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ANS.1(a) Original cost of the machine

Particulars	₹	₹
Quoted price	2,75,00,000	
Less. Discount @ 2%	(5,50,000)	2,69,50,000
Add: Sales Tax @ 6.00% of Quoted Price of 275 lakhs.		16,50,000
Transportation cost		60,000
Architect's fees		45,000
Trial Run Expenses : Material	15,000	
Labour	10,000	
Overheads	4,000	29,000
Finance cost (15% on 250 lakhs for the period 31.08.12 to 15.01.13)		14,06,250
Total		3,01,40,250

Finance cost amounting Rs.6,06164 (15% on Rs. 250 lakhs for the period 16.01.2013 to 15.03.2013) will be charged to profit and loss account as per AS 16 "Borrowing Costs".

Note:

- Interest has been calculated on the basis of no. of months.
- Period of 4.5 months is considered "substantial period of time" for the purpose of capitalizing interest cost in accordance with **AS - 16**.

ANS.1(b)

Particulars	₹ Lakhs
Proceeds from the Sale of Investment	30.00
Less: A Ltd's Share in Net Assets of B Ltd on date of disposal Net Assets of B Ltd excluding Minority Interest at 20% (₹ 35 Lakhs Less 20%)	28.00
Balance	2.00
Add : Capital Reserve in the Consolidated Financial Statements (As on the date of Acquisition) A Ltd's Share in Net Assets on date of acquisition (₹ 22 Lakhs × 80%)	17.60
Less : Cost of Investment	2.60
Profit on Sale of Investment	4.60

ANS.1(c) Statement showing net effect in P&L

Year	Debit in P&L		Credit in P&L Deferred Gain	Net Effect in P&L- Dr./(Cr.)
	Depreciation	Interest		
1	61446	61,446	51446	71,446
2	61446	57,591	51446	67,591
3	61446	53,350	51446	63,350
4	61446	48,685	51446	58,685
5	61446	43,553	51446	53,553
6	61446	37,909	51446	47,909
7	61446	31,699	51446	41,699
8	61446	24,869	51446	34,869
9	61446	17,356	51446	27,356
10	61446	9,082	51446	19,082

A. In the books of the lessee

1. It is assumed that the asset is depreciated on SLM Basis. Since the lease period covers the balance useful life of the asset, it is a Finance Lease.
2. PV of MLP = $6.1446 \times 1,00,000 = ₹ 6,14,460$.
3. The Asset is sold at PV of MLP (₹ 6,14,460). Hence the same is capitalized in Lessor's Books.
4. Depreciation to be charged for the next 10 years = $6,14,460 \div 10 = ₹ 61,446$ p.a.
5. Profit on Sale & Lease Back = Revised Book Value – Old Book Value = ₹ 6,14,460 – ₹ 1,00,000 = ₹ 5,14,460 This Profit will be credited to P&L A/c in the next 10 years, in proportion to the depreciation charge. In this case, ₹ 51,446 p.a. will be credited to the P & L A/c over the next 10 years. (Since Depreciation is constant on SLM basis)
6. Interest Charge to be debited in P&L A/c is determined as under –

Year	Opening Balance	Interest at 10% on Opening Balance	Lease Payment	Balance Principal repaid	Closing Balance
1	6,14,460	61,446	1,00,000	38,554	5,75,906
2	5,75,906	57,591	1,00,000	42,409	5,33,497
3	5,33,497	53,350	1,00,000	46,650	4,86,847
4	4,86,847	48,685	1,00,000	51,315	4,35,532
5	4,35,532	43,553	1,00,000	56,447	3,79,085
6	3,79,085	37,909	1,00,000	62,091	3,16,994
7	3,16,994	31,699	1,00,000	68,301	2,48,693
8	2,48,693	24,869	1,00,000	75,131	1,73,562
9	1,73,562	17,356	1,00,000	82,644	90,918
10	90,918	9,082	1,00,000	90,918	–

ANS.1(d) 1. Recognition of Loss on Revaluation:

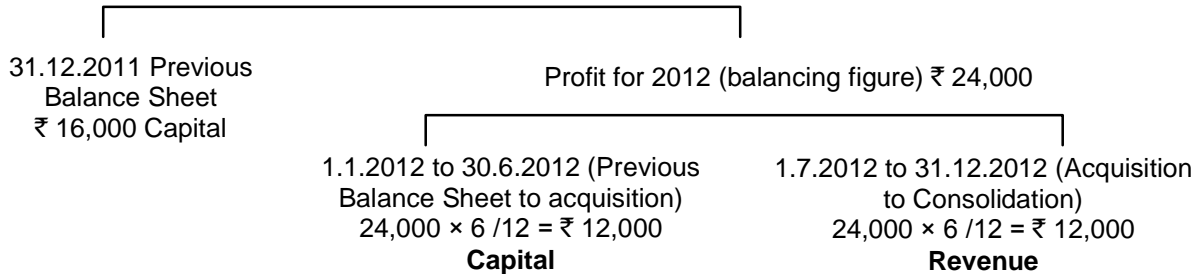
Particulars	Computation	₹ in lakhs
(1) Original Cost of the Asset	Given	150.00
(2) Accumulated Depreciation for four years	$150 \times 10\% \times 4$ years	60.00
(3) Carrying amount before Revaluation	Net Book Value (1)-(2)	90.00
(4) Fair Value = Revalued amount	Given	75.00
(5) Loss on Revaluation debited to Profit and Loss Account	(3) – (4)	15.00
(6) Carrying amount after revaluation	(3) – (5) [or] Fair Value (Market Value)	75.00

2. Recognition of Impairment Loss

Particulars	₹ In lakhs
(1) Net Selling Price = Market Value – Disposal Costs = ₹ 67.5 lakhs – ₹ 3 lakhs	64.5
(2) Value in use	60
(3) Recoverable Amount = Net Selling Price or Value in Use, whichever is higher	64.5
(4) Carrying Amount after revaluation	75
(5) Impairment Loss = Carrying amount less Recoverable Amount.	10.5

ANS.2

1. Analysis of Reserves & Surplus of Minor Ltd
(a) Profit & Loss Account
Balance as on 31.12.2012 ₹ 40,000



Total Capital Profits: 16,000 + 12,000 = ₹ 28,000; Total Revenue Profits: ₹ 12,000

(b) General Reserve = ₹ 60,000 (continuing from Date of Acquisition) Capital Profit

(c) Gain / Loss on Revaluation of Assets

Revalued Amount on 1.7.2012	1,20,000	
Less: Book Value on 1.7.2012 (Date of Acquisition)		
Value on 1.1.2012	1,12,000	
Less: Depreciation for 6 Months ($10\% \times 1,12,000 \times 6/12$)	5,600	1,06,400
Revaluation Gain (Capital Profit)		13,600

Depreciation on Revaluation Gain can be calculated as under:

Depreciation on Revalued Amount = ₹ 1,20,000 × 6/12 × 10% = ₹ 6,000

Depreciation already provided in the books = ₹ 5,600

Additional Depreciation to be provided = ₹ 400 (Revenue Loss)

2. Analysis of Reserves and Surplus of Major Ltd (Holding Company)

Reserves	Profit & Loss Account										
Balance as on 31.12.2012 ₹52,000	Balance as on 31.12.2009 ₹1,20,000										
<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"> 31.12.2012 (Prev. B/s) ₹ 52,000* Capital </td> <td style="width: 50%; text-align: center;"> Transfer in 2012 ₹ NIL Revenue </td> </tr> </table> <p>Total Capital Profit = 52,000* Total Revenue Profit = ₹ NIL</p>	31.12.2012 (Prev. B/s) ₹ 52,000* Capital	Transfer in 2012 ₹ NIL Revenue	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center;">Profit in 2012</td> </tr> <tr> <td style="width: 50%; text-align: center;"> 31.12.2012 (₹ 45,500) Capital </td> <td style="width: 50%;"></td> </tr> <tr> <td style="text-align: center;"> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"> 1.1.12 to 30.6.12 $1,65,500 \div 2$ ₹82,750 Capital </td> <td style="width: 50%; text-align: center;"> 1.1.12 to 30.6.12 $1,65,500 \div 2$ ₹82,750 Revenue </td> </tr> </table> </td> <td></td> </tr> </table> <p>Total Capital Profit = (45,750) + 82,750 = ₹ 37,250 Total Revenue Profit = ₹82,750</p>	Profit in 2012		31.12.2012 (₹ 45,500) Capital		<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"> 1.1.12 to 30.6.12 $1,65,500 \div 2$ ₹82,750 Capital </td> <td style="width: 50%; text-align: center;"> 1.1.12 to 30.6.12 $1,65,500 \div 2$ ₹82,750 Revenue </td> </tr> </table>	1.1.12 to 30.6.12 $1,65,500 \div 2$ ₹82,750 Capital	1.1.12 to 30.6.12 $1,65,500 \div 2$ ₹82,750 Revenue	
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* No detail is given in question it has been assumed that balance of Reserve is opening balance and no transfer is made during the year.

3. Computation of Capital Profit

Particulars	Major Ltd.	Minor Ltd
Reserves	52,000	60,000
Profit & Loss Account	37,250	28,000
Revaluation Gain	-	13,600
Total Capital Profit before Inter Company Share	89,250	1,01,600
Add: Inter Company Share	9/10 × Y	1/9 × X
Total Capital Profits	X	Y

The following two equations can be derived: (1) $89,250 + 9Y/10 = X$; (2) $1,01,600 + X/9 = Y$

$$\begin{aligned}
 X &= 89,250 + 9Y/10 \\
 X &= 89,250 + 9/10 [1,01,600 + X/9] \text{ [Substituting Equation (2) for Y]} \\
 10X &= 8,92,500 + (9 \times 1,01,600) + X \text{ [Multiplying both sides by 10]} \\
 10X - X = 9X &= 8,92,500 + 9,14,400 = ₹ 8,06,900 \\
 X &= 18,06,900 / 9 = ₹ 2,00,767 \\
 Y &= 1,01,600 + (2,00,767/9) = ₹ 1,23,907
 \end{aligned}$$

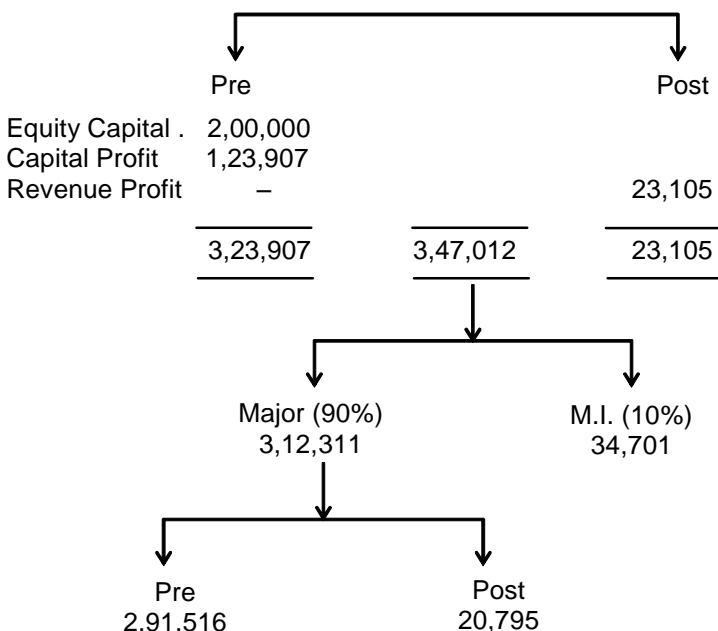
4. Computation of Revenue Profit

Particulars	Major Ltd.	Minor Ltd
Reserves	NIL	NIL
Profit & Loss Account	82,750	12,000
Depreciation of Revaluation Gain	-	(400)
Total Revenue Profit before Inter Company Share	82,750	11,600
Add: Inter Company Share	9/10 × Y	1/9 × X
Total Capital Profits	X	Y

The following two equations can be derived: (1) $82,750 + 9Y/10 = X$; (2) $11,600 + X/9 = Y$

$$\begin{aligned}
 X &= 82,750 + 9Y/10 \\
 X &= 82,750 + 9/10 [11,600 + X/9] \text{ [Substituting Equation (2) for Y]} \\
 10X &= 8,27,500 + (9 \times 11,600) + X \text{ [Multiplying both sides by 10]} \\
 10X - X = 9X &= 8,27,500 + 1,04,400 = 9,31,900 \\
 X &= 9,31,900 / 9 = ₹ 1,03,544 \\
 Y &= 11,600 + (1,03,544/9) = ₹ 23,105
 \end{aligned}$$

5. Analysis of Capital and Reserves



6. Calculation of Goodwill / Capital Reserve

Cost of Investment	
Major to Minor	2,40,000
Minor to Major	48,000
Less : Pre share (W.N.)	(2,91,516)
Face value of shares held by Minor	<u>(40,000)</u>
Capital Reserve	<u>43,516</u>

7. Calculation of Consolidated Capital and Revenue Reserves

	Capital	Revenue
Balance of Major Ltd.	89,250	82,750
Add : Post Share from Minor	–	20,795
Less : Post Share Transfer to Minor		
Capital : (1,23,907 – 1,01,600)	(22,307)	
Revenue : (23,105 – 11,600)		(11,505)
	<u>66,943</u>	<u>92,040</u>

8. Consolidated Balance Sheet of Major Ltd and its subsidiary Minor Ltd as at 31.12.2012

	Particulars	Note	This Year	Previous Year
I	Equity and Liabilities			
	Shareholders' Funds:			
	(a) Share Capital	1	6,20,000	
	(b) Reserves and Surplus	2.	2,02,499	
(2)	Minority Interest (1,60,000 + 34,701)		1,94,701	
(3)	Current Liabilities		2,28,000	
	Trade Payables [1,06,000 + 1,22,000]		12,45,200	
	Total			
II	Assets			
(1)	Non-Current Assets	3	5,51,200	
	Tangible Fixed Assets	4	6,94,000	
(2)	Current-Assets			
	Total		12,45,200	

Schedules to the Balance Sheet

Schedule 1: Share Capital

Particulars	This Year	Previous Year
Authorised : Equity Shares of ₹ Each		
..... 7½% Preference Shares of ₹ each		
Issued, Subscribed & Paid Up:		
32,000 (36,000 – 4,000 held by Minor Ltd) Equity shares of ₹ 10 each		
30,000 7½% Preference shares of ₹ 10 each		
Total	6,20,000	

Schedule 2: Reserves and Surplus

Particulars	This Year	Previous Year
Capital Reserve on Consolidation	43,516	
Capital Profit	66,943	
Revenue Profit	92,040	
Total	2,02,499	

Schedule 3: Tangible Fixed Assets

Particulars	This Year	Previous Year
Plant and Machinery [4,14,000 + 1,00,800 + 13,600 – 400]	5,28,000	
Furniture [14,000 + 9,200]	23,200	
Total	5,51,200	

Schedule 4: Current Assets

Particulars	This Year	Previous Year
Inventories (96,000 + 2,28,000)	3,24,000	
Trade Receivables (1,40,000 + 1,70,000)	3,10,000	
Cash and Cash Equivalents (34,000 + 26,000)	60,000	
Total	6,94,000	

ANS.3

Statement of Purchase Consideration

Particulars	Rs.
47,990 Equity Shares @ Rs. 15 each(W.N.ii)	7,19,850
23,995 Preference shares @ Rs. 10 each(W.N.iii)	2,39,950
Cash on 1,19,975 @ Rs. 5 each	5,99,875
	15,59,675
Add : Cash for 25 share (W.N.iv)	325
Total Purchase Consideration	15,60,000

WORKING NOTE:**(i) Schedule of Fraction**

Name of Share holder	Holding of Shares	Exchangeable In multiple of Five	Exchange in equity	Preference Exchangeable	Non Exchangeable
P	174	170	68	34	4
Q	114	110	44	22	4
R	108	105	42	21	3
S	42	40	16	8	2
Other	12	–	–	–	12
	450	425	170	85	25

(ii) Shares Exchangeable : Equity Shares in Sun Ltd.

		No.		No.
(a) Other holding	1,20,000-450	1,19,550	2/5 there of	47,820
(b) Fractional holding	450-25	425	2/5 there of	170
		1,19,975		47990

(iii) Shares Exchangeable : Preference Shares in Sun Ltd.

as in (ii) a	1,19,550	1/5 there of	23,910
as in (ii) b	425	1/5 there of	85
	1,19,975		23,995

(iv) There are 25 shares in B Ltd. which are not capable of exchange into equity and preference shares of

A Ltd. they will be paid $250 \times \frac{65}{50} = \text{Rs. } 325$

ANS.4(a) Value of an Equity Share

$$= (\text{Actual yield} / \text{Expected yield}) \times \text{Paid up value of a share}$$

$$= (9.37 / 16) \times 100 = ₹ 58.56$$

Working Note

(i) Calculation of profit after tax (PAT)

Particulars		₹
Profit before interest & tax (PBIT)		18,00,000
Less: Debenture interest (₹ 12,50,000 × 12/100)		(1,50,000)
Profit before tax (PBT)		16,50,000
Less: Tax @ 40%		(6,60,000)
Profit after tax (PAT)		9,90,000
Less: Preference dividend (₹ 12,50,000 × 12/100)	1,50,000	
Equity dividend [₹ 45,00,000 × 15/100]	6,75,000	(8,25,000)
Retained earnings (undistributed profit)		1,65,000

(ii) Calculation of Interest and Fixed Dividend Coverage

$$= \frac{\text{PAT} + \text{Debenture interest}}{\text{Debenture interest} + \text{Preference dividend}}$$

$$= \frac{₹ 9,90,000 + ₹ 1,50,000}{₹ 1,50,000 + ₹ 1,50,000} = \frac{₹ 11,40,000}{₹ 3,00,000} = 3.8 \text{ times}$$

(iii) Calculation of Debt Equity Ratio

$$\text{Debt Equity Ratio} = \frac{\text{Debt (long term loans)}}{\text{Equity (shareholders' funds)}}$$

$$= \frac{\text{Debentures}}{\text{Preference Share capital} + \text{Equity share capital} + \text{Reserves}}$$

$$= \frac{₹ 12,50,000}{₹ 12,50,000 + ₹ 45,00,000 + ₹ 12,50,000}$$

$$\text{Debt Equity Ratio} = \frac{₹ 12,50,000}{₹ 70,00,000} = 0.179 \text{ (Rs. 12,50,000 / Rs. 70,00,000 = 0.179)}$$

The ratio is less than the prescribed ratio.

(iv) Calculation of Yield on Equity Shares

Yield on equity shares is calculated at 60% of distributed profits and 10% of undistributed profits:

60% of distributed profits (60% of ₹ 6,75,000)	4,05,000
10% of undistributed profits (10% of ₹ 1,65,000)	16,500
	4,21,500

$$\text{Yields on equity shares} = \frac{\text{Yield on share}}{\text{Equity share capital}} \times 100 = \frac{₹ 4,21,500}{₹ 45,00,000} \times 100 = 9.37\%$$

(v) Calculation of Expected Yield on Equity Shares

Particulars	%
Normal return expected	15%
Add: Risk premium for low interest and fixed dividend coverage (3.8 < 4)	1%*
Risk for debt equity ratio not required	Nil**

* When interest and fixed dividend coverage is lower than the prescribed norm. the riskiness of equity investors is high. They should claim additional risk premium over and above the normal rate of return. Hence. the additional risk premium of 1% has been added.

** The debt equity ratio is lower than the prescribed ratio that means outside funds (Debts) are lower as compared to shareholders' funds. Therefore. the risk is less for equity shareholders. Therefore, no risk premium.

ANS.4(b)

Journal Entry

Date	Particulars	₹	₹
April 30, 2012	Bank A/c (40,000 × ₹ 40) Dr.	16,00,000	
	Employees' Compensation A/c (40,000 × ₹ 8) Dr.	3,20,000	
	To Share Capital (40,000 × ₹ 10)		4,00,000
	To Securities Premium (40,000 × ₹ 38)		15,20,000
	(Being 40,000 shares issued at a premium of Rs.38 per shares)		

Working Note:

Intrinsic value of ESPP per share = Rs.48 – Rs.40 = Rs.8

Number of share issued = 400 × 100 = 40,000

Fair value of ESPP = 40,000 × Rs.8 = Rs.3,20,000

Vesting period = One month

Expense recognised in 2011-12 = Rs. 3,20,000

ANS.5(a)

Computation of Goodwill

Particulars	Value
Future Maintainable Profits of the Company [A]	₹ 348 Lakhs
Net Assets of the Company	₹ 4,122 Lakhs
Expected Rate of Return	10.0%
Expected Profit of the Company [₹ 4,122 Lakhs × 10.0 %] [B]	412.2
Super Profits [A – B]	Nil
Years of Super Profits Purchased	4
Goodwill	Nil

Working Note:**(1) Computation of Capital Employed (based on Closing Balances) (₹ Lakhs)**

Particulars	₹	₹
Assets		
Premises and Land (Revalued Figure)		1,200
Plant and Machinery (Revalued Figure)		2,400
Motor Vehicles		40
Raw materials at cost		920
Work-in-progress at cost		130
Finished Goods at cost		180
Book Debts	400	
Less: Bad Debts at 10% of ₹ 400	(40)	360
Investment (meant for replacement of Plant and Machinery)		1,500
Cash at Bank and Cash in hand		192
Total of Assets		6,922
Liabilities		
5% Debentures	2,000	
Secured Loans	200	
Sundry Creditors	300	
Provision for Taxation (included in Reserves)	300	(2,800)
Net Assets as at 31.03.2013		4,122

(2) Computation of Future Maintainable Profits (₹ Lakhs)

Particulars	(₹ Lakhs)
Profits for 2009–2010	469
2010–2011	546
2011–2012	405
2012–2013 [1100 – Bad Debts 40]	1,060
Total Profits for 4 Years	2,480
Average Profits [₹ 2,480 Lakhs ÷ 4 Years]	620
Less: Depreciation on Premises and Land 2% of Revalued Figure ₹ 1200	(24)
Less: Depreciation on Motor Vehicles [See Note] ₹ 40 × 20%	(8)
Add: Depreciation on Plant - 10% of Revalued figure ₹ 2,400]	(240)
Future Maintainable Profits	348

Note:

- (a) In the absence of tax rate, tax effect is ignored.
- (b) Since the Motor Vehicles were acquired only in 1.10.2012, only 50% of the Depreciation would have been claimed.
Since in the subsequent periods, depreciation would be claimed in full, full depreciation i.e. 20% of ₹ 40 Lakhs i.e. ₹ 8 Lakhs is reduced for calculation of Future Maintainable Profits.

(3) Computation of Expected Capitalisation Rate (Return on Net Assets)**(a) Computation of Normal Rate of Return**

Particulars	Value
Market Price of Share of Representative Company	₹ 25
Face Value of Share of Representative Company	₹ 10
Dividend Rate	20%
Dividend in ₹ [Face Value ₹ 10 × Dividend Rate 20%]	₹ 2
Expected Rate of Return (Normal Rate of Return) = Dividend ₹ 2 ÷ Market Price ₹ 25	8%

(b) Computation of Expected Return Rate

Particulars	Value
Normal Rate of Return	8.0%
Add: Risk Premium (for inconsistency in Dividend payments)	2.0%
Expected Rate of Return	10.0%

Note: 2% added as Risk Premium, to the Normal Rate of Return for uncertainty associated with dividend distribution.

Notes and Assumptions:

1. Income from investments for replacement of machine is assumed to be equal to additional income that will be generated from the commissioning of new machines in the future. Hence, not adjusted in the above computations.
2. Alternative Goodwill can be computed by considering Average Capital Employed.
3. Profit / (Loss) figures for year 2007-08 and 2008-09 ignored for calculation of goodwill .

ANS.5(b) Expected and actual return on plan assets for year 2011-12 are as follows:

	(Amount in Rs.)
Return on Rs. 2,50,000 held for 12 months at 10.25%	25,625
Return on Rs. 75,000 held for six months at 5% (equivalent to 10.25% annually, compounded every six months)	3,750
Expected return on plan assets for 2011-12	29,375
Fair value of plan assets at 31 March 2012	3,75,000
Less fair value of plan assets at 1 April 2011	(2,50,000)
Less contributions received	(1,22,500)
Add benefits paid	47,500
Actual return on plan assets	50,000

The difference between the expected return on plan assets (Rs.29,375) and the actual return on plan assets (Rs. 50,000) is an actuarial gain of Rs. 20,625 Therefore, the net actuarial gain of Rs.19,125(Rs. 20,625 – Rs.1500 (actuarial loss on the obligation) would be recognised in the statement of profit and loss.

ANS.6(a)

B. Ltd.
Value Added Statement
For the year ended 31st December. 2012

	(₹ in Thousands)	(₹ in thousands)	%
Sales		6,240	
Less: Cost of bought inmaterial and services:			
Production and operational expenses ₹ (4,320 – 8 – 620)	3,692		
Administration expenses ₹ (180 – 5)	175		
Interest on bank overdraft	109		
Interest on working capital loan	20		
Excise duties (Refer to working note)	180		
Other/miscellaneous charges ₹ (444 – 180)	264	(4,440)	
Value added by manufacturing and trading activities		1,800	
Add: Other income		55	
Total Value Added		1,855	
Application of Value Added:			
To Pay Employees :			
Salaries to Administrative staff		620	33.42
To Pay Directors:			
Salaries and Commission		5	0.27
To Pay Government:			
Local Tax	8		
Income Tax	55	63	3.40
To Pay Providers of Capital :			
Interest on Fixed Loan	51		
Dividend	160	211	11
To Provide for Maintenance and Expansion of the Company:			
Depreciation	16		
Fixed Assets Replacement Reserve	400		
Retained Profit (600 – 60)	540	956	51.54
		1,855	100.00

Reconciliation between Total Value Added and Profit Before Taxation:

	(₹ in thousands)	(₹ in thousands)
Profit before Tax		1,155
Add back–		
Depreciation	16	
Salaries to Administrative Staff	620	
Director's Remuneration	5	
Interest on Fixed Loan	51	
Local Tax	8	700
Total Value Added		1,855

Working Note:**Calculation of Excise Duty**

		(₹ in thousands)
Interest and other charges		624
Less : Interest on bank overdraft	109	
Interest on loan from ICICI	51	
Interest on loan from IFCI	20	(180)
Excise duties and other/miscellaneous charges		444

Assuming that these miscellaneous charges have been considered in arriving at Value Added (in the first part of Value Added Statement), the excise duty will be computed as follows;

Let excise duty be x; thus miscellaneous/ other charges =Rs. 444 – x

$$\begin{aligned} \text{Thus, } x &= 1/10 \times [\text{Rs. } 6,240 - \{\text{Rs. } 3692 + \text{Rs. } 175 + \text{Rs. } 109 + \text{Rs. } 20 + x + (\text{Rs. } 444 - x)\}] \\ &= 1/10 \times [\text{Rs. } 6240 - \text{Rs. } 4440] = \text{Rs. } 180 \end{aligned}$$

$$\text{Other / miscellaneous charges} = \text{Rs. } 444 - \text{Rs. } 180 = \text{Rs. } 264$$

The above solution is given accordingly.

Alternatively, if other/miscellaneous charges are taken as any type of application of Value Added (i.e. to be taken in the application part), then excise duty (x) will be computed as follows:

$$x = 1/10 \times [\text{Rs. } 6240 - \text{Rs. } (3692 + 175 + 109 + 20 + x)]$$

$$x = 1/10 \times [\text{Rs. } 2244 - x]$$

$$11x = \text{Rs. } 2244$$

$$x = \text{Rs. } 204$$

Thus, total value added will be Rs. 2040 + Rs. 55 (other income) = Rs. 2095

Accordingly, application part will be prepared, taking miscellaneous charges Rs. ('000) 240

[i.e. Rs. 444 – Rs. 204] as the application of value added.

ANS.6(b)

Accounting Entries (Books of Mutual Fund)

		₹ 000	₹ 000
Investment in Shares of X Ltd. A/c	Dr.	200	
Investment in Shares of Y Ltd. A/c	Dr.	240	
To Bank			440
(Being Investment made by the fund in shares of X Ltd. and Y Ltd.)			
Revenue A/c	Dr.	10	
To Provision for Depreciation			10
(Being Investment in shares of X Ltd. marked to market and depreciation in value of the Investment provided)			
Investment in Shares of Y Ltd. A/c	Dr.	16	
To Unrealised Appreciation Reserve			16
(Being Investment in shares of Y Ltd. marked to market and appreciation in value of the Investment recorded)			
Bank	Dr.	185	
Provision for Depreciation	Dr.	10	
Revenue A/c	Dr.	5	
To Investment in Shares of X Ltd.			200
(Being Investment in shares of X Ltd. sold and resultant loss first adjusted towards provision and balance charged towards revenue Account)			
Bank	Dr.	268	
Unrealised Appreciation Reserve		16	
To Investment in Y Ltd. shares			256
To Revenue A/c			28
(Being Investment in shares of Y Ltd. sold and resultant Profit recognised in the revenue Account)			

ANS.7(a)

Statement showing calculation of provision against the advances

Particulars	Loan ₹ Lakhs	Provision %	Provision ₹ Lakhs
Standard Assets	16,800	0.25%	42
Sub - Standard Assets	1,340	10%	134
Secured Portions of Doubtful Debts – up to one year	320	20%	64
– 1 year to 2 years	90	30%	27
– more than 3 years	30	50%	15
Unsecured Portions of Doubtful Assets	97	100%	97
Loss Assets	48	100%	48
Total			427

ANS.7(b)

Computation of Basic and Diluted EPS

Particulars	For Basic EPS	Adjustment for Dilution	For Diluted EPS
(1)	(2)	(3)	(4) = (2) + (3)
1. Net Profit for the period attributable to Equity Shareholders	Given ₹ 5,00,00,000	(Note) ₹ 9,62,500	₹ 5,09,62,500
2. Weighted Avg No. of Equity Shares	Given 1,00,00,000	1,25,000 × 8 = 10,00,000	1,10,00,000
3. EPS = 1 ÷ 2	Basic EPS = ₹ 5.00		Diluted EPS = ₹ 4.63

Interest saving on Convertible Debentures :
(Tax adusted)

$$= \text{Interest Expense for the year} - \text{Tax Saving relating to Interest Expenses.}$$

$$= 13,75,000 - 4,12,500 = \text{₹ } 9,62,500$$

ANS.7(c)

1. Journal Entries

S.No.	Transaction and Entry	Debit	Credit
1	Machinery A/c Dr. CENVAT Credit Receivable (Capital Goods) A/c Dr. CENVAT Credit Deferred (Capital Goods) A/c Dr. To X Ltd / Bank A/c (Being Plant purchased recorded, including immediate CENVAT Credit available of 50%, balance 50% (assumed) credit available in subsequent year)	72,00,000 4,00,000 4,00,000	80,00,000
2	Excise Duty A/c Dr. To CENVAT Credit Receivable (Capital Goods) (Being set off of CENVAT Credit during the year)	4,00,000	4,00,000
3	Excise Duty A/c Dr. To Bank (Being balance Excise Duty payable ₹ 7,20,000 – ₹ 4,00,000 set-off, now settled)	3,20,000	3,20,000
4	Subsequent Financial Year CENVAT Credit Receivable (Capital Goods) A/c Dr. To CENVAT Credit Deferred (Capital Goods) (Being transfer of balance CENVAT Credit available on Capital Goods)	4,00,000	4,00,000

ANS.7(d) As per AS 32, carrying amounts of each of the following categories, as defined in AS 30, should be disclosed either on the face of the balance sheet or in the notes:

- (a) financial assets at fair value through profit or loss, showing separately;
 - (i) those designated as such upon initial recognition and
 - (ii) those classified as held for trading in accordance with AS 30;
- (b) held-to-maturity investments;
- (c) loans and receivables;
- (d) available-for-sale financial assets;
- (e) financial liabilities at fair value through profit or loss, showing separately;
 - (i) those designated as such upon initial recognition and
 - (ii) those classified as held for trading in accordance with AS 30; and
- (f) financial liabilities measured at amortised cost.

ANS.7(e) As per AS 29, Contingent liability should be disclosed in financial statements if following conditions are satisfied:-

- ◆ There should be present obligation arising out of past event but not recognized as provision.
- ◆ It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- ◆ The possibility of an outflow of resources embodying economic benefits is not remote.
- ◆ The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision.

In this case. the probability of winning of first 10 cases is 60% and for remaining. five cases 50%. In other words. the probability of losing is 40% or 50% respectively. As per the AS-29, we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is not remote rather there is reasonable possibility of loss. therefore disclosure by way of note should be made. For the purpose of the disclosure of contingent liability by way of note amount may be calculated as under:

Expected loss in first ten cases	=	₹ 90,000 × 0.3 + ₹ 1,60,000 × 0.1
	=	₹ 43,000 × 10
	=	₹ 4,30,000
Expected loss in remaining five cases	=	₹ 60,000 × 0.3 + ₹ 95,000 × 0.2
	=	₹ 37,000 × 5
	=	₹ 1,85,000
Total Contingent Liability		₹ 4,30,000 + ₹ 1,85,000 = ₹ 6,15,000