(3 marks)**

**Working Note:**

**Calculation of Raw material as consumed during the year**

| | ***Units in kg.*** |
|---|---:|
| Opening inventory of raw material | 2,200 |
| *Add:* Purchases of raw material | 20,000 |
| | 22,200 |
| *Less:* Closing inventory of raw material | (1,800) |
| Raw material consumed | 20,400 |

**(2 marks)**

**(D)**

Toy Ltd. had sold goods to Mac Ltd on credit worth for Rs. 580 lakhs and the **sale was completed in all respects**. Mac Ltd.'s decision to sell the same in the domestic market at a discount does not affect the amount recorded as sales by Toy Ltd.

The price discount of 10% offered by Toy Ltd. after request of Mac Ltd. was not in the nature of a discount given during the ordinary course of trade because otherwise the same would have been given at the time of sale itself. However, there appears to be an uncertainty relating to the collectability of the debt, which has arisen subsequent to sale. Therefore, **it would be appropriate to make a separate provision to reflect the uncertainty relating to collectability rather than to adjust the amount of revenue originally recorded.** Hence such discount should be charged to the Statement of Profit and Loss and not shown as deduction from the sales figure. **(3 marks)**

With respect to sale of land, both sale and gain on sale of land earned by Toy Ltd. shall be recognized in the books at the balance sheet date. **In substance, the land was transferred with significant risk & rewards of ownership to the buyer before the balance sheet date** and what was pending was merely a formality to register the deed. The registration post the balance sheet date only **confirms the condition of sale at the balance sheet date as per Ind AS 10 "Events after the Reporting Period."** **(2 marks)**

**Answer 2:**

**(A)**

**(a) Calculation of Market price of shares**

| | Sona Ltd. | Hira Ltd. |
|---|---:|---:|
| Total Earnings (A) | Rs. 720 lakhs | Rs. 86.4 lakhs |
| No. of shares (B) | 36 lakhs | 14.4 lakhs |
| Earnings Per Share (A)/(B) = (C) | Rs. 20 per share | Rs. 6 per share |
| PE Ratio (D) | 10 | 6 |
| Market price per share (C) x (D) | 200 | 36 |

**(2 marks)**

**(ii) Determination of Swap ratio based on market price** Sona Ltd. offers to pay to Hira Ltd. its shares at Rs. 200 each The share exchange ratio

would be 36/200 = 0.18

It means, Sona Ltd. would give 0.18 share for every one share of Hira Ltd.

In other words, Sona Ltd. would give its 9 shares for every 50 shares of Hira Ltd. **(2 marks)**

**(iii) Computation of EPS of Sona Ltd. after takeover**

The total number of shares to be issued by Sona Ltd. to Hira Ltd.

= 14.4 lakhs $\times$ 0.18 = 2.592 lakhs shares

Total number of shares of Sona Ltd. after acquisition of Hira Ltd.

= 36 lakhs + 2.592 lakhs = 38.592 lakhs shares

Total merged earnings = Rs. 720 lakhs + Rs. 86.4 lakhs = Rs. 806.40 lakhs

Calculation of E.P.S. of the amalgamated company = Merged Earnings / Total Number of shares

= (Rs. 806.40 lakhs) / 38.592 lakh shares = Rs. 20.896 per share **(2 marks)**

**(iv) Market value of the merged company** = 38.592 lakhs shares x Rs. 200 each

= Rs. 7718.4 lakhs. **(2 mark)**

**Note:**

1. In the above solution, in point (iv) it is assumed that market value of each share of Sona Ltd. is constant even after takeover of Hira Ltd. (since shares are issued to Hira Ltd. @ Rs. 200 each).
2. **Alternatively,** if it is assumed that PE ratio of Sona Ltd. is constant then answer to point (iv) will be as follows:

   **Determination of market value of shares of merged company**

   Market price of merged company = New EPS x P/E Ratio

   = Rs. 20.9 x 10 = Rs. 209

   Market value of Sona Ltd. = Total shares issued of Sona Ltd. x Market price of merged company

   = 38.592 lakh shares x Rs. 209

   = Rs. 8,065.73 lakhs

**(B)**

The repayment schedule for the original debt till the date of renegotiation is as below:

| Date / year ended | Opening balance | Interest accrual | Cash flows | Closing balance |
|---|---|---|---|---|
| 1 January 20X0 | 10,00,000 | | | 10,00,000 |
| 31 December 20X0 | 10,00,000 | 1,00,000 | (1,00,000) | 10,00,000 |
| 31 December 20X1 | 10,00,000 | 1,00,000 | (1,00,000) | 10,00,000 |
| 31 December 20X2 | 10,00,000 | 1,00,000 | (1,00,000) | 10,00,000 |
| 31 December 20X3 | 10,00,000 | 1,00,000 | (1,00,000) | 10,00,000 |
| 31 December 20X4 | 10,00,000 | 1,00,000 | (1,00,000) | 10,00,000 |

**(2 mark)**

On 1 January 20X5, the discounted present value of the remaining cash flows of the original financial liability is Rs. 10,00,000.

On this date, Preet Ltd. will compute the present value of:

- cash flows under the new terms – i.e. Rs. 15,00,000 payable on 31 December 20Y1 and Rs. 50,000 payable for each of the 7 years ending 31 December 20Y1.
- any fee paid (net of any fee received) – i.e. Rs. 1,00,000

using the original effective interest rate of 10%.

The total of these amounts to Rs. 11,13,158 (Refer Working Note). This differs from the discounted present value of the remaining cash flows of the original financial liability by 11.32% i.e. by more than 10%. Hence, extinguishment accounting applies. **(2 marks)**

The next step is to estimate the fair value of the modified liability. This is determined as the present value of the future cash flows (interest and principal), using an interest rate of 11% (the market rate at which Preet Ltd. could issue new bonds with similar terms). The estimated fair value on this basis is Rs. 958,097 (Refer Working Note). A gain or loss on modification is then determined as:

Gain (loss) = carrying value of existing liability - fair value of modified liability - fees and costs incurred i.e. Rs. 10,00,000 – Rs. 9,58,097 – Rs. 1,00,000 = Loss of Rs. 58,097 **(2 marks)**

**Working Note:**

| Year | Discount factor @ 10% | Discount factor @ 11% |
|---|---|---|
| 1 | 0.909091 | 0.900901 |
| 2 | 0.826446 | 0.811622 |
| 3 | 0.751315 | 0.731191 |
| 4 | 0.683013 | 0.658731 |
| 5 | 0.620921 | 0.593451 |
| 6 | 0.564474 | 0.534641 |
| 7 | 0.513158 | 0.481658 |
| Annuity | 4.868418 | 4.712195 |

| Amount | Discounting factor @ 10% | Present value | Discounting factor @ 11% | Present value |
|---|---|---|---|---|
| 15,00,000 | 0.513158 | 7,69,737 | 0.481658 | 7,22,487 |
| 1,00,000 | | 1,00,000 | | |
| 50,000 for 7 years | 4.868418 | 2,43,421 | 4.712195 | 2,35,610 |
| | | 11,13,158 | | 9,58,097 |
| PV of original cash flows @ original EIR | | (10,00,000) | | |
| Difference | | 1,13,158 | | |
| Difference % | | 11.32% | | |

**(2 marks)**

**Answer 3:**

**Consolidated Balance Sheet of Bright Ltd. and its subsidiary Dark Ltd. as on 31st March, 2017**

| *Particulars* | *Note No.* | *Rs.* |
|---|---|---|
| **I. Equity and Liabilities** | | |
| **(1) Shareholder's Funds** | | |
| Share Capital | 1 | 25,00,000 |
| Reserves and Surplus | 2 | 4,01,300 |
| **(2) Minority Interest (W.N.2)** | | 1,69,400 |
| **(3) Current Liabilities** | | |
| Trade payables | 3 | 7,86,500 |
| Other Current liabilities | 4 | 2,61,600 |
| **Total** | | 41,18,800 |
| **II. Assets** | | |
| **(1) Fixed Assets** | | |
| Tangible assets | 5 | 27,95,000 |
| Intangible assets | 6 | 25,800 |
| **(2) Current assets** | | |
| Inventory | 7 | 6,98,200 |
| Trade Receivables | 8 | 4,97,000 |
| Cash and Cash equivalents | 9 | 1,02,800 |
| **Total** | | 41,18,800 |

**(3 marks)**

**Notes to Accounts**

| | | | | | *Rs.* |
|---|---|---|---|---|---|
| **1.** | **Share Capital** | | | | |
| | Authorised, Issued, Subscribed and Paid up | | | | |
| | 25,000 Equity shares of Rs. 100 each | | | | 25,00,000 |
| **2.** | **Reserves and Surplus** | | | | |
| | General Reserve (W.N.4) | | | 2,31,500 | |
| | Profit & Loss Account (W.N.4) | | | 1,69,800 | 4,01,300 |
| **3.** | **Trade Payables** | | | | |
| | *Trade Payables* | | | | |
| | Bright Ltd. | | 4,55,000 | | |
| | Dark Ltd. | | 2,35,500 | 6,90,500 | |
| | *Bills payables* | | | | |
| | Bright Ltd. | | 28,000 | | |
| | Dark Ltd. | 83,000 | | | |
| | *Less*: Mutual Owings | (15,000) | 68,000 | 96,000 | 7,86,500 |
| **4.** | **Other Current liabilities** | | | | |
| | **Dividend payable** | | | | |
| | Bright Ltd. | | | 2,50,000 | |
| | Minority Interest | | | 11,600 | 2,61,600 |
| **5.** | **Tangible assets** | | | | |
| | Bright Ltd. | | | 21,70,000 | |
| | Dark Ltd. | | | 6,25,000 | 27,95,000 |

| | | | | | |
|---|---|---|---|---|---|
| 6. | **Intangible assets** | | | | |
| | Goodwill (W.N.3) | | | | 25,800 |
| 7. | **Inventory** | | | | |
| | Bright Ltd. | | | 4,08,000 | |
| | Dark Ltd. | | | 3,19,200 | |
| | | | | 7,27,200 | |
| | *Less*: Unrealised profit | | | (29,000) | 6,98,200 |
| 8. | **Trade Receivables** | | | | |
| | *Trade Receivables* | | | | |
| | Bright Ltd. | | 1,80,000 | | |
| | Dark Ltd. | | 1,64,000 | 3,44,000 | |
| | **Bills Receivable** | | | | |
| | Bright Ltd. | 68,000 | | | |
| | *Less*: Mutual owings | (15,000) | 53,000 | | |
| | Dark Ltd. | | 1,00,000 | 1,53,000 | 4,97,000 |
| 9. | **Cash and Cash equivalents** | | | | |
| | Bright Ltd. | | | 87,500 | |
| | Dark Ltd. | | | 15,300 | 1,02,800 |

**(9 x 1 mark = 9 marks)**

**Working Notes:** **(4 x 1 mark = 4 marks)**

**1. Analysis of Reserves and Surplus of Dark Ltd.**

| | *Pre-acquisition Profits* | *Post-acquisition* | |
|---|---|---|---|
| | | *General Reserve* | *Profit & Loss Account* |
| | Rs. | Rs. | Rs. |
| General Reserve | 80,000 | 40,000 | |
| Profit & Loss Account | 25,000 | | 1,80,000 |
| For Lot 1 (A) | 1,05,000 | 40,000 | 1,80,000 |
| Pre-acquisition for Lot 2 | | | |
| General Reserve (85,000 – 80,000) | | 5,000 | |
| Profit & Loss Account (1,02,000-25,000) | | | 77,000 |
| Post-acquisition for Lot 2 | | 35,000 | 1,03,000 |
| Bright Ltd. (80% of (A)) | 84,000 | 32,000 | 1,44,000 |
| Adjustment of pre-acquisition General Reserve for Lot 2 (10%) | 500 | (500) | |
| Adjustment of pre-acquisition Profit & Loss Account for Lot 2 (10%) | 7,700 | | (7,700) |
| Bright Ltd. | 92,200 | 31,500 | 1,36,300 |
| Minority Interest (20% of (A)) | 21,000 | 8,000 | 36,000 |

**2. Minority Interest**

| | Rs. |
|---|---|
| Share Capital (20%) | 1,16,000 |
| *Add:* Share of pre-acquisition profit | 21,000 |
| Share of post-acquisition General Reserve | 8,000 |
| Share of post-acquisition Profit & Loss Account | 36,000 |
| | 1,81,000 |
| *Less:* Share of Dividend payable | (11,600) |
| | 1,69,400 |

**3. Cost of Control/Goodwill**

| | Rs. |
|---|---|
| Cost of investments | 5,82,000 |
| *Less:* Share capital (80%) | (4,64,000) |
| Share of pre-acquisition profit | (92,200) |
| Goodwill | 25,800 |

**4. Consolidated General Reserve & Profit and Loss Account**

| | *General Reserve* | *Profit and Loss* |
|---|---|---|
| | Rs. | Rs. |
| Bright Ltd. | 2,00,000 | 3,12,500 |
| *Less:* Dividend declared by Bright Ltd. | | (2,50,000) |
| *Less:* Unrealised profit $\left(\frac{1,45,000}{125} \times 25\right)$ | — | (29,000) |
| | 2,00,000 | 33,500 |
| *Add:* Share in post-acquisition item of Dark Ltd. | 31,500 | 1,36,300 |
| | 2,31,500 | 1,69,800 |

## Answer 4:

**(a) Statement determining the maximum number of shares to be bought back**

***Number of shares***

| *Particulars* | *When loan fund is* | | |
|---|---|---|---|
| | *Rs. 3,600 crores* | *Rs. 2,400 crores* | *Rs. 3,000 crores* |
| Shares Outstanding Test (W.N.1) | 16.5 | 16.5 | 16.5 |
| Resources Test (W.N.2) | 12.5 | 12.5 | 12.5 |
| Debt Equity Ratio Test (W.N.3) | Nil | 7.5 | Nil |
| Maximum number of shares that can be bought back [least of the above] | Nil | 7.5 | Nil |

**(3 marks)**

**(b) Journal Entries for the Buy Back (applicable only when loan fund is Rs. 2,400 crores)**

| | | | *Rs. in crores* | |
|---|---|---|---|---|
| | | | *Debit* | *Credit* |
| (a) | Equity share buy back account | Dr. | 225 | |
| | To Bank account | | | 225 |

| | | | | |
|---|---|---|---|---|
| | (Being buy back of 7.5 crores equity shares of Rs. 10 each @ Rs. 30 per share) | | | |
| (b) | Equity share capital account | Dr. | 75 | |
| | General reserve account | Dr. | 150 | |
| | To Equity share buy back account | | | 225 |
| | (Being cancellation of shares bought back) | | | |
| (c) | General reserve account | Dr. | 75 | |
| | To Capital redemption reserve account | | | 75 |
| | (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves) | | | |

**(3 marks)**

**Working Notes:**

**1. Shares Outstanding Test** **(1 marks)**

| *Particulars* | *(Shares in crores)* |
|---|---|
| Number of shares outstanding | 66 |
| 25% of the shares outstanding | 16.5 |

**2. Resources Test** **(3 marks)**

| *Particulars* | | |
|---|---|---|
| Paid up capital (Rs. in crores) | | 660 |
| Free reserves (Rs. in crores) | | |
| General Reserve | 480 | |
| Profit and Loss A/c | 360 | 840 |
| Shareholders' funds (Rs. in crores) | | 1,500 |
| 25% of Shareholders fund (Rs. in crores) | | 375 |
| Buy-back price per share (Rs.) (Rs. 25 x 120%) | | *Rs.* 30 |
| Number of shares that can be bought back (shares in crores) | | 12.5 crores shares |

**3. Debt Equity Ratio Test** **(4 marks)**

| | *Particulars* | *When loan fund is* | | |
|---|---|---|---|---|
| | | *Rs. 3,600 crores* | *Rs. 2,400 crores* | *Rs. 3,000 crores* |
| (a) | Loan funds (Rs. in crores) | 3,600 | 2,400 | 3,000 |
| (b) | Minimum equity to be maintained after buy back in the ratio of 2:1(Rs. in crores) | 1,800 | 1,200 | 1,500 |
| (c) | Present equity (Rs. in crores) (W.N.2) | 1,500 | 1,500 | 1,500 |
| (d) | Future equity (Rs. in crores) (See Note 2) | N.A. | 1,425 (1,500-75) | N.A. |
| (e) | Maximum permitted buy back of Equity (Rs. in crores) [(d) – (b)] (See Note 2) | Nil | 225 (by simultaneous equation) | Nil |

| (f) | Maximum number of shares that can be bought back @ Rs. 30 per share (shares in crores) (See Note 2) | Nil | 7.5 (by simultaneous equation) | Nil |
|---|---|---|---|---|

**Note:**

1. Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of Section 68 of the Companies Act, 2013.
2. As per Section 68 of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve **after** such buy-back. Also as per the section, on buy-back of shares, out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 55 of the Companies Act, 2013, utilization of CRR is restricted to issuance of fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i .e. share capital and free reserves, amount transferred to CRR on buy-back has to be deducted from present equity.

   Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

   Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

   Then, $(1{,}500 - x) - 1200 = y$ (1)

   $(y / 30) \times 10 = x$ Or $3x = y$ (2)

   by solving the above equation, we get

   x = Rs. 75 crores

   y = Rs. 225 crores **(2 marks)**

**Answer 5:**

**(A)**

**Journal entries in the books of P Ltd (without modification of service period of stock appreciation rights)**

**(Rs. in lakhs)**

| *Date* | *Particulars* | *Debit* | *Credit* |
|---|---|---|---|
| 31.03.2018 | Profit and Loss account Dr.<br>To Liability against SARs<br>(Being expenses liability for stock appreciation rights recognised) | 15.75 | 15.75 |
| 31.03.2019 | Profit and Loss account Dr.<br>To Liability for SARs<br>(Being expenses liability for stock appreciation rights recognised) | 17.25 | 17.25 |
| 31.03.2020 | Profit and Loss account Dr.<br>To Liability for SARs<br>(Being expenses liability for stock appreciation rights recognised) | 15.38 | 15.38 |
| 31.03.2021 | Profit and Loss account Dr.<br>To Liability for SARs<br>(Being expenses liability for stock appreciation rights recognised) | 17.02 | 17.02 |

**(4 marks)**

Journal entries in the books of P Ltd (with modification of service period of stock appreciation rights)

**(Rs. in lakhs)**

| Date | Particulars | Debit | Credit |
|---|---|---|---|
| 31.03.2018 | Profit and Loss account Dr.<br>To Liability for SARs<br>(Being expenses liability for stock appreciation rights recognised) | 15.75 | 15.75 |
| 31.03.2019 | Profit and Loss account Dr.<br>To Liability for SARs<br>(Being expenses liability for stock appreciation rights recognised) | 28.25 | 28.25 |
| 31.03.2020 | Profit and Loss account Dr.<br>To Liability for SARs<br>(Being expenses liability for stock appreciation rights recognised) | 20.50 | 20.50 |

**(3 marks)**

**Working Notes:**

Calculation of expenses for issue of stock appreciation rights without modification of service period

**For the year ended 31st March 2018**

= Rs. 210 x 400 awards x 75 employees x 1 year /4 years of service

= Rs. 15,75,000

**For the year ended 31st March 2019**

= Rs. 220 x 400 awards x 75 employees x 2 years /4 years of service - Rs. 15,75,000 previous recognised

= Rs. 33,00,000 - Rs. 15,75,000 = Rs. 17,25,000

**For the year ended 31st March 2019**

= Rs. 215 x 400 awards x 75 employees x 3 years/4 years of service - Rs. 33,00,000 previously recognised

= Rs. 48,37,500 - Rs. 33,00,000 = Rs. 15,37,500

**For the year ended 31st March, 2021**

= Rs. 218 x 400 awards x 75 employees x 4 years / 4 years of service – Rs. 48,37,500 previously recognised

= Rs. 65,40,000 – Rs. 48,37,500 = Rs. 17,02,500

**Calculation of expenses for issue of stock appreciation rights with modification of service period**

**For the year ended 31st March 2018**

= Rs. 210 x 400 awards x 75 employees x 1 year / 4 years of service = Rs. 15,75,000

**For the year ended 31st March 2019**

= Rs. 220 x 400 awards x 75 employees x 2 years / 3 years of service - Rs. 15,75,000 previous recognized

= Rs. 44,00,000 - Rs. 15,75,000 = Rs. 28,25,000

For the year ended 31st March 2020

= Rs. 215 x 400 awards x 75 employees x 3 years/ 3 years of service - Rs. 44,00,000 previous recognised

= Rs. 64,50,000 - Rs. 44,00,000 = Rs. 20,50,000. **(3 marks)**

**(B)**

**Calculation of Economic Value Added**

| | Rs. |
|---|---|
| Net Operating Profit After Tax | 25,00,000 |
| *Less*: Cost of capital employed (Refer W.N.) | (6,00,000) |
| Economic Value Added | 19,00,000 |

Economic value added is greater than zero. Therefore, the company qualifies for the loan. **(3 marks)**

**Working Note:**

| Calculation of Cost of Capital employed | Rs. |
|---|---|
| Average total assets | 75,00,000 |
| *Less*: Average current liabilities | (15,00,000) |
| Capital employed | 60,00,000 |

**(2 marks)**

Cost of capital = Capital employed x Weighted average cost of

$$= \text{Rs. } 60,00,000 \times \frac{10}{100} = \text{Rs. } 6 \text{ lacs}$$

**(1 mark)**

**Answer 6:**

**(A)**

| Allocation of Earnings | *Old Unit Holders* [18 lakhs units] Rs. in lakhs | *New Unit Holders* [2 lakhs units] Rs. in lakhs | *Total* Rs. in lakhs |
|---|---|---|---|
| First half year (Rs. 5 per unit) | 90.00 | Nil | 90.00 |
| Second half year (Rs. 3.60 per unit) | 64.80 | 7.20 | 72.00 |
| | 154.80 | 7.20 | 162.00 |
| *Add*: Equalization payment recovered | - | - | 10.00 |
| Total available for distribution | | | 172.00 |
| Equalization Payment-Rs. 90 lakhs ÷ 18 lakhs = Rs. 5 per unit. | | | |
| | | Old Unit Holders Rs. | New Unit Holders Rs. |
| Dividend distributed | | 8.60 | 8.60 |
| *Less*: Equalization payment | | - | (5.00) |

| | | | 8.60 | 3.60 |
|---|---|---|---|---|

**(3 marks)**

**Journal Entries**

| | | | (Rs. in lakhs) | |
|---|---|---|---|---|
| 30.9.2016 | Bank A/c | Dr. | 150.00 | |
| | To Unit Capital | | | 20.00 |
| | To Reserve | | | 120.00 |
| | To Dividend Equalization | | | 10.00 |
| | (Being the amount received on sale of 2 lakhs unit at a NAV of Rs. 70 per unit) | | | |
| 31.3.2017 | Dividend Equalization | Dr. | 10.00 | |
| | To Revenue A/c | | | 10.00 |
| | (Being the amount transferred to Revenue Account) | | | |
| 30.9.2017 | Revenue A/c | Dr. | 172.00 | |
| | To Bank | | | 172.00 |
| | (Being the amount distributed among 20 lakhs unit holders @ Rs. 8.60 per unit) | | | |

**(3 marks)**

**(B)**

**Value Added Statement of Parth Ltd. for the period ended on 31.3.2019**

| | | (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 |

**(4 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)**

(iv) Sales Per Employee = Sales / No. of Employees

= 2,465 / 87 = 28.33 **(1 mark)**

**Answer 7:**

**(i) Computation of Purchase Consideration**

| | *Rs.* |
|---|---|
| *For Preference Shareholders* | |
| Present income of preference shareholders of Dee Ltd. (4,80,000 × 12%) | 57,600 |
| *Add:* Required 20% increase | 11,520 |
| | 69,120 |
| 10% Preference share capital to be issued (69,120/10x100) | 6,91,200 |
| *For Equity Shareholders* | |
| Valuation of Equity Shares of Dee Ltd. = Number of shares x Value of one share = 1,44,000 x 24 = Rs. 34,56,000 | |
| *Issue of Equity Shares* | |
| No. of equity shares to be issued at 80% of market price i.e. 80% of Rs. 40 = Rs. 32 | |
| $\frac{34,56,000}{32}$ = 1,08,000 shares | |
| Equity share capital = 1,08,000 x Rs. 10 = Rs. 10,80,000 | |
| Securities premium = 1,08,000 x Rs. 22 = Rs. 23,76,000 | 34,56,000 |
| *Add:* Liquidation expenses (in cash) | 12,800 |
| | 41,60,000 |

**(5 marks)**

**Note:** As per para 3(g) of AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Therefore, purchase consideration shall not include liquidation expenses. However, the same has been added while calculating purchase consideration, in the above table, strictly as per the requirement of the question.

**(ii) Balance Sheet of Zee Ltd (after absorption of Dee Ltd.) as on 31.3.2015**

| *Particulars* | *Note No.* | *(Rs.)* |
|---|---|---|
| I. Equity and Liabilities | | |
| (1) **Shareholder's fund** | | |
| (a) Share capital | 1 | 56,11,200 |
| (b) Reserves and surplus | 2 | 53,36,000 |
| (2) **Non-current liabilities** | | |
| Long-term borrowings | 3 | 8,80,000 |
| (3) **Current liabilities** | | |
| Trade payables | 4 | 19,04,000 |
| Total | | 1,37,31,200 |
| II. Assets | | |
| (1) **Non-current assets** | | |
| (a) Fixed assets | | |
| i. Tangible assets | 5 | 76,80,000 |
| ii. Intangible assets | 6 | 4,48,000 |
| (b) Non-current investments | 7 | 8,00,000 |
| (c) Other non-current assets | 8 | 48,000 |
| Amalgamation adjustment account | | 80,000 |
| (2) **Current assets** | | |
| (a) Inventory | 9 | 23,04,000 |
| (b) Trade receivables | 10 | 21,92,000 |
| (c) Cash and cash equivalents [1,20,000+72,000-12,800] | | 1,79,200 |
| Total | | 1,37,31,200 |

**(3 marks)**

**Note** In the above solution, discount on issue of debentures have been deferred for amortization over the tenure of the borrowings. However, one may adjust the same from Securities Premium Account as per section 52 of the Companies Act, 2013. In such a situation, the balance of Securities Premium Account will be Rs. 23,28,000, total of Reserves and Surplus will be Rs. 52,88,000 and total of Balance Sheet will be Rs. 1,36,83,200.

**Notes to Accounts**

| | | *Rs.* | *Rs.* |
|---|---|---|---|
| 1. | Share capital | | |
| | 3,96,000 Equity shares of Rs. 10 each fully paid up | 39,60,000 | |
| | (Out of the above, 1,08,000 shares have been allotted as fully paid-up for consideration other than cash) | | |
| | 10%,1,65,120 Preference shares of Rs. 100 each fully paid up | 16,51,200 | 56,11,200 |
| | (Out of the above, 6,912 preference shares of Rs. 100 each have been allotted as fully paid up for consideration other than cash) | | |
| 2. | **Reserves and surplus** | | |
| | Statutory reserve [80,000 + 80,000] | 1,60,000 | |
| | Revaluation reserve | 8,00,000 | |

| | | | |
|---|---|---|---|
| | General reserve | 20,00,000 | |
| | Securities premium | 23,76,000 | 53,36,000 |
| 3. | **Long-term borrowings** | | |
| | Secured borrowings | | |
| | 15% Debentures (Rs. 4,00,000 + Rs. 4,80,000) | | 8,80,000 |
| 4. | **Trade payables** | | |
| | Creditors (10,24,000 + 8,64,000 -16,000) | 18,72,000 | |
| | Bills payable (16,000+16,000) | 32,000 | 19,04,000 |
| 5. | **Tangible assets** | | |
| | Other fixed assets (Rs. 48,00,000+Rs. 28,80,000) | | 76,80,000 |
| 6. | **Intangible assets** | | |
| | Goodwill | | 4,48,000 |
| 7. | **Non-current investment** | | |
| | Investment (Rs. 4,00,000+Rs. 4,00,000) | | 8,00,000 |
| 8. | **Other non-current assets** | | |
| | Discount on issue of debentures | | 48,000 |
| 9. | **Inventory** | | |
| | Inventory (*Rs.*14,40,000+*Rs.*8,64,000) | | 23,04,000 |
| 10. | **Trade receivables** | | |
| | Debtors (12,00,000 + 9,60,000 -16,000) | 21,44,000 | |
| | Bills receivable (40,000+8,000) | 48,000 | 21,92,000 |

**(5 marks)**

**Working Notes:**

**1. Computation of Goodwill/Capital Reserve on absorption:**

| | *Rs.* | *Rs.* | *Rs.* |
|---|---|---|---|
| Purchase consideration | | | 41,60,000 |
| Fixed assets taken over | 24,00,000 | | |
| *Add:* Increase by 20% | 4,80,000 | 28,80,000 | |
| Investment | | 4,00,000 | |
| Current assets: | | | |
| Inventory | 9,60,000 | | |
| *Less:* Reduction in value by 10% | (96,000) | | |
| | 8,64,000 | | |
| Sundry debtors | 9,60,000 | | |
| Bills receivable | 8,000 | | |
| Cash at bank | 72,000 | 19,04,000 | |
| | | 51,84,000 | |
| *Less:* Outside liabilities: | | | |
| 12% Debentures at premium | 4,32,000 | | |
| Sundry creditors | 10,24,000 | | |
| Bills payable | 16,000 | (14,72,000) | 37,12,000 |
| Goodwill | | | 4,48,000 |

**(1.5 marks)**

**2. Calculation of Debentures to be issued by Zee Ltd.**

| | *Rs.* |
|---|---|
| Debenture holders of Dee Ltd. | 4,00,000 |
| Add: 8% Premium on redemption | 32,000 |
| | 4,32,000 |
| Debentures are to be redeemed by issue of debentures in Zee Ltd. @ 10% discount (4,32,000/90) x 100 | 4,80,000 |

**(1.5 marks)**