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CA FINAL MAY 2017 EXAM

FINANCIAL REPORTING

Test Code - F M J 4 0 1 5

BRANCH - (MULTIPLE) (Date :)

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Answer-1 :

Valuation of goodwill - Capitalisation method

	Particulars	**Rs.**
a.	Future maintainable profit (WN # 2(d))	1,40,000
b.	Normal rate of return	10%
c.	Normal capital employed - Capitalisation of future maintainable profit $\frac{(1{,}40{,}000 \text{x} 100)}{10}$	14,00,000
d.	Capital employed (WN # 1)	11,50,000
e.	**Goodwill (c-d)**	**2,50,000**

(3 Marks)

WORKING NOTES :

WN # 1: Computation of capital employed

	Particulars		**Rs.**	**Rs.**
a.	Assets			
	i.	Land and buildings	5,00,000	
	ii.	Plant and machinery	6,00,000	
	iii.	Stock	2,00,000	
	iv.	Sundry debtors	2,00,000	
	v.	Bank balance	1,00,000	16,00,000
b.	Less : liabilities			
	i.	Trade creditors		(4,50,000)
c.	Capital employed (a - b)			11,50,000

(3 Marks)

VN # 2 : Computation of future maintainable profits

	Particulars	**2002** **Rs.**	**2003** **Rs.**	**2004** **Rs.**
a.	Profits	1,01,000	1,50,000	1,69,000
b.	Sales	12,99,000	13,77,000	18,22,000
c.	Percentage of profit on sale (i.e a/b x 100)	7.78%	10.89%	9.28%

(3 Marks)

Profit as a percentage of sales shows oscillating trend over the years. So simple average of the last three year's profits should be taken as future maintainable profit.

The annual average profits of the company (after charging depreciation and taxation) for the past 3 years amount to Rs. 1,40,000. [(1,01,000 + 1,50,000 + 1,69,000) ÷ 3]

(1 Mark)

Answer-2 :

Valuation of equity shares - Net assets method

Particulars		**Rs.**
a.	Net trading assets (WN #1)	12,07,477
b.	Add:	
	i. Non-trading assets (Non-trade investments: 2,00,000 x 90%)	1,80,000
	ii. Goodwill (WN #3)	33,870
	iii. Calls in arrears	20,000
c.	Less: Preference capital	(3,00,000)
d.	Net assets available to equity shareholders	11,41,347
e.	Number of shares outstanding (6,00,000/10)	60,000
f.	Intrinsic value of a fully paid up share (d/e)	19.02
	Intrinsic value of a partly paid up share (19.02 - 2)	17.02

(4 Marks)

WORKING NOTES:

WN # 1: Terminal capital employed

	Particulars		**Rs.**	**Rs.**
a.	Sundry assets			
	i.	Machinery (3,00,000 x 115%)	3,45,000	
	ii.	Freehold properties (4,50,000 x 115%)	5,17,500	
	iii.	Vehicles (1,00,000 x 115%)	1,15,000	
	iv.	Furniture#	74,267	
	v.	Investments — Trade@	18,000	
	vi.	Stock in trade (2,50,000 — 50,000)	2,00,000	
	vii.	Sundry debtors (4,00,000 - 4,00,000 x 10%)	3,60,000	
	viii.	Cash at bank	60,000	
	ix.	Tax recoverable$	17,710	17,07,477
b.	Less: Outside liabilities			
	i.	Sundry creditors	3,00,000	
	ii.	Bank loan	2,00,000	5,00,000
c.	**Net assets (A - B)**			**12,07,477**

(2 Marks)

Furniture

	Particulars	**Rs.**	**Rs.**
a.	Book value of existing furniture		50,000
b.	Furniture wrongly charged off	20,000	
	Less: Depreciation for 2006-07 @ 10% on WDV	(2,000)	
	WDV on 31.03.07	18,000	
	Less: Depreciation for 2007-08 @ 10% on WDV	(1,800)	
	WDV on 31.03.08	16,200	
	Less: Depreciation for 2008-09 @ 10% on WDV	(1,620)	
	WDV on 31.03.09		14,580
			64,580
c.	Revaluation upwards @ 15%		9,687
d.	Revalued figure		74,267

(2 Marks)

@ Trade investments

Particulars		**Rs.**
a.	Total investments	2,00,000
b.	Trade investments (10% of above)	20,000
c.	Revalued figure of trade investments (20,000 x 90%)	18,000

(1 Mark)

$ Tax

Particulars		**Rs.**
a.	Furniture wrongly charged off — tax liability (20,000 x 50%)	10,000
b.	Depreciation on furniture — tax saving ([2,000 + 1,800 + 1,620] x 50%)	(2,710)
c.	Stock overvaluation — tax saving (50,000 x 50%)	(25,000)
d.	Net tax (recoverable)	(17,710)

(1 Mark)

WN # 2: Future maintainable profits **(Rs.)**

Particulars		**2006-07**	**2007-08**	**2008-09**
a.	Profits as given	2,50,000	2,80,000	3,30,000
b.	Less: Income from non-trade investment (Net of tax) (10% of [2,00,000 x 90% x 50%])	(9,000)	(9,000)	(9,000)
c.	Add: Asset wrongly expensed (net of tax) (20,000 x 50%)	10,000		
d.	Less: Depreciation of furniture (net of tax) (WN #1#)	(1,000)	(900)	(810)
e.	Less: Stock overvaluation (net of tax) (50,000 x 50%)	-	-	(25,000)
f.	Less: Provision or doubtful debts (4,00,000 x 10%)	-	-	(40,000)
g-	Adjusted profits	2,50,000	2,70,100	2,55,190

h.	Simple average	2,58,430

(3 Marks)

WN # 3: Goodwill - super profits method

	Particulars	**Rs.**
a.	Capital employed (WN #1)	Rs. 12,07,477
b.	NRR	20%
c.	Normal profits (a x b)	Rs. 2,41,497
d.	Future maintainable profits (WN #2)	Rs. 2,58,430
e.	Super profits (d — c)	Rs. 16,935
f.	Number of years' purchase	2
g-	Goodwill (e x f)	Rs. 33,870

(3 Marks)

Notes:

i. All assets and liabilities have been considered at fair values. In the absence of fair values, book values have been assumed as fair values.

ii. All items of income and expenditure except to the extent adjusted above are assumed to be taxable and tax deductible respectively.

iii. For calculating capital employed, half of the profits earned in 2008-09 could have been deducted. A lower capital base will give a higher super profit and goodwill.

iv. Assumed that income from non-trade investment is dividend income which is not subject to tax. Provision for doubtful debts is not tax deductible.

Answer-3 :

(a) Statement of Purchase Consideration

	Agni Ltd.			**Bayu Ltd. (Refer W.N. 1)**		
Year	**PBT (Rs.)**	**Weight**	**Rs.**	**PBT (Rs.)**	**Weight**	**Rs.**
2015	16,38,000	1	16,38,000	15,18,300	1	15,18,300
2016	18,36,000	2	36,72,000	27,63,000	2	55,26,000
Total Profit			53,10,000			70,44,300
Weighted average profit (Divided by 3)			17,70,000			23,48,100
(i) Two years' purchase of average profits			35,40,000			46,96,200
(ii) Net assets						
(Refer working notes 3 and 4)			30,84,000			35,43,000
			66,24,000			82,39,200

(iii) Discharge of purchase consideration

82,362 Shares will be issued for goodwill amounting Rs. 82,36,200 (Rs. 35,40,000 + Rs. 46,96,200)

66,270 15% Debentures will be issued for net assets amounting Rs. 66,27,000 (30,84,000 +35,43,000)

Total purchase consideration will amount to Rs. 148,63,200.

(4 Marks)

(b) Balance Sheet of Chandrama Ltd. as on 1st January, 2017

Particulars			**Note No.**	**(Rs.)**
I.	**Equity and Liabilities**			
	(1)	**Shareholder's Fund**		
		Share Capital	1	82,36,200
	(2)	**Non-Current Liabilities**		
		Long-term borrowings	2	66,27,000
		Total		**1,48,63,200**
II.	**Assets**			
	(1)	**Non-current assets**		
		Non-current investments	3	1,48,63,200
		Total		**1,48,63,200**

Notes to Accounts

		(Rs.)	(Rs.)
1.	Share Capital		
	Issued and subscribed		
	82,362 shares of Rs. 100 each, fully paid up		
	(Issued for consideration other than cash)		82,36,200
2.	Long Term Borrowings		
	Secured Loans		
	66,270 15% Debentures of Rs. 100 each, fully paid		66,27,000
3.	Non-current investments *		
	Shares in Agni Ltd.	66,24,000	
	Shares in Bayu Ltd.	82,39,200	1,48,63,200

* In this case, a holding company, Chandrama Ltd. is being formed on 1st January, 2017 to acquire the entire shares in both the companies. Hence, this will appear in the Noncurrent investments of Chandrama Ltd.

(4 Marks)

Working Notes:

1. Statement of adjusted Net Profits of Bayu Ltd.

		Year 2015		Year 2016
	Rs.	Rs.	Rs.	Rs.
Net Profit as given		17,88,300	-	25,74,000
Add: Provision for Bad Debts-W.N.2(a)	18,000		27,000	
Advertising (to the extent written off)	-		90,000	
Depreciation- [W.N.2(b)]	48,000		48,000	
Appreciation in Investment	-		2,70,000	
Value of Opening Inventory	-	66,000	36,000	4,71,000
		18,54,300		30,45,000
Less: Value of Closing Inventory	36,000		1,02,000	
Advertising (to be written off in one year only)	1,80,000		-	
Directors' Remuneration	1,20,000	(3,36,000)	1,80,000	(2,82,000)
		15,18,300		**27,63,000**

(2 Marks)

2.

		(Rs.) Year 2015	(Rs.) Year 2016
(a)	Trade receivables as per Balance sheet	17,82,000	26,73,000
	Provision created		
	1% of (Rs. 17,82,000 /. 99)	18,000	
	1% of (Rs. 26,73,000 / .99)		27,000
(b)	Rate of depreciation under straight line method for Agni Ltd. is (Rs. 69,000 / 6,90,000) × 100 = 10%. Rate of depreciation under straight line method for Bayu Ltd. is (Rs. 1,44,000 / 9,60,000)× 100= 15% Difference of 5% in depreciation amount i.e. (5% of Rs. 9,60,000 =Rs. 48,000) has been added back to ensure uniform accounting policies.		

(2 Marks)

3 Statement of Net Assets of Agni Ltd.

	Rs.	Rs.
Total Assets		58,65,000
Less: Trade payables	18,21,000	
Provision for Taxation	9,60,000	(27,81,000)
		30,84,000

(2 Marks)

4 Statement of Adjusted Net Assets of Bayu Ltd.

	Rs.	Rs.
Furniture and Fixtures	9,60,000	
Less: Depreciation at 10% p.a. for two years	(1,92,000)	7,68,000

Quoted investments at market value		14,70,000
Inventory (Rs. 22,26,000 – Rs. 1,02,000)		21,24,000
Trade receivables after Reversal of Provision (Rs. 26,73,000 + Rs. 27,000)		27,00,000
Prepaid Expenses (Rs. 1,44,000 – Rs. 90,000)		54,000
Cash at Bank		9,000
		71,25,000
Less: Trade payables	14,82,000	
Bank Overdraft	5,10,000	
Liability for Directors' Remuneration [1,20,000 + 1,80,000]	3,00,000	
Provision for Taxation	12,90,000	(35,82,000)
		35,43,000

(2 Marks)

Answer-4 (a) :

Journal Entries

Date	Particulars		Rs.	Rs.
31.3.2015	Employees compensation expenses A/c	Dr.	14,25,000	
	To ESOS outstanding A/c			14,25,000
	(Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,000 employees at a discount of Rs. 30 each, amortised on straight line basis over vesting years- Refer W.N.)			
31.3.2015	Profit and Loss Account	Dr.	14,25,000	
	To Employees compensation expenses A/c			14,25,000
	(Being compensation expense charged to Profit & Loss A/c)			
31.3.2016	Employees compensation expenses A/c	Dr.	3,95,000	
	To ESOS outstanding A/c			3,95,000
	(Being compensation expense recognized in respect of the ESOP - Refer W.N.)			
31.3.2016	Profit and Loss Account	Dr.	3,95,000	
	To Employees compensation expenses A/c			3,95,000
	(Being compensation expense charged to Profit & Loss A/c)			
31.3.2017	Employees compensation Expenses A/c	Dr.	8,05,000	
	To ESOS outstanding A/c			8,05,000
	(Being compensation expense recognized in respect of the ESOP – Refer W.N.)			
31.3.2017	Bank A/c (85,000 X Rs.20)	Dr.	17,00,000	
	ESOS outstanding A/c [(26,25,000/87,500) x 85,000]	Dr.	25,50,000	
	To Equity share capital (85,000 x Rs. 10)			8,50,000
	To Securities premium A/c (85,000 x Rs.40)			34,00,000
	(Being 85,000 options exercised at an exercise price of Rs. 50 each)			
	Profit and Loss A/c	Dr.	8,05,000	
	To Employees compensation expenses A/c			8,05,000
	(Being compensation expenses charged to Profit & Loss A/c)			
	ESOS outstanding A/c	Dr.	75,000	
	To General Reserve A/c			75,000
	(Being ESOS outstanding A/c on lapse of 2,500 options at the end of exercise of option period transferred to General Reserve A/c)			

(6 Marks)

Working Note:

Statement showing compensation expenses to be recognised

Particulars	Year 1 (31.3.2015)	Year 2 (31.3.2016)	Year 3 (31.3.2017)
Expected vesting period (at the end of the year)	2nd year	3 rd year	3rd year
Number of options expected to vest	95,000 options	91,000 options	87,500 options
Total compensation expenses accrued @ 30 (i.e. 50-20)	Rs. 28,50,000	Rs. 27,30,000	Rs. 26,25,000
Compensation expenses of the year	28,50,000 x ½ = Rs.14,25,000	27,30,000 x 2/3 = Rs.18,20,000	Rs. 26,25,000
Compensation expenses recognized previously	Nil	Rs. 14,25,000	Rs. 18,20,000
Compensation expenses to be recognized for the year	Rs. 14,25,000	Rs. 3,95,000	Rs. 8,05,000

(2 Marks)

Answer-4 (b) :

Creamco Ltd. Value Added Statement for the year ended as on 31.03.2004
(in 000's)

			Particulars	Amount Rs.	Amount Rs.
A.	**VALUE ADDED**				
	1.	Revenue			
		a.	Sales	28,525	
		b.	Less : Excise duty	(1,718)	26,807
	2.	Less: Cost of bought out materials and services			
		a.	Operating cost	15,411	
		b.	Interest on bank overdraft	93	(15,504)
	3.	Value added from operations			11,303
	4.	Add: Other income			756
	5.	Gross value added			12,059
B.	**VALUE APPLIED**				
	1.	Towards employees			
		a.	Salaries, Wages and Other benefits		10,247
	2.	Towards Government			
		a.	Corporate tax (275 - 45)		230
	3.	Towards providers of finance			
		a.	Interest on 10% debentures	1,157	
		b.	Dividends	45	1,202
	4.	Towards replacement and expansion :			
		a.	Depreciation	255	
		b.	Fixed assets replacement reserve	25	
		c.	Deferred tax account	45	
		d.	Retained profit	55	380
5.	**Gross value applied**				**12,059**

(4 Marks)

Reconciliation between gross value added and profit before taxation

		Particulars	Amount Rs.	Amount Rs.
a.	Profit before tax			400
b.	Add:			
	i.	Depreciation	255	
	ii.	Wages, salaries and others	10,247	
	iii.	Debenture interest	1,157	11,659
c.	Gross value added			12,059

(2 Marks)

Note :

1. Deferred tax could alternatively be shown as a part of "Towards Government"
2. Bank overdraft, being a temporary source of finance, has been considered as the provision of a banking service rather than of capital. Therefore, interest on bank overdraft has been shown by way of deduction from sales and as a part of "Cost of bought out materials and services".
3. If the value added statement is prepared on Net value added basis, then depreciation has to be shown as part of "Cost of bought out goods and services".

Answer-4 (c) :

E.V.A. = NOPAT – COCE

NOPAT = Net Operating Profit after Tax

COCE = Cost of Capital Employed

COCE = Weighted Average Cost of Capital · Average Capital Employed

= WACC · Capital Employed

Debt Capital Rs. 2,000 crores

Equity capital (500 + 7,500) = Rs. 8,000 crores

Capital employed = Rs. 2,000+ Rs. 8,000 = Rs. 10,000 crores

Debt to capital employed = $\frac{2,000}{10,000} = 0.20$

Equity to Capital employed = $\frac{8,000}{10,000} = 0.80$

Debt cost before Tax 12%

Less: Tax (30% of 12%) 3.6%

Debt cost after Tax 8.4%

According to Capital Asset Pricing Model (CAPM)

Cost of Equity Capital = Risk Free Rate + Beta · Equity Risk Premium

Or

= Risk Free Rate + Beta (Market Rate – Risk Free Rate)

= 9 + 1.05 · (19-9)

= 9 + 1.05 · 10 = 19.5%

WACC = Equity to CE x Cost of Equity capital + Debt to CE x Cost of debt

= 0.8· 19.5% + 0.20· 8.40%

= 15.60% + 1.68% = 17.28%

COCE = WACC · Capital employed

= 17.28% · Rs. 10,000 crores = Rs. 1728 crores

E.V.A. = NOPAT – COCE

= Rs. 2,100 – Rs. 1,728 = Rs. 372 crores

(6 Marks)

Answer-5 :

Part I - Purchase consideration - Net asset method

WN #1: Net assets excluding inter company investment at the time of amalgamation **Rs.**

Particulars	**A Ltd.**	**B Ltd.**
Fixed assets	10,00,000	50,000
Sundry debtors	2,90,000	1,50,000
Stock	4,80,000	2,10,000
Cash	1,40,000	90,000
Dividend receivable (3,000 x 100 x 10%)		30,000
Less :		
10% Debentures	-	(3,00,000)
Current liabilities	(2,00,000)	(90,000)
Proposed dividend	(1,50,000)	-
	15,60,000	**1,40,000**

(2 Marks)

WN # 2 : Intrinsic value of investment

Let A be the intrinsic value of business of A Ltd. Let B be the intrinsic value of business of B Ltd.

A = 15,60,000 + 0.2 B
B = 1,40,000 + 0.2 A
A = 15,60,000 + 0.2 (1,40,000 + 0.2A)
A = 15,60,000 + 28,000 + 0.04A
0.96A = 15,88,000
A = 16,54,166.67
B = 1,40,000 + 0.2 (16.54,166.67)
= 4,70,833.32

Summary :

Particulars	**A Ltd.**	**B Ltd.**
a. Value of Business (Rs.)	16,54,167	4,70,833
b. No. of shares outstanding	15,000	5,000
c. Intrinsic value per share (rounded)	Rs. 110/-	Rs. 94/-

(1 Mark)

WN # 3 : Purchase consideration

a.	Total No. of B Ltd.'s shares outstanding	5,000
b.	Less : No. of shares held bv A Ltd in B Ltd.	1,000
c.	Shares held by outsiders	4,000
d.	Value of the above shares (4,000 x Rs. 94)	Rs. 3,76,000
e.	Number of A Ltd. shares issuable at intrinsic value (3,76,000 s-110)	3,418
f.	Less : Number of shares alreadv held bv B Ltd. in A Ltd.	(3,000)
8-	Number of shares to be issued	418
h.	Purchase consideration (418 x 110)	Rs. 45,980

Note : Number of shares issuable has been rounded off and purchase consideration is based on the same. To be more accurate, cash for fractional shares can be taken into account.

(1 Mark)

Part II - In the books of selling company - B Ltd. Section A : Pre-amalgamation event

	Particulars		**Debit**	**Credit**
i.	Dividend receivable from A Ltd.			
	Dividend receivable A/c	Dr.	30,000	
	To Profit and loss A/c			30,000

Note : Revised Profit and loss A/c balance = Rs. 10,000 + 30,000 = Rs. 40,000

Section B : Amalgamation events

Realisation Account

Dr. Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To Fixed assets	50,000	By Debentures	3,00,000
To Debtors	1,50,000	By Creditors	90,000
To Stock	2,10,000	By A Ltd. (Purchasing company)	45,980
To Bank	90,000	By Share capital	1,00,000
To Dividend receivable	30,000		
To Profit transferred to share holders (Bal. Fig)	5,980		
	5,35,980		**5,35,980**

(2 Marks)

Journal Entries

Particulars				**Debit Rs.**	**Credit Rs.**
1.	**Transfer to realisation A/c**				
	a.	Assets taken over except investment held in Purchasing company Realisation A/c	Dr.	5,30,000	
		To Fixed assets A/c			50,000
		To Debtors A/c			1,50,000

	To Stock A/c			2,10,000
	To Cash A/c			90,000
	To Dividend receivable A/c			30,000
b.	Liabilities taken over			
	10% Debentures A/c	Dr.	3,00,000	
	Creditors A/c	Dr.	90,000	
	To Realisation A/c			3,90,000
2.	**Purchase consideration:**			
a.	Due Entry			
	A Ltd A/c	Dr.	45,980	
	To Realisation A/c			45,980
b.	Receipt entry			
	Equity shares of A Ltd A/c	Dr.	45,980	
	To A Ltd A/c.			45,980
3.	**Cancellation of paid up capital to the extent of A Ltd's interest (Purchasing company) :**			
	Share capital A/c	Dr.	1,00,000	
	To Realisation A/c.			1,00,000
4.	**Amount due to outside shareholders :**			
a.	Transfer of remaining share capital and full reserves			
	Share capital A/c	Dr.	4,00,000	
	General reserve A/c	Dr.	1,00,000	
	Profit and loss A/c	Dr.	40,000	
	To Share holders A/c.			5,40,000
b.	Transfer of profit on realisation to shareholders:			
	Realisation A/c.	Dr.	5,980	
	To share holders A/c.			5,980
5.	**Settlement of amount to outside shareholders (5,40,000 + 5,980) :**			
	Shareholders A/c	Dr.	5,45,980	
	To equity shares of A Ltd. A/c			5,45,980

(2 Marks)

PART III - In the books of A Ltd (Purchasing co.)

Section A - Pre-amalgamation events.

Particulars			**Debit Rs.**	**Credit Rs.**
a.	**Proposed dividend :**			
	Profit and loss A/c	Dr.	1,50,000	
	To Proposed dividend A/c			1,50,000
b.	Revaluation of investments Profit and loss A/c	Dr.	56,000	
	To Investments A/c. 11,50,000 - (1,000 x 94)]			56,000

(1 Mark)

Section B - Amalgamation events

Nature of amalgamation : Merger (All conditions of merger satisfied)

Method of accounting : Pooling of interest method

(Rs.)

	Particulars			**Debit Rs.**	**Credit Rs.**
1.	Due Entry :				
	Business purchase A/c		Dr.	45,980	
	To liquidator of B Ltd.				45,980
2.	Incorporation of assets and liabilities taken over :				
	a. Aggregate consideration				
	i. Investment of A Ltd. in B Ltd	94,000			
	ii. Paid to outsiders.				

			I. Now issued	45,980			
			II. Already held by B Ltd. in A Ltd.	5,00,000	5,45,980		
		iii.	Total		6,39,980		
	b.	Less: Paid up capital			(5,00,000)		
	c.	Difference (Excess consideration)			1,39,980		
	d.	Above excess to be adjusted against					
		i.	General reserve of B Ltd.	1,00,000			
		ii.	Profit and loss A/c of B Ltd.	39,980	(1,39,980)		
	e.	Balance of B Ltd reserves to be incorporated					
		i. General reserve (1,00,000 - 1,00,000)		Nil			
		ii. Profit and loss A/c (40,000-39,980)		20	20		
	Fixed assets A/c.				Dr.	50,000	
	Sundry debtors A/c				Dr.	1,50,000	
	Stock A/c.				Dr.	2,10,000	
	Cash at bank A/c				Dr.	90,000	
	Dividend receivable A/c				Dr.	30,000	
		To Debentures A/c					3,00,000
		To Creditors A/c					90,000
		To Profit and loss A/c of B Ltd.					20
		To Business purchase A/c					45,980
		To Investments in B Ltd A/c					94,000
3.	Discharge of purchase consideration:						
	Liquidator of B Ltd A/c				Dr.	45,980	
		To Equity share capital A/c					41,800
		To Equity share premium A/c					4,180
4.	Others						
a.	Cancellation of inter company dividends.						
	Proposed dividends A/c				Dr.	30,000	
		To Dividend receivable A/c					30,000
b.	Cancellation of inter company owings						
	Creditors A/c.				Dr.	25,000	
		To Debtors A/c					25,000
c.	Creation of stock reserve Profit and loss A/c				Dr.	12,000	
		To Stock reserve A/c					12,000

(2 Marks)

Balance Sheet of A Ltd as at 31st March 1995 (after amalgamation)

	Particulars	**Note**	**Rs.**
I.	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	a. Share capital	1	15,41,800
	b. Reserves and surplus	2	1,46,200
2.	Non-current liabilities		
	• Long-term borrowings		
	[Long-term borrowings 10% debentures]		3,00,000
3.	Current liabilities a. Short -term provisions		
	[Proposed dividend] (1,50,000 — 30,000)		1,20,000
	b. Other current liabilities (2,00,000 + 90,000 — 25,000)		2,65,000
	Total		**23,73,000**
11.	ASSETS		

1.	Non-current assets	
	• fixed assets (10,00,000 + 50,000)	10,50,000
2.	Current assets	
	a. Inventories(4,80,000 + 2,10,000 — Stock reserve 12,000)	6,78,000
	b. Trade receivables (2,90,000 + 1,50,000 — 25,000)c.Cash and cash equivalents 4,15,000	
	[Balances with bank] (1,40,000 + 90,000)	2,30,000
	Total	**23,73,000**

(3 Marks)

Notes to the financial statements

1) Share capital

	Particulars	**Rs.**
a.	Authorised	
b.	Issued, subscribed and fully paid up	
	15,418 equity shares ofRs." 100 each	15,41,800
	(Of the above, 418 shares were issued as fully paid up for consideration other than cash)	

2) Reserves and surplus

	Particulars	**Rs.**
a.	Securities premium	4,180
b.	General reserve	2,00,000
c.	Surplus*	(57,980)
	Total	**1,46,200**

A Ltd. given balance Rs. 1,60,000 - Proposed dividend Rs. 1,50,000 + B Ltd. balance Rs.20 - Stock reserve Rs. 12,000 - Revaluation of investments Rs.56,000.

(2 Marks)

Answer-6 (a) :

Calculation of provision required on advances as on 31st March, 2017 as per the Non- Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

	Amount Rs. in lakhs	**Percentage of Provision**	**Provision Rs.in lakhs**
Standard assets	16,800	0.25	42.00
Sub-standard assets	1,340	10	134.00
Secured portions of doubtful debts			
- upto one year	320	20	64.00
- one year to three years	90	30	27.00
- more than three years	30	50	15.00
Unsecured portions of doubtful debts	97	100	97.00
Loss assets	48	100	48.00
			427.00

(4 Marks)

Calculation of provision required on advances as on 31st March, 2017 as per the Non- Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

	Amount Rs. in lakhs	**Percentage of Provision**	**Provision Rs.in lakhs**
Standard assets	16,800	0.35	58.80
Sub-standard assets	1,340	10	134.00
Secured portions of doubtful debts			
- upto one year	320	20	64.00
- one year to three years	90	30	27.00

- more than three years	30	50	15.00
Unsecured portions of doubtful debts	97	100	97.00
Loss assets	48	100	48.00
			443.80

(4 Marks)

Answer-6 (b) :

According to Lev and Schwartz, the value of human capital embodied in a person of age is the present value of his remaining future earnings from employment. Their valuation model for a discrete income stream is given by the following formula:

$$V = \sum_{t=\tau}^{t} \frac{I(t)}{(1+r)^{t-\tau}}$$

(2 Marks)

Where,

V = the human capital value of a person years old.

I(t) = the person's annual earnings up to retirement.

r = a discount rate specific to the person.

t = retirement age.

Value of skilled employees:

$$= \frac{50{,}000}{(1+0.15)^{(65\text{-}62)}} + \frac{50{,}000}{(1+0.15)^{(65\text{-}63)}} + \frac{50{,}000}{(1+0.15)^{(65\text{-}64)}}$$

Rs. 32,875.81 + Rs. 37,807.18 + Rs. 43,478.26 = Rs. 1,14,161.25

Total value of skilled employees is Rs. 1, 14,161.25 × 20 = Rs. 22,83,225.

(2 Marks)

Value of unskilled employees

$$= \frac{30{,}000}{(1+0.15)^{(62-60)}} + \frac{30{,}000}{(1+0.15)^{(62-61)}} = \frac{30{,}000}{(1+0.15)^{2}} + \frac{30{,}000}{(1+0.15)}$$

= Rs. 22,684.31 + Rs. 26,086.96 = Rs. 48,771.27

Total value of the unskilled employees = Rs. 48,771.27× 25 = Rs. 12,19,282

Total value of human resources (skilled and unskilled) = Rs. 22,83,225 + Rs. 12,19,282
= Rs. 35,02,507.

(2 Marks)

Answer-6 (c) :

Market Share of Agile Ltd.

Calculation of last year's market share = 100% –63% = 37%

Increase or decrease in market share of other players [0.25+(.25 x 150%)-2.5/5] = 0.125% i.e. increase in others' market share every year over the period of 5 years. Hence, market share of Agile Ltd. is expected to decrease by 0.125% every year over the period of 5 years, from the current level of 37%.

(2 Marks)

Brand Valuation under Market Approach

Year	Market Size (Rs. In Crores)	Market Share of Agile Ltd.	Market Share (Rs. In Crores)	Expected Profit (Rs. In Crores)	Discount Factor	Discounted Cash Flow (Rs. In Crores)
1.	7500 x 109% = 8,175	36.875%	3014.53	@ 10% = 301.45	0.909	274.02
2.	8,175 x 109% = 8910.75	36.75%	3274.70	@ 13% = 425.71	0.826	351.64
3.	8,910.75 x 109% = 9712.72	36.625%	3557.28	@ 18% = 640.31	0.751	480.87
4.	9,712.72 x 109% = 10,586.86	36.5%	3864.20	@23% = 888.77	0.683	607.03

5.	10,586.86 x 109% = 11,539.68	36.375%	4197.56	@28% = 1,175.32	0.621	729.87
	Brand Value					2,443.43

Brand Value of Agile Ltd. Under Market Oriented Approach is Rs.2,443.43 crores.

(4 Marks)