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CA FINAL May : 2017 EXAM

FINANCIAL REPORTING

Test Code - F N J 6 0 1 8

BRANCH - (MULTIPLE)

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Answer-1 (a) :

Para 21 of AS 7 (Revised) 'Construction Contracts' provides that when the outcome of a construction contract can be estimated reliably, contract revenue and contract costsassociated with the construction contract should be recognized as revenue and expenses respectively with reference to the stage of completion of the contract activity at the reportingdate.

Para 35 of AS 7 states that when it is probable that total contract cost will exceed totalcontract revenue, the expected losses should be recognized as an expense irrespective of:

a. Whether or not work has commenced
b. Stage of completion of contract
c. The amount of profit on other contracts which are not treated as a single contract

Thus, when Estimated Contract Costs > Total Contract Revenue
Expected Loss = Work Certified + Work uncertified + Estimated cost to complete theproject - Total value of contract
Thus, in the given case,the foreseeable loss of Rs. 50,000 (expected cost Rs. 10.5 lakhs lesscontract revenue Rs. 10 lakhs) should be recognized as an expense in the year ended 31st March, 2015.

The following disclosures should also be given in the financial statements:

(a) the amount of contract revenue recognized as revenue in the period;
(b) the aggregate amount of costs incurred and loss recognized upto the reporting date;
(c) amount of advances received;
(d) amount of retentions; and
(e) gross amount due from/due to customers amount*

* Amount due from/to customers = contract costs + Recognised profits – Recognised losses – Progress billings = Rs. 1.5 + Nil – Rs. 0.5 – Rs. 1.0 = Nil.

Answer-1 (b) :

Computation of Expected Returns on Plan Assets as on 31st March, 2015, as per AS 15

	Rs.
Return on opening value of plan assets of Rs.2,00,000 (held for the year) @ 10.25%	20,500
Add: Return on net gain of Rs. 30,000 (i.e. Rs. 55,000 – Rs. 25,000) during the year i.e. held for six months @ 5% (equivalent to 10.25% annually, compounded every six months)	1,500
Expected return on plan assets as on 31st March, 2015	22,000

Computation of Actual Returns on Plan Assets as on 31st March, 2015, as per AS 15

	Rs.	**Rs.**
Fair value of Plan Assets as on 31st March, 2015		3,00,000
Less: Fair value of Plan Assets as on 1st April, 2014	(2,00,000)	
Add: Contribution received as on 30th September, 2014	55,000	(2,55,000)
		45,000
Add: Benefits paid as on 30th September, 2014		25,000
Actual returns on Plan Assets as on 31st March, 2015		70,000

Answer-1 (c) :

Computation of Borrowing Cost as per para 4(e) of AS 16" Borrowing Costs" and Amount of Exchange Difference as per AS 11 "The Effects of Changes in Foreign Exchange Rates":

(a) Interest for the period 2014-15
= US$ 12.5 million x 5% × Rs. 48 per US$ = Rs. 30 million
(b) Increase in the liability towards the principal amount
= US $ 12.5 million × Rs. (48 - 45) = Rs. 37.5 million
(c) Interest that would have resulted if the loan was taken in Indian currency
= US$ 12.5 million × Rs. 45 x 11% = Rs. 61.875 million

(d) Difference between interest on local currency borrowing and foreign currency borrowing
= Rs. 61.875 million - Rs. 30 million = Rs. 31.875 million.

Therefore, out of Rs. 37.5 million increase in the liability towards principal amount, only Rs.31.875 million will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 61.875 million being the aggregate of interest of Rs. 30 million on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currencyborrowing and interest on foreign currency borrowing of Rs.31.875 million.

Hence, Rs. 61.875 million would be considered as the borrowing cost to be accounted for as perAS 16 and the remaining Rs. 5.625 million (37.5 - 31.875) would be considered as the exchangedifference to be accounted for as per AS 11.

Answer-1 (d) :

As per AS 28 “Impairment of Assets”, if the recoverable amount* of an asset is less than itscarrying amount, the carrying amount of the asset should be reduced to its recoverableamount and that reduction is an impairment loss. An impairment loss on a revalued asset isrecognized as an expense in the statement of profit and loss. However, an impairment loss ona revalued asset is recognised directly against any revaluation surplus for the asset to theextent that the impairment loss does not exceed the amount held in the revaluation surplus forthat same asset.

*Recoverable amount is the higher of an asset’s net selling price and its value in use.

In the given case, recoverable amount (higher of asset’s net selling price and value in use) willbe Rs. 24.5 lakhs on 31.3.2015 according to the provisions of AS 28 [Refer working note].

(Rs. in lakhs)

(i)	Carrying amount of plant (after impairment) as on 31st March, 2015	24.50
(ii)	Amount of write off (impairment loss) for the financial year ended 31st March, 2015 [Rs. 60 lakhs – Rs. 24.5 lakhs]	35.50
(iii)	If the plant had been revalued ten years ago	
	Debit to revaluation reserve	12.00
	Amount charged to profit and loss account (Rs. 35.50 lakhs – Rs. 12 lakhs)	23.50
(iv)	If Value in use is zero	
	Value in use (a)	Nil
	Net selling price (b)	(-)2.00
	Recoverable amount [higher of (a) and (b)]	Nil
	Carrying amount (closing book value)	Nil
	Amount of write off (impairment loss)(Rs. 60 lakhs – Nil)	60.00
	Entire book value of plant will be written off and charged to profit and loss account.	

Working Note:

Calculation of Closing Book Value, Estimated Net Selling Value and Estimated Value in Use of Plant at 31st March, 2015.

	(Rs. in lakhs)
Opening book value as on 1.4.2014 (Rs. 500 lakhs – Rs. 415 lakhs)	85
Less: Depreciation for financial year 2014–15	(25)
Closing book value as on 31.3.2015	60
Estimated net selling price as on 1.4.2014	30
Less: Estimated decrease during the year (20% of Rs. 30 lakhs)	(6)
Estimated net selling price as on 31.3.2015	24
Estimated value in use as on 1.4.2014	35.0
Less: Estimated decrease during the year (30% of Rs. 35 lakhs)	(10.5)

Estimated value in use as on 31.3.2015	24.5

Answer-2 :

Balance Sheet of AX Ltd.
(after merger with TX Ltd.)

Particulars				**Note No.**	**(Rs.)**
I.	**Equity and Liabilities**				
	(1)	**Shareholder's Funds**			
		(a)	Share Capital	1	9,24,000
		(b)	Reserves and Surplus	2	13,50,960
	(2)	**Non-Current Liabilities**			
		Long-term borrowings		3	2,00,000
	(3)	**Current Liabilities**			
		(a)	Trade payables	4	75,000
		(b)	Other Current Liabilities	5	3,00,000
			Total		**28,49,960**
II.	**Assets**				
	(1)	**Non-current assets**			
		(a)	Fixed assets		
			Tangible assets	6	13,50,000
			Intangible assets (Goodwill) [WN 1]		3,80,000
		(b)	Non-current Investments (2,00,000+,50,000)		2,50,000
		(c)	Other non-current assets	7	40,000
	(2)	**Current assets**			
		(a)	Inventories (1,20,000 + 50,000)		1,70,000
		(b)	Trade Receivables (75,000 + 80,000)		1,55,000
		(c)	Cash & Cash equivalents (2,75,000 + 1,30,000 – 40)		4,04,960
		(d)	Other current assets	8	1,00,000
			Total		**28,49,960**

Notes to Accounts

			(Rs.)	**(Rs.)**
1.	**Share Capital**			
	92,400 Equity Shares of Rs. 10 each [70,000+22,400]			9,24,000
	(Of the above shares, 22,400 shares were issued to the vendors otherwise than cash)			
2.	**Reserves and surplus**			
	General Reserve		3,50,000	
	P&L A/c		2,10,000	
	Securities Premium [22,400 × [40.40-10]		6,80,960	
	Export profit reserve	70,000		
	Add: Balance of TX Ltd.	40,000	1,10,000	13,50,960
3.	**Long Term Borrowings**			
	12% Debentures		1,00,000	
	Add: 12% debentures issued at par other than cash		1,00,000	2,00,000
4.	**Trade payables**			
	Trade payables		30,000	
	Add: Taken over		45,000	75,000
5	**Other Current Liabilities**			
	Provision for Taxation	1,00,000		

Add: Provision for Taxation of TX Ltd.	60,000	1,60,000	
Proposed dividend		1,40,000	3,00,000
6. Tangible assets			
Fixed Assets		9,50,000	
Add: Taken over		4,00,000	13,50,000
7. Other non-current assets			
Amalgamation Adjustment A/c [on a/c of export profit reserve]			40,000
8. Other current assets			
Advance Tax (80,000 + 20,000)			1,00,000

Working Notes

(1) Valuation of Goodwill

(i) Capital Employed

	AX Ltd. Rs.	Rs.	TX Ltd. Rs.	Rs.
Assets as per Balance Sheet		17,00,000		7,30,000
Less Non-trade Investment		(2,00,000)		(50,000)
		15,00,000		6,80,000
Less : Liabilities:				
12% Debentures	1,00,000		1,00,000	
Trade payables	30,000		45,000	
Provision for Taxation	1,00,000	(2,30,000)	60,000	(2,05,000)
Capital Employed		12,70,000		4,75,000

(ii) Average Profit Before Tax

	AX Ltd. Rs.	Rs.	TX Ltd. Rs.	Rs.
2012		5,00,000		1,50,000
2013		6,50,000		2,10,000
2014		5,75,000		1,80,000
		17,25,000		5,40,000
Simple Average		5,75,000		1,80,000
Less : Non-trading income*		(50,000)		(9,000)
(iii) Goodwill				
Capitalised value of average profit	$\frac{5,25,000}{20}$x100 F	26,25,000	$\frac{1,71,000}{20}$ x 100	8,55,000
Less: Capital Employed [From (i)above]		(12,70,000)		(4,75,000)
Goodwill		**13,55,000**		**3,80,000**

*** For AX Ltd. (2,00,000 @ 25 %) and TX Ltd. (50,000 @ 18 %)**

(2) Intrinsic Value per Share

	AX Ltd. Rs.	Rs.	TX Ltd. Rs.	Rs.
Goodwill [WN 1]	13,55,000		3,80,000	
Other Assets	17,00,000	30,55,000	7,30,000	11,10,000
Less : Liabilities				
12% Debentures	1,00,000		1,00,000	
Trade payables	30,000		45,000	
Provision for Tax	1,00,000	(2,30,000)	60,000	(2,05,000)
Net Assets		28,25,000		*9,05,000*
Intrinsic value per share				

[Net Assets / No. of Shares]	28,25,000 / 70,000 = Rs. 40.40 (rounded off)	9,05,000 / 25,000 = Rs.36.20

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(3) Purchase Consideration & discharge

Intrinsic Value of TX Ltd. [a]	Rs.36.20 per share
No. of shares [b]	25,000
Purchase Consideration c= [a x b]	Rs. 9,05,000
Intrinsic Value of AX Ltd. [d]	Rs.40.40 per share
No. of shares to be issued [c / d]	22,400.99
No. of shares to be issued [rounded off]	22,400.00
Cash for fractions	Rs. 40 [Rs. 9,05,000 – (22,400 X 40.40)]

Answer-3 :

Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd.
As on 31st March, 2015

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		10,00,000
(b) Reserves and Surplus (W.N.5.)		5,09,000
(2) Minority Interest (W.N 3.)		1,46,000
(3) Non-current liabilities		
(a) Long term borrowings	1	2,00,000
(4) Current Liabilities		
(a) Trade Payables	2	4,60,000
(b) Other current liabilities (Rs. 2,00,000 + Rs. 40,000)		2,40,000
Total		**25,55,000**
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	3	10,55,000
(ii) Intangible assets	4	3,40,000
(2) Current assets		
(a) Inventories	5	6,05,000
(b) Trade receivables	6	3,55,000
(c) Cash & Cash equivalents	7	2,00,000
Total		**25,55,000**

Notes to Accounts

			Rs.
1.	Long Term Borrowings		
	Secured loans		
	13% Debentures (Rs. 100 each)		2,00,000
2.	Trade Payables		
	A Ltd.	3,80,000	
	B Ltd.(W.N 1)	1,40,000	
		5,20,000	
	Less : Mutual indebtedness	(60,000)	4,60,000
3.	Tangible Assets		

	A Ltd.	6,50,000	
	B Ltd.	4,05,000	10,55,000
4.	Intangible assets		
	Goodwill (W.N 2)		3,40,000
5.	Inventories		
	A Ltd.	2,00,000	
	B Ltd.[WN 1	4,20,000	
		6,20,000	
	Less :Unrealised profit [90,000 X 20/120]	(15,000)	6,05,000
6	Trade Receivables		
	A Ltd.	1,50,000	
	B Ltd.	2,65,000	
		4,15,000	
	Less : Mutual indebtedness	(60,000)	3,55,000
7	Cash & Cash equivalents		
	A Ltd.	80,000	
	B Ltd.[W.N 1	1,20,000	2,00,000

Working Notes:

1. Adjustments to be made in the balance sheet items of B Ltd.:

Assets side	**Rs.**
Inventories:	
As given on 31.12.2014	3,50,000
Add : Unsold Inventory out of goods purchased from A Ltd.	90,000
	4,40,000
Less: Loss of Inventory by fire	(20,000)
	4,20,000
Cash & Bank balance:	
As given on 31.12.2014	1,05,000
Add: Insurance claim received [20,000 × 75 %]	15,000
	1,20,000
Liabilities side:	
Trade payables:	
As given on 31.12.2014	80,000
Add: Owings to A Ltd. on 31.3.2015	60,000
	1,40,000
Reserves and Surplus:	
As given on 31.12.2014	2,05,000
Less: Abnormal Loss on goods destroyed [20,000 – 15,000]	(5,000)
	2,00,000
Add: Profit from sale of goods purchased from A Ltd.	30,000
	2,30,000

2. Goodwill / capital reserve on consolidation:

	Rs.	**Rs.**
Amount paid for 40,000 Shares		8,00,000
Less: Nominal value of proportionate share capital	4,00,000	
Share of pre-acquisition profits (80% of Rs. 75,000)	60,000	(4,60,000)
Goodwill		3,40,000

3. Minority Interest: 10,000 / 50,000 shares = 20%

	Rs.
Paid up value of 10,000 shares	1,00,000
Add : 20% of Reserves & Surplus of B Ltd. (20% of Rs. 2,30,000)	46,000
	1,46,000

4. Profit /Loss on Debentures acquired

	Rs.
Amount paid for 1,000 Debentures	1,50,000
Less: Nominal value of proportionate 13% debentures	(1,00,000)
Loss charged to Profit and Loss Account	50,000

5. Reserves and Surplus of A Ltd.:

Balance as on 31.3.2015	4,50,000
Add : Share of revenue reserves of B Ltd. ([80% of Rs. 1,55,000 (2,30,000 – 75,000)]	1,24,000
	5,74,000
Less: Unrealised profit on Inventory $\left[\frac{1}{6} \text{x Rs.}90{,}000\right]$	(15,000)
Loss on elimination of debentures acquired	(50,000)
	5,09,000

Answer-4 :

1. Calculation of Capital employed (CE) ' in lakhs

	As on 31.3.14	**As on 31.3.15**
Replacement Cost of Fixed Assets	1,100.00	1,250.00
Trade Investment (50%)	125.00	125.00
Current cost of inventory		
$130 + 130 \text{ x} \frac{120}{100}$	286.00	
$150 + 150 \text{ x } \frac{120}{100}$		330.00
Trade Receivables	170.00	111.40
Cash at Bank	46.00	45.00
Total (A)	**1,727.00**	**1,861.40**
Less: Outside Liabilities		
18% term loan	180.00	165.00
Trade Payables	35.00	48.60
Provision for tax	11.00	13.00
Total (B)	**226.00**	**226.60**
Capital employed (A-B)	1501.00	1634.80

Average Capital employed at current value

$$= \frac{\text{Opening capital employed + closing capit al employed}}{2}$$

$$= \frac{150 + 1634.80}{2} = 1567.90 \text{ lakhs}$$

2. Future Maintainable Profit **Rs. in lakhs**

Increase in General Reserve	25	
Increase in Profit and Loss Account	30	
Proposed Dividends	125	

Profit After Tax	180	
Pre-tax Profit = $\frac{180}{1-0.5}$		360
Less: Non-Trading investment income (10% of Rs. 125)	12.50	
Subsidy	60.00	
Exchange Loss on Trade Payables [0.6 lakhs x (39-33)]	3.60	
Additional Depreciation on increase in value of Fixed Assets (current year) $\left(1,250-650-600 \text{ x } \frac{5}{100}\right)$ i.e.	30.00	(106.10)
		253.90
Add: Exchange Gain on trade receivables [0.35 lakhs x (39-35)]	1.40	
Research and development expenses written off	125.00	
Inventory Adjustment (30-26)	4.00	130.40
		384.30
Add: Expected increase of 10%		38.43
Future Maintainable Profit before Tax		422.73
Less: Tax @ 40% (40% of Rs. 422.73)		(169.09)
Future Maintainable Profit		253.64

3.	**Valuation of Goodwill**	**Rs. in lakhs**
(i)	According to Capitalisation of Future Maintainable Profit Method	
	Capitalised value of Future Maintainable Profit	
	$= \frac{253.64}{15} x100$	1,690.93
	Less: Average capital employed	1,567.90
	Value of Goodwill	123.03
	Or	
(ii)	According to Capitalization of Super Profit Method	
	Future Maintainable Profit	253.64
	Less: Normal Profit @ 15% on average capital employed (1,567.90 x 15%)	235.19
	Super Profit	18.45
	Capitalised value of super profit $\frac{18.45}{15}$ x 100 i.e. Goodwill	123.00

Goodwill exists; hence director's fear is not valid.

Leverage Effect on Goodwill

		Rs. in lakhs
Future Maintainable Profit on equity fund		253.64
Future Maintainable Profit on Long-term Trading Capital employed		
Future Maintainable Profit After Tax	253.64	
Add: Interest on Long-term Loan (Term Loan) (After considering Tax) 165 x 18% = 29.7* x $\frac{(100-40)}{100}$	17.82	271.46
Average capital employed (Equity approach)		1,567.90
Add: 18% Term Loan (180+165)/2		172.50
Average capital employed (Long-term Fund approach)		1,740.40
Value of Goodwill		

(A) Equity Approach	
Capitalised value of Future Maintainable Profit = $\frac{253.64}{15}$x100=	1,690.93
Less: Average capital employed	(1,567.90)
Value of Goodwill	123.03

(B) Long-Term Fund Approach

Capitalized value of Future Maintainable Profit = $\frac{271.46}{12}$x100	2262.17
Less: Average capital employed	(1,740.40)
Value of Goodwill	521.77

Comments on Leverage effect of Goodwill: Adverse Leverage effect on goodwill is 398.74lakhs (i.e., Rs.521.77 – 123.03). In other words, Leverage Ratio of Popular Ltd. is low for whichits goodwill value has been reduced when calculated with reference to equity fund ascompared to the value arrived at with reference to long term fund.

Working Notes:

			Rs. in lakhs
(1)	Inventory adjustment		
	(i)	Excess current cost of closing inventory over its Historical cost (330 – 300)	30.00
	(ii)	Excess current cost of opening inventory over its Historical cost(286-260)	26.00
	(iii)	Difference [(i– ii)]	4.00
(2)	Trade Receivables' adjustment		
	(i)	Value of foreign exchange Trade Receivables at the closing exchange rate ($35,000 x 39)	13.65
	(ii)	Value of foreign exchange Trade Receivables at the original exchange rate ($35,000 x 35)	12.25
	(iii)	Difference [(i) – (ii)]	1.40
(3)	Trade Payables' adjustment		
	(i)	Value of foreign exchange Trade Payables at the closing exchange rate ($ 60,000 x 39)	23.40
	(ii)	Value of foreign exchange Trade Payables at the original exchange rate($60,000 x 33)	19.80
	(iii)	Difference [(i) – (ii)]	3.60

Answer-5 (a) :

Brite Ltd.

Value Added Statement for the year ended 31st March, 2015

	(Rs. in thousands)	**(Rs. in thousands)**
Sales less returns		15,27,956
Less: Cost of bought in materials and services, as per working note	9,34,010	
Administrative expenses	32,640	
Interest on bank overdraft	100	(9,66,750)
Value added by manufacturing and trading activities		5,61,206
Add: Dividends and interest		130
Miscellaneous income		474
Total value added		**5,61,810**

Application of valued added

	(Rs. in thousands)	**(Rs. inthousands)**	**%**
To pay Employees:			
Wages, salaries and bonus	3,81,760		
Staff welfare expenses	26,240	4,08,000	72.62
To pay Directors:			

Directors' remuneration		7,810	1.39
To pay Government:			
Income tax	25,470		
Tax on distributed profits	3,739	29,209	5.20
To pay providers of capital:			
Interest on 9% debentures	14,400		
Interest on long-term loan from financial institution	10,000		
Dividend to shareholders	22,000	46,400	8.26
To provide for maintenance and expansion of the company:			
Depreciation on Fixed assets	50,600		
Transfer to General reserve	18,212		
Retained profit Rs. (7,879-6,300)(in 000s)	1,579	70,391	12.53
		5,61,810	**100.00**

Statement showing reconciliation of Total value added with Profit before taxation

	(Rs. in thousands)	(Rs. in thousands)
Profit Before Taxation		71,000
Add back:		
Wages, salaries and bonus	3,81,760	
Staff welfare expenses	26,240	
Directors' remuneration	7,810	
Interest on 9% mortgage debentures	14,400	
Interest on long-term loan from financial institution	10,000	
Depreciation on fixed assets	50,600	4,90,810
Total Value Added		**5,61,810**

Working Note:

Calculation of cost of bought in materials and services:

	(Rs. in thousands)
Decrease in inventory of finished goods	26,054
Consumption of raw materials	7,40,821
Excise duty	14,540
Power and lighting	1,20,030
Other manufacturing expenses	32,565
	9,34,010

Answer-5 (b) :

Allocation of Earnings	*Old Unit Holders [18 lakhs units] ₹ in lakhs*	*New Unit Holders [2 lakhs units] ₹ in lakhs*	*Total ₹ in lakhs*
First half year (₹ 5 per unit)	90.00	Nil	90.00
Second half year (₹ 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:-₹ 90 lakhs ÷ 18 lakhs = ₹ 5 per unit.			

		Old Unit Holders ₹	New Unit Holders ₹
Dividend distributed		8.60	8.60
Less: Equalization payment		-	(5.00)
		8.60	3.60

Journal Entries

			(₹ *in lakhs)*
30.9.2014	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 ₹ 70 per unit)		
31.3.2015	Dividend Equalization Dr.	10.00	
	To Revenue A/c		10.00
	(Being the amount transferred to Revenue Account)		
30.9.2015	Revenue A/c Dr.	172.00	
	To Bank		172.00
	(Being the amount distributed among 20 lakhs unit holders @ ₹ 8.60 per unit)		

Answer-6 (a) :

Journal Entries

Date	Particulars		Rs.	Rs.
31.3.2013	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.)			
31.3.2013	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)			
31.3.2014	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.)			
31.3.2014	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)			
31.3.2015	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.)			

31.3.2015	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)			

Working Note:

Statement showing compensation expenses to be recognised

Particulars	*Year 1 (31.3.2013)*	*Year 2 (31.3.2014)*	*Year 3 (31.3.2015)*
Expected vesting period (at the end of the year)	2nd year	3rd 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)	₹ 28,50,000	₹ 27,30,000	₹ 26,25,000
Compensation expenses of the year	28,50,000 x 1/2 = ₹14,25,000	27,30,000 x 2/3 = ₹18,20,000	₹ 26,25,000
Compensation expenses recognized previously	Nil	₹ 14,25,000	₹ 18,20,000
Compensation expenses to be recognized for the year	₹ 14,25,000	₹ 3,95,000	₹ 8,05,000

Answer-6 (b) :

Date	**Particulars**		**(Rs.)**	**(Rs.)**
1/4/2015	Loan A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
1/4/2015	Loan Processing Expense A/c	Dr.	4,000	
	To Bank A/c			4,000
1/4/2015	Loan A/c.	Dr.	4,000	
	To Loan Processing Expense A/c			4,000

Answer-6 (c) :

Computation of Equity and Debt Component of Convertible Debentures as on 1.4.15

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

Answer-7 (a) :

Computation of Economic Value Added (EVA)

Particulars	**(Rs. in lacs)**
Net Operating Profit after Tax (NOPAT)	831.00
Less: Weighted average cost of operating capital employed (13.35% of 2,200) (See W.N.7)	(293.70)
Economic Value Added (EVA)	537.30

Working Notes:

1. Net Operating Profit after Tax (NOPAT)

Earnings per share	Rs.16
No. of Equity Shares	40 lacs
	Rs. in lacs
Profit after Interest, Tax & Preference Dividend [40 lacs x Rs. 16]	640.00
Add: Preference Dividend (15% of Rs. 200 lacs)	30.00
Profit after Tax	670.00
Add: Tax @ 30% [670/70 x 30]	287.14
Profit before Tax	957.14
Add: Interest on Debentures [15% of Rs. 1,600 lacs]	240.00
Profit before Interest &Tax	1,197.14
Less: Income from Non-Trade Investment [10% of Rs. 100 lacs]	(10.00)
Net Operating Profit before Tax	1,187.14
Less: Tax @ 30%	(356.14)
Net Operating Profit after Tax [NOPAT]	831.00

2. Cost of Equity = Risk Free Rate + Beta Factor x (Market Rate - Risk Free Rate)
   = 9.85% + 1.65 (16.25-9.85) = 20.41%
3. Cost of Preference shares = 15%
4. Cost of Debt = Interest Rate x (1 - tax rate) = 15% x (1 - 0.30) = 10.5%
5. Total Capital Employed = [Equity Share Capital + Retained Earnings + Preference Share Capital + Debentures]
   = [400 + (220 - 20) + 200 + 1,600] = 2,400
6. Weighted Average Cost of Capital (WACC)

$$= \left(\frac{600}{2,400} x20.41\%\right) + \left(\frac{200}{2,400} x15\%\right) + \left(\frac{1,600}{2,400} x10.5\%\right)$$

   = 5.10 + 1.25 + 7% = 13.35%
7. Operating Capital Employed

		Rs. in lacs
Total Capital		2,400
Less: Non-operating Capital Employed		
10% Non-Trade Investment	140	
Land and Building held as Investment	20	

Advance given for purchase of a Plant	10	
Capital work-in-progress	30	(200)
Operating Capital Employed		2,200

Answer-7 (b) :

Beta Enterprises Ltd.
Profit and Loss Account for the year ending 31st March, 2015

	Particulars	**Note No.**	**(Rs. '000)**
I.	Revenue from operations (6,000 + 8,000 + 1,500)		15,500
II.	Total revenue		15,500
III.	Expenses		
	Cost of Sales		(7,800)
	Distribution costs		(1,500)
	Administration costs		(2,000)
	Total expenses		11,300
IV.	Profit before tax		4,200
V.	Tax Expenses		
	Current tax	1,239	
	Deferred tax	231	(1,470)
VI.	Profit or Loss for the period		2,730

Beta Enterprises Ltd.
Balance Sheet as at 31st March, 2015

			Particulars	**Note No.**	**(Rs. '000)**
I.	**Equity and Liabilities**				
	(1)	Shareholder's Funds			
		(a)	Share Capital	1	4,000.00
		(b)	Reserves and Surplus	2	1,162.33
	(2)	Non-Current Liabilities			
		Deferred Tax Liability (210 + 231)			441.00
	(3)	Current Liabilities			
		Trade payables			500.00
		Other current liabilities		3	963.00
		Short term provisions		4	1,239.00
		Total			**8,305.33**
II.	**Assets**				
	(1)	Non-current assets			
		Fixed assets			
		Tangible assets		5	7,500.00
	(2)	Current assets			
		(a)	Inventories		400.00
		(b)	Trade receivables		246.00
		(c)	Cash and cash equivalents		159.33
		Total			**8,305.33**

Notes to Accounts:

		(Rs. '000)	**(Rs. '000)**
1.	Share Capital		
	Authorised Share capital		
	5,00,000 Equity shares of Rs. 10 each		5,000.00
	Issued and subscribed		

	4,00,000 shares of Rs. 10 each, fully paid up		4,000.00
2.	Reserves and surplus		
	Retained profit brought forward (1,000 – 210)		790.00
	Profit after tax of the current year	2,730.00	
	Amount transferred to General Reserve (10% of 2,730)	(273.00)	
	Amount transferred to DDT** [(17.304% of 941)+194.67]	(357.67)	
	Dividends (1,200 + 800)	(2,000.00)	
	Profit for the year		99.33
	Total Profit		**889.33**
	Reserves		273.00
			1,162.33
3.	Other Current liabilities		
	Dividend**	800.00	
	Dividend Distribution Tax**	163.00	963.00
4.	Short term provisions		
	Provision for tax		1,239.00
5.	Tangible assets		
	Fixed Assets		
	Gross block	9,000.00	
	Less: Depreciation	(1,500.00)	7,500.00

** The dividend distributed by an Indian Company is exempt from income tax in the hands of shareholders. However, the Indian company is liable to pay Dividend Distribution Tax (DDT) @ 17.304% to the Central Government within 14 days from the date of declaration (i.e. inclusive of surcharge and education cess on such dividend). It is assumed that the dividend has already been declared by the company.

Disclosures

1. Segmental Disclosures (Business Segments) (Rs. iin '000)

	Engineering Division	Chemical Division	Ceramics Division	Total
Sales	6,000	8,000	1,500	15,500
Cost of Sales	2,600	4,300	900	7,800
Administration Cost (5:3:2)	1,000	600	400	2,000
Distribution Cost (3:1:1)	900	300	300	1,500
Profit/Loss	1,500	2,800	(100)	4,200
	6,000	8,000	1,500	15,500
Original cost of Assets (Equal Capital Base)	3,000	3,000	3,000	9,000
Depreciation @ 10% p.a.				
For the year ended 31.3.2014	300	300	NIL	600
For the year ended 31.3.2015	300	300	300	900

Note: Ceramics division is a reportable segment as per assets criteria.

2. Deferred Tax liability (as per AS 22 on Accounting for Taxes on Income)

	Rs. in '000
Opening Timing Difference on 1.4.2014	
WDV of fixed assets as per books	5,400
WDV of fixed assets as per Income Tax Act	4,800
Difference	600
Deferred Tax Liability @ 35% on Rs. 600	210
This has been adjusted against opening balance of retained profits.	

Current year (ended 31st March, 2015)	**(Rs. in '000)**
Depreciation as per books	900

Depreciation as per Income Tax Act (Rs. 480 + Rs. 480 + Rs. 600)	1,560
Difference	660
Deferred Tax Liability @ 35% on Rs. 660 (to be carried forward)	231

3. **Contingent Liabilities not provided:** Company is contesting claim for damages for Rs. 7,50,000 and as such the same is not acknowledged as debts.
4. **Related Party Disclosure:** Para 3 of AS 18 lists out related party relationships. Itincludes individuals owning, directly or indirectly, an interest in voting power of reportingenterprise which gives them control or significant influence over the enterprises, andrelatives of any such individual. In the instant case, Mr. Gamma as a managing directorcontrols operating and financial actions of Beta Enterprise Ltd. He is also owning 100%share capital of Alpha Ltd. thereby exercising control over it. Hence, Alpha Ltd. is arelated party as per para 3 of AS 18.

Disclosure to be made:

Name of the related party	Alpha Ltd.
Nature of relationship	common director
Nature of the transaction	Sale of goods at normal commercial terms
Volume of the transaction	Sales to Alpha Ltd. worth Rs. 2500 thousands

Working Notes:

1. **Tax computation**

	(Rs. in '000)
Profit before tax for the year ended 31.3.2015	4,200
Add: Depreciation provided in the books (Rs. 300 + Rs. 300 + Rs. 300)	900
	5,100
Less: Depreciation as per Income Tax Act (Rs. 480 + Rs. 480 + Rs. 600)	(1,560)
Taxable Income	3,540
Tax at 35% on Rs. 3,540	1,239

2. **Calculation of grossing up of dividend**

	Rs. in '000s
Dividend	800
Add: Increase for the purpose of grossing up of dividend [{15/(100-15)} x 800]	141.18
	941.18
Dividend distribution tax @ 17.304% 941 x 17.304% = 162.86 i.e.	163 (approx.)