Paper-16: Advanced Financial Accounting & Reporting

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.

Working Notes should form part of the answer.

"Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates."

Part A questions are compulsory. Attempt all of them.

Part B has seven question. Attempt any five of them.

Part A (25 marks)

1. **(a) In each of the cases given below, one out of four alternatives is correct. Indicate the correct answer (= 1 mark)and give workings/reasons briefly in support of your answer (= 1 mark):** **[10×2=20]**

(i) R. Chandra Ltd. has provided the following information:
Depreciation as per accounting records ₹ 10,00,000, Depreciation as per income tax records ₹ 4,00,000. There is adequate evidence of future profit sufficiency. As per AS-22 Deferred Tax Asset/ Liability to be recognized will be
(A) ₹ 3,00,000 (DTA)
(B) ₹ 2,70,000 (DTL)
(C) ₹ 30,000 (Net DTL)
(D) None of these

Answer:

A — ₹3,00,000 (Net DTA).

Deferred tax Assets = 50% (10,00,000 – 4,00,000) = ₹3,00,000.

(ii) DING-DONG CONSTRUCTION Ltd. undertook a contract on January 1, 2013 to construct a building for ₹ 140 lakh. The Company found on March 31, 2013 that it had already spent ₹ 104 lakh on the construction. Prudent estimate of additional cost for completion was ₹ 56 lakhs. Contract value to be recognized as Turnover in the final accounts for the year ended March 31, 2013 as per AS-7 (revised) will be
(A) ₹ 105 lakh
(B) ₹ 100 lakh
(C) ₹ 91 lakh
(D) None of these

Answer:

C — ₹91.00 lakh.

Contract work-in-progress (104÷ 140) lakh = 65%
Proportion of total contract value to be recognized as Turnover
= 0.65 x ₹140,00,000 = ₹91 lakh.

(iii) Master Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2015 at ₹ 600 lakhs. As at that date value in use is ₹ 400 lakhs. If the net selling price is ₹ 450 lakhs, the recoverable amount and the impairment loss of the Asset as per AS-28 will be:
(A) ₹200 lakhs, ₹400 lakhs
(B) ₹150 lakh, ₹450 lakhs
(C) ₹450 lakh, ₹150 lakhs
(D) None of (A), (B), (C)

Answer:

C — ₹450 lakh,₹150 lakhs.

Recoverable amount is higher of Value in use ₹400 lakhs and net selling price ₹450 lakhs.
Recoverable amount = ₹450 lakhs.
∴ Impairment Loss = `600 - `450 lakhs = `150 lakhs.

(iv) Ramayana Ltd. presents interim financial report quarterly. On 01-04-2013. Ramayana Ltd. has carried forward loss of ₹ 800 lakhs for income-tax purpose for which deferred tax asset has not been recognized. The Ramayana Ltd. earns ₹1,000 lakhs in each for quarter ending on 30. 06.2013, 30.09.2013, 31.12.2013 and 31.03.2014 excluding the loss carried forward. Income-tax rate is expected to be 40%. The amount of tax expense to be reported in each quarter will be:
(A) ₹1,000 lakhs;
(B) ₹1,280 lakhs;
(C) ₹320 lakhs;
(D) ₹4,000 lakhs.

Answer:

B — ₹ 320 lakhs.

The estimated payment of the annual tax on ₹ 4,000 lakhs earnings for the current year.
(4,000 lakhs - ₹ 800 lakhs) = ₹ 3,200 lakhs

₹ 3,200 × 40/100 = ₹ 1,280 lakhs.

Average annual effective tax rate = (1,280/4,000) ×100 = 32%
Tax expense to be shown each quarter will be 1,000 × 32/ 100 = ₹ 320 lakhs.

(v)In a production process, normal waste is 5% of input. 10,000 MT of input were put in process resulting in a wastage of 600 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end. If waste has Nil realizable value. The cost per unit is:
(A) ₹1,05,263;
(B) ₹1063.83;
(C) ₹105.26;
(D) ₹1052.63.

Answer:

D — ₹1052.63.

As per AS-2, abnormal amounts of waste materials, labour or other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

In this case, normal waste is 500 MT and abnormal waste is 100 MT.
The cost of 500 MT will be included in determining the cost of inventories (finished goods) at the year-end.
And the Cost per unit will be = 10,000 × ₹1000/9,500 = ₹1052.63.

(vi) Akash Ltd. wants to re-classify its investments in accordance with AS-13.

A portion of current investments purchased for ₹30 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 13 lakhs. After transfer the investment should be carried at :
(A) ₹30 lakhs;
(B) ₹13 lakhs;
(C) ₹17 lakhs;
(D) None of the above.

Answer:

B — ₹13 lakhs.

The transfers should be made at lower of (a) Cost, and (b) Fair value at the date of transfer.

In the second case, the transfer should be made at Market Value (being lower of ₹30 lakhs and ₹13 lakhs) and hence the long term investments should be carried at ₹13 lakhs. The loss of ₹30 - ₹13= ₹17 lakhs should be provided for in the profit and loss account.

(vii) On 1-1-2014 Ashwin Ltd. has 188 equity shares outstanding. On 31-5-2014, it issued 600 equity shares for cash (without bonus claim). On 1-11-2014 it bought back 300 equity shares. Calculate the weighted average number of shares as on 31-12-2014?
(A) 2100 shares
(B) 2700 shares
(C) 2400 sahres
(D) None of the above

Answer:

A — 2100 shares

Computation of weighted average number of shares as per AS-20 is as follows:

$(1800\times\frac{5}{12})+(2400\times\frac{5}{12})+(2100\times\frac{2}{12})=2100$ shares.

(viii) A&B Ltd. obtained a Loan from a bank for ₹ 240 lakhs on 30.04.2012. It was utilized for : Construction of a shed ₹ 120 lakhs, Purchase of a machinery ₹ 80 lakhs, Working Capital ₹ 40 lakhs, Construction of shed was completed in March 2014. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ending 31.03.2014 was ₹ 36 lakhs. As per AS 16, Interest to be debited to Profit & Loss Account will be :
(A) ₹ 36 lakhs

(B) ₹ 18 lakhs
(C) ₹ 9 lakhs
(D) None of these

Answer:

B — ₹18 lakhs

Qualifying Asset as per AS-16 = ₹ 120 lakhs (construction of a shed)
Borrowing cost to be capitalized = 36 × 120/240 = ₹ 18 lakhs
Interest to be debited to Profit or Loss account = ₹ (36 – 18) lakhs = ₹ 18 lakhs.

(ix) A company follows a policy of refunding money to the dissatisfied customers if they claim within thirty days from the date of purchase and return the goods. It appears from the past experience that in a month only 0.30% of the customers claim refunds. The company sold goods amounting to ₹50 lakhs during the last month of the financial year. The amount of contingency is:
(A) ₹50 lakhs;
(B) ₹15 lakhs;
(C) ₹35 lakhs;
(D) None of the above.

Answer:

B — ₹15 lakhs.

There is a probable present obligation as a result of past obligating event. The obligating event is the sale of product. Provision should be recognized as per AS-29. The best estimate for provision is ₹ 15,00,000 (50,00,000 x 0.30%).

(x) PQR Ltd. acquire 40% of ABC Ltd.'s shares on April 2, 2013, the price paid was ₹ 70,000. ABC Ltd.'s Shareholder equity shares are as follows:

	₹
Equity Shares (Paid up)	**25,000**
Share premium	**75,000**
Retained Earning	**25,000**
	1,25,000

Further ABC Ltd. reported a net income of ₹ 15,000 and paid dividends of ₹ 5,000. PQR Ltd. has subsidiary on 31-03-2014. Calculate the amount at which the investment in ABC Ltd. should be shown in the consolidated Balance Sheet of PQR Ltd. as on 31.03.2014.
(A)₹54,000
(B)₹20,000
(C)₹74,000
(D)₹70,000

Answer:

C — ₹74,000

As per AS – 23 when the investor company prepares the consolidated Balance Sheet, the investment in associate i.e., ABC Ltd. shall be carried by equity method and goodwill and capital reserve to be identified and disclosed.

Extract of Consolidated Balance Sheet of PQR Ltd. as on 31.03.2014

		₹
Investment in ABC Ltd.		
Associates	54,000	
Goodwill (Identified)	20,000	74,000

Value of the investment as per equity method ₹70,000 + 40% (₹15,000) – 40% (₹5,000)=₹74,000

Goodwill Identified = (₹70,000– 40% of ₹1,25,000) = ₹20,000.

(b) State the classification criteria of IFRS 5 (Non-current assets held for sale and discontinued operations). [5]

Answer:

Classification criteria of IFRS 5 (Non- current assets held for sale and discontinued operations)

- management is committed to a plan to sell
- the asset is available for immediate sale
- an active programme to locate a buyer is initiated
- the sale is highly probable, within one year of classification as held for sale (subject to exceptions stated in Para 9, IFRS-5)
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

The criteria 'sale is highly probable within one year of classification as held for sale' needs is not evidenced when the management is indecisive whether the particular asset will be sold or leased out.

Part B (75 marks)

2. Rajesh Ltd carried on Manufacturing Business. Its products were sold to wholesalers and the Company had its own Retail Shop.
Sujesh Ltd carried on similar Manufacturing Business, but all Goods produced were sold through the Company's own Retail Shop.

The summarized Balance Sheet of the two Companies as at 31st March were as follows

Equity and Liabilities	Rajesh(`)	Sujesh(`)

Shareholders' Funds:		
Authorised: Eq. Shares of ₹10	**40,00,000**	**6,00,000**
Share Capital (issued & paid up)		
Equity Shares of ₹10	**25,00,000**	**6,00,000**
Reserves & Surplus		
– Profit & Loss Account	**3,40,000**	**90,000**
Current Liabilities:		
Trade Payables - Creditors	**4,20,000**	**70,000**
Total	**32,60,000**	**7,60,000**
Assets		
Non- Current Assets:		
Fixed Assets (i) Tangible		
Freehold Properties (as cost)	**10,00,000**	**2,50,000**
Plant & Machinery (Net Block)	**13,00,000**	**1,00,000**
Current Assets:		
Inventories	**4,80,000**	**1,20,000**
Trade receivables – Debtors	**2,30,000**	**80,000**
Cash & cash Equivalents	**2,50,000**	**2,10,000**
Total	**32,60,000**	**7,60,000**

Original Cost of Plant & Machinery was as follows: Rajesh Ltd – ₹26,00,000, and Sujesh Ltd ₹ 2,00,000.

The following arrangements were made and carried out on April:

Rajesh Ltd purchased from the Shareholders of Sujesh Ltd all the issued Shares @ ₹ 14 per Share. Shareholders of Sujesh Ltd took over Freehold Properties of the Company for ₹60,000 at the Book Value of the same. It was agreed that the amount should be set off against the amount due to them under (1) above and the balance due to them to be satisfied by the issue of an appropriate number of Equity Shares in Rajesh Ltd at ₹ 19.50 per share.

The necessary transfer in regard to the setting off the Price of the Property taken over by the Shareholders against the amount due to them from Rajesh Ltd were made in the books of the two Companies.

All the manufacturing was to be carried on by Rajesh Ltd and all retail Business is to be carried on by Sujesh Ltd In this connection.

Rajesh Ltd purchased the whole of Sujesh Ltd's Plant and Machinery for ₹1,50,000 and certain of their Freehold Property (Cost ₹1,00,000) at ₹1,20,000.

Sujesh Ltd purchased Rajesh Ltd's Freehold Retail Shop Buildings (Cost to Rajesh Ltd ₹75,000) at ₹ 60,000 and took over the retail stock at ₹80,000 at the Book Value.

Rajesh Ltd drew cheque in favour of Sujesh Ltd for the net amount due, taking into account all the matters mentioned above.

Immediately after the transfer of Shares as in (1) above, Sujesh Ltd declared and paid Dividend of ₹ 60,000 (Ignore Income Tax)

Prepare the Balance Sheet of Rajesh Ltd. immediately after the completion of the above transaction. [15]

Answer:

A. Computation of purchase consideration

Particulars	₹
Total Consideration - 60,000 Shares of Sujesh Ltd at ₹14 per share Less: Freehold Property taken over by the shareholders	8,40,000 60,000
Value of Shares to be issued by Rajesh Ltd - Cost of Investment	7,80,000
Issue Price Per Share of Face Value ₹ 10	19.50
Total Number of Shares to be issued $\left(\frac{₹7,80,000}{₹19.50 \text{ per share}}\right)$	40,000 Shares
Amount to be credited to Share Capital Account (40,000 Shares × ₹10.00)	4,00,000
Amount to be credited to Securities Premium (40,000 Shares × 9.50)	3,80,000

B. Computation of amount payable by Rajesh Ltd. to Sujesh Ltd.

Particulars	₹
Assets purchased from Sujesh Ltd (Freehold Property 1,20,000 + P& M 1,50,000)	2,70,000
Less: Assets sold to Sujesh Ltd. (Building 60,000 + Stock 80,000)	1,40,000
Balance Amount due to Sujesh Ltd. paid through Cheque	1,30,000

C. Cash and Bank Balance of Rajesh Ltd. and Sujesh Ltd.

Particulars	Rajesh	Sujesh
Balance as per Balance Sheet before reorganization exercise	2,50,000	2,10,000
Dividend from Sujesh Ltd to Rajesh Ltd	60,000	(60,000)
Paid to Sujesh Ltd (See Working Note 2 above)	(1,30,000)	1,30,000
Balance as per Balance Sheet after reorgnisation exercise	1,80,000	2,80,000

D. Balance in Profit & Loss Account

Particulars	Rajesh	Sujesh
Profit & Loss Account (given)	3,40,000	90,000
Write off of Freehold Property to Shareholders	-	(60,000)
Profit on Sale of Machinery by Sujesh to Rajesh (1,50,000 - 1,00,000)	-	50,000
Profit on Sale of Properties by Sujesh to Rajesh (1,20,000 - 1,00,000)	-	20,000
Loss on Sale of Properties by Rajesh to Sujesh (60,000 - 75,000)	(15,000)	-
Dividend from Sujesh Ltd to Rajesh Ltd	60,000	(60,000)
Profit & Loss Account for Balance Sheet	3,85,000	40,000

E. Balance Sheet of Rajesh Ltd. as on 31st March

	Particulars as at 31st March		Note	This Year	Prev. Yr
I	EQUITY AND LIABILITIES				
(1)	Shareholders' Funds:				
	(a) Share Capital		1	29,00,000	
	(b) Reserves & Surplus		2	7,65,000	
(2)	Current Liabilities:	Trade Payables (Creditors)		4,20,000	

	Total		40,85,000	
II	ASSETS			
(1)	Non-Current Assets			
	(a) Fixed Assets: - Tangible Assets	3	24,95,000	
	(b) Non-Current Investments - Shares in Sujesh Ltd		7,80,000	
(2)	Current Assets			
	(a) Inventories - (4,80,000 - 80,000)		4,00,000	
	(b) Trade Receivables - Debtors (c) Cash & Cash Equivalents		2,30,000 1,80,000	
	Total		40,85,000	

Notes to the Balance Sheet:

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: 4,00,000 Equity Shares of ₹10 each	40,00,000	
Issued, Subscribed & Paid up: 2,90,000 Equity Shares of ₹10 each (the above includes 40,000 Shares issued for consideration other than cash)	29,00,000	

Note: 2: Reserves and Surplus

Particulars	This Year	Prev. Year
(a) Securities Premium A/c (b) Surplus (Balance in P & L A/c)	3,80,000 3,85,000	
Total	7,65,000	

Note 3: Tangible Assets

Particulars	This Year	Prev. Year
(a) Properties (10,00,000 + 1,20,000 - 75,000) (b) Plant & Machinery (13,00,000 + 1,50,000)	10,45,000 14,50,000	
Total	24,95,000	

3. The summarized Balance Sheets of Kush Ltd and Shuk Ltd as at 31st March 2015 are as follows:

(₹ lakhs)

Equity and Liabilities	Kush	Shuk
(1) Shareholders' Funds:		
(a) Share Capital		
- Equity Shares of ₹10 each	**216.0**	**108.0**
(a) Reserves & Surplus		
(i) Share Premium	**32.4**	**---**
(ii) Capital Reserve – on 01.04.2014	**---**	**7.2**
(iii) General Reserve – on 01.04.2014	**13.5**	**9.0**
(iv) Profit & Loss Account	**70.2**	**21.6**

(2) Current Liabilities:		
Trade Payables – Sundry Creditors	29.7	19.7
Total	361.8	165.5
Assets		
(1) Non-Current Assets:		
(a) Fixed Assets – (i) Tangible		
- Plant at cost Less: Depreciation	86.4	72.9
- Furniture, Fixtures & Fittings	23.4	7.2
(ii)Intangible –Goodwill	45.0	13.6
(b)Non-Current Investments 8.64 lakh Shares of Shuk at Cost	97.2	---
(2)Current Assets:		
(a)Current Investments	---	2.7
(b)Inventories	18.0	13.5
(c)trade Receivables – Debtors	73.8	47.6
(d)Cash & Cash Equivalents	18.0	8.0
Total	361.8	165.5

Additional Information –

(i) On 1st April, 2014 Kush Ltd. acquired from the Shareholders of Shuk Ltd. 8.64 lakhs Shares of ₹ 10 each. In Shuk Ltd. and allotted in consideration thereof 6.48 lakhs of its own Shares of ₹ 10 each at a premium of ₹ 5 per share.

(ii) The Consideration for the Shares of Shuk Ltd was arrived at inter-alia by valuing certain Assets of Shuk Ltd on 1st April, 2014 as under –

(a) Plant at ₹ 90 lakhs.

(b) Furniture, Fixtures, and fittings at ₹ 8 lakhs.

(c) No. of value of trade Investment and Goodwill.

No adjustments were made in the books of account of Shuk Ltd. in respect of the above valuation. During 2014-2015 there was no Purchase or Sale of these Assets. It is desired that such adjustments should however be made in the Consolidated Accounts.

(iii) The figures of Plant and Furniture, Fixtures and Fittings at 31.03.2015 shown in the Balance Sheet are after providing depreciation for 2014-2015 at the rate of 10% p.a. and 20% p.a. respectively, on the Book values as at 01.04.2014.

(iv) The Profit and Loss Account of Shuk Ltd. showed a Credit balance of ₹ 27 lakhs on 01.04.14. A dividend of 10% was paid in January, 2015 for the year 2013-2014. This dividend was credited to Profit and Loss A/c of Kush Ltd.

(v) The following point was not considered in making out the accounts:

In the year expenses at ₹ 4,500 per month were incurred by Kush ltd on behalf of Shuk Ltd. it was by mistake debited to Profit and Loss Account of Kush Ltd and nothing has been done in the accounts of Shuk Ltd.

(vi) The Stock of Shuk Ltd included ₹ 4.5 lakhs of Goods received from Kush Ltd invoiced at cost plus 25%.

(vii)Debtors of Shuk Ltd. include ₹ 3.5 lakhs due from Kush Ltd were as Creditors of Kush Ltd include ₹ 3.1 lakhs due to Shuk Ltd the difference being represented by a cheque in transit.

You are requested to show the analysis of Reserves and Surplus and Minority Interest as at 31st March,2015. **[15]**

Answer:

A. Basic Information

Company Status	Dates	Holding Status
Holding Company = Kush	Acquisition: 01.04.2014	Holding Company = 80%
Subsidiary = Shuk	Consolidation: 31.03.2015	Minority Interest = 20%

Note: 8.64 Lakhs Shares out of 10.80 Lakhs Shares = 80%

B. Analysis of Reserves and Surplus of Shuk Ltd.

(a) Capital Reserve (₹ lakhs)

Balance as on date of Consolidation 7.20

As on 01.04.2014 ₹ 7.2 lakhs (Pre Acqn.)

Transfer during 2014-2015 ₹ NIL (Post Acqn.)

Group Interest – Pre
= 7.2 × 80% = 5.76

Minority Interest
= 7.2 × 20% = 1.44

(b) General Reserve (₹ lakhs)

Balance as on date of Consolidation ₹ 9.00 lakhs

As on 01.04.2014 ₹ 9.00 lakhs (Pre Acqn.)

Transfer during 2014-2015 ₹ NIL (Post Acqn.)

Group Interest – Pre
= 9.00 × 80% = 7.20

Minority Interest
= 9.00 × 20% = 1.80

(c) Profit and Loss Account (₹ lakhs)

Balance as on date of Consolidation ₹ 9.00 lakhs	₹ 21.60	
Less: Expenses incurred by Kush on Shuk's behalf	(₹ 0.54)	₹ 4,500 × 12)
Closing Balance	₹ 21.06	

Closing Balance as above ₹ 21.06

As on 01.04.2014	27.00
Less: Dividend at 10% for FY 2013-14	(10.80)
(108.00 lakhs × 10%) Pre Acqn.	16.20

Profit for 2014-15 ₹ 4.86 lakhs
Post Acquisition

Group Interest – Pre
= 16.20 × 80% = 12.96

Minority Interest
= 16.20 × 20% = 3.24

Group Interest – Post
= 4.86 × 80% = 3.888

Minority Interest
= 4.86 × 20% = 0.972

(d) Gain/Loss on Revaluation of Assets (₹ Lakhs)

Particulars	Plant	Furniture	Trade Invst.	Goodwill	Total
Book Value as at 31.03.2015	72.90	7.20	2.70	13.60	
Add: Depreciation for FY 2014-15	8.10= $\frac{10}{90}$ ×72.9	1.80= $\frac{20}{80}$ ×7.2	NIL	NIL	
Book Value as at 01.04.2014	81.00	9.00	2.70	13.60	
Revalued Amount	90.00	9.00	₹ NIL	₹ NIL	
Revaluation Gain / (Loss)	9.00	(1.00)	(2.70)	(13.60)	
Additional Depreciation on Revaluation	(0.90)	0.20	NIL	NIL	(8.30) Pre Acqn.
Gain/(Reversal on Revaluation Loss)	(9.00 × 10%)	(1.00 × 20%)			(0.70) Post Acqn.

C. Consolidation of Balances

Particulars	Total	Minority Interest	Pre -Acqn.	Post Acquisition	
Shuk Ltd (Holding 80%, Minority 20%)				Gen. Res.	P&L
Equity Capital	108.00	21.60	86.40	---	---
Capital Reserve	7.20	1.44	5.76	---	---
General Reserve	9.00	1.80	7.20	---	---
Profit and Loss A/c	21.06	4.212	12.96	---	3.888
		(1.66)	(6.64)	---	---
Revaluation Gain / (Loss)	(8.30)	(8.30×20%)	(8.30×80%)	---	
		(0.14)	---	---	(0.56)
Depreciation Gain/(Loss)	(0.70)	(0.70 ×20%		---	(0.70×80%)
Minority Interest		27.252	105.68	---	3.328
Cost of Investment [Dr.]			(97.20)		
Parent's Balances (Note 1)				13.50	70.20
Pre Acquisition Dividend Rectification (8.64 lakhs Shares × ₹ 10 × 10%)			8.64		(8.64)
Reversal of Expenditure of Shuk debited to P&L of Kush					0.54
Unrealized Pft. on Downstream Transaction 4.50 × 25/125					(0.90)
For Consolidated Balance Sheet		27.252	17.12	13.50	64.528
		Min. Int.	Cap. Res.	Gen. Res.	P&L

Given below is the Balance Sheet of T Ltd. as on 31.12.2014 - (₹ lakhs)

Equity and Liabilities	₹	Assets	₹
(1) Shareholders' Funds:		(1) Non-Current Assets:	
(a) Share Capital	50.00	(a) Fixed Assets (Sundry)	72.00
(b) Reserves & Surplus (i) Reserve	32.00	(b) Non-current Investments (Non-trade)	12.00
(ii) P& L Account	3.00		
(2) Current Liabilities			
(a) Trade Payables-sundry creditors	8.20		

(b) Other Current Liabilities- Proposed Dividend	10.00		
Total	103.2		

4. (a) Rama Ltd and Radha Ltd are to be amalgamated into Rama Radha Ltd. (RRL). The new company is to take over all the assets and liabilities of the amalgamating companies. The new company is to take over all the assets and liabilities of the amalgamating companies.

Assets and Liabilities of Rama Ltd are to be taken over at book values in exchange of shares in RRL. Three shares in the new company are to be issued at a premium of 20% for two shares of Rama Ltd.

The scheme for Radha Ltd is as follows:

- **10% preference shareholders are to be allowed two 15% preference shares of ₹100 each in RRL for three preference shares held in Radha Ltd.**
- **The debentures of Radha Ltd are to be paid off at 5% discount by the issue of Debentures at par.**
- **The equity shareholders of Radha Ltd. are to be allowed as many shares at par in RRL as will cover the balance on their account and for this purpose, Plant and Machinery is to be valued less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.**

Show the Journal Entries in the Amalgamating Companies.

The Balance Sheets of the two companies Rama Ltd and Radha Ltd prior to amalgamation are as under

Equity and Liabilities	Rama (`)	Radha (`)
(1)Shareholders' Funds		
(a) Share Capital		
(i) Equity Capital (shares of ₹10)	6,40,000	12,50,000
(ii) 10% Preference shares of ₹100	-	7,50,000
(b) Reserves & Surplus		
(i) General Reserve	8,80,000	-
(ii) Profit & Loss Account	-	(3,50,000)
(2)Non-current Liabilities		
Long term borrowings		
-Secured Debentures	-	5,00,000
(3)Current Liabilities:		
Trade Payables – Sundry Creditors	1,20,000	2,25,000
Total	16,40,000	23,75,000
Assets		
(1) Non-Current Assets:		
Fixed Assets		
- Tangible Assets (P&M)	12,80,000	20,00,000

(2)Current assets:		
(a)Inventories	**1,00,000**	**1,50,000**
(b)Trade receivables - Drs	**1,52,000**	**1,25,000**
(c)Cash & cash equivalents	**1,08,000**	**1,00,000**
Total	**16,40,000**	**23,75,000**

[12]

Answer:

(i) Basic Information

Selling Co: Rama Ltd., Radha Ltd.	Nature of amalgamation
Buying Co: Rama Radha Ltd.	For Rama Ltd= Merger (all conditions satisfied)
	For Radha Ltd = Purchase (since all assets are not taken over at BV)

(ii) Computation of Purchase Consideration

A. For Rama Ltd, the payment method is applied for determining the Purchase Consideration. Hence, the amalgamation is accounted under Pooling of Interest method.

Number of shares to be issued by RRL for Rama Ltd's Shareholders = 64,000 × 3/2 =96,000 shares
Since the Issue Price is ₹12 per share, the purchase consideration is 96,000 × 12 = ₹11,52,000

B. For Radha Ltd, the net assets method is applied for determining the purchase consideration. Since the assets are not taken over at book value, the amalgamation is accounted under Purchase method.

Particulars	**₹**
Assets taken over: Plant & Machinery (20,00,000 less 15%)	17,00,000
Debtors	1,25,000
Inventory (1,50,000 less10%)	1,35,000
Cash	1,00,000
Total Assets	**20,60,000**
Less: Liabilities Creditors	2,25,000
Secured Debentures (5,00,000 Less 5%)	4,75,000
Net Purchase Consideration	**13,60,000**
Discharge: Preference Shareholders: 7,50,000 × 2/3	5,00,000
Equity shareholders (balancing figure) = 13,60,000 -5,00,000	8,60,000

(iii) Journal Entries in the books of Purchasing Company RRL

A. Amalgamation of Rama Ltd

Particulars		**₹**	**₹**
Business Purchase A/c	Dr.	11,52,000	
To Liquidators of Rama Ltd.			11,52,000

(Being purchase of business of Rama Ltd, recognition of liability due)		
Plant & Machinery A/c Dr.	12,80,000	
Sundry Debtors Dr.	1,52,000	
Inventories Dr.	1,00,000	
Cash and Bank Balance Dr.	1,08,000	
To Creditors		1,20,000
To General Reserve (Balancing Figure)		3,68,000
To Business Purchase		11,52,000
(Being assets and liabilities of Rama Ltd. taken over, excess of purchase consideration over share capital i.e. ₹11,52,000 - ₹6,40,000 adjusted in reserves ₹5,12,000, balance of reserves recorded = ₹3,68,000)		
Liquidator of Rama Ltd. Dr.	11,52,000	
To Equity Share Capital (96,000 × ₹10)		9,60,000
To Securities Premium (96,000 × ₹2)		1,92,000
(Being issue of equity shares towards discharge of Purchase consideration)		

B. Amalgamation of Radha Ltd

Particulars	₹	₹
Business Purchase A/c Dr.	13,60,000	
To Liquidators of Radha Ltd.		13,60,000
(Being purchase of business of Radha Ltd, recognition of liability due)		
Plant & Machinery A/c Dr.	17,00,000	
Sundry Debtors Dr.	1,25,000	
Inventories Dr.	1,35,000	
Cash and Bank Balance Dr.	1,00,000	
To Debentureholders (5,00,000 – 5%)		4,75,000
To Creditors		2,25,000
To Business Purchase		13,60,000
(Being assets and liabilities of Radha Ltd. taken over)		
Liquidator of Radha Ltd. Dr.	13,60,000	
To Equity Share Capital		8,60,000
To 15% Preference Share Capital		5,00,000
(Being issue of shares towards discharge of Purchase consideration)		
Debentureholders Dr.	4,75,000	
To debentures of RRL		4,75,000
(Being fresh issue of debentures for settlement of debentureholders)		

(b) An airline is required by law to overhaul its aircraft once every three years. The expenses to be incurred as classified as 'refurbishment costs'. Is there any provision to be recognized? [3]

Answer:

The airline company has to overhaul its aircraft/s once every three years. There is no present obligation. Hence, no provision is recognized. The costs of overhauling aircraft are not recognized as a provision because at the balance sheet date no obligation of overhauling aircraft exists independently of the company's future actions. Even a legal requirement to overhaul does not make the cost of overhaul/refurbishment cost a liability, because no obligation exists to overhaul the aircraft independently of the enterprise's future actions - the enterprise could avoid the future expenditure by its future actions, for example by selling the aircrafts.

5. (a) The Balance Sheet as at 31st March of Maharishi Ltd. was as under (₹000's) –

Equity and Liabilities		₹
(1) Shareholders' Funds:		
(a) Share Capital		
- 8,000 Equity Sh of ₹100 each, ₹50 per Sh pd up		**4,00**
- 4,000 11% Cum Pref. Shares ₹100 each, fully pd.		**4,00**
(b) Reserves & Surplus		
(i) General Reserve		**60**
(ii) Securities Premium (received on Pref. Shares)		**40**
(2)Current Liabilities:		**3,10**
Total		**1,210**
Assets		
(1) Non- Current Assets:		
(a) Fixed Assets		
- Tangible	**850**	
- Intangible Assets		
(Goodwill at cost)	**40**	
Less:Depreciation	**(2,70)**	**6,20**
(b) Non –current Investments		**25**
(2) Current Assets:		
(a) Inventories		**2,10**
(b) Trade receivables – Sundry Debtors		**2,55**
(c) Cash & cash Equivalents		**1,00**
Total		**1,210**

Note: Preference Dividends are in arrears for three years including the year ended 31st March as above.

The funds of the Company are sufficient to discharge its Liabilities including Preference Dividends in arrears. However, the Company does not want to deplete its resources. It would also like to reflect the values of some of its Assets in a realistic manner. The Board of Directors of the Company decided and proposed the following scheme of rehabilitation / reconstruction to be effective from 1st April:

(i) The Cumulative Preference Shareholders are to be issued, in exchange of their holdings 13% Debentures of the Face Value of ₹100 each at a Premium of 10%. Fractional holdings are to

be paid off in Cash.

(ii) Arrears in Preference Dividends to be converted into Equity Shares of ₹100, ₹50 per Share paid up.

(iii) After the issue of the Equity Shares mentioned in (2) above, the Paid Up Value of all the Equity Shares is to be reduced to ₹ 25 each.

(iv) Face Value of all Equity Shares to be reduced to ₹50 each and the balance of the unpaid portion is to be called up fully.

(v) Goodwill has lost its value and has to be written off. Market Value of other Fixed Assets is determined, as at 31st March, at ₹ 5,00,000.

(vi) Investments have no Market Value and have to be written off.

(vii)Stock In Trade is to be valued at 110% of its Book Value and Sundry Debtors are to be discounted by 5%.

The scheme as approved by the Directors, is duly accepted by all authorities and put into effect.

During the working for the half ended 30th September it is noticed that the trading for the period has resulted in an increase of Bank balances by ₹55,100, Sundry Debtors by ₹40,000, Trade Creditors by ₹26,000 and a decrease in Stock by ₹8,000. Depreciation for the half year on Fixed Assets at 10% per annum is to be provided. The increase in the Bank Balances was prior to the Company paying the half yearly Interest on Debentures and redeeming one half of the Debentures on 30th September.

From the above information, you are required to prepare Journal Entries, Ledger Accounts. All working notes are to form part of your answer. [10]

Answer:

A. Computation of Debentures to be issued to Preference Shareholders w. e. f. 1st April

$$\frac{₹4,00,000}{₹100 + ₹10 \text{ Premium}} = 3,636.36 \text{ Debentures of ₹100 each at 10\% Premium.}$$

Hence, 13% Debentures issued	3,636 Debentures at ₹100	= ₹ 3,63,600
Premium on issue of Debentures	3,636 Debentures at ₹10	= ₹ 36,360
Cash paid for fractional holding	(balancing figure)	= ₹ 40
Total Due to Preference Shareholders		= ₹ 4,00,000

B. Journal Entries

	Particulars	Debit	Credit
1.	11% Preference Share Capital A/c Dr.	4,00,000	
	To 13% Debentures A/c		3,63,600
	To Premium on Issue of Debentures A/c		36,360
	To Cash and Bank A/c		40

	(Being Issue of 3,636 13% debentures of ₹100 each at a Premium of ₹ 10 to cancel 4,000 11% Cumulative Preferences Shares of ₹100 each, fraction ₹ 40 was paid in cash under to the scheme of reconstruction vide Board Resolution dated………)		
2.	Capital Reduction A/c Dr. To Equity Share Capital A/c (Being issue of 2,640 Equity Shares of ₹100 each ₹50 paid-up for Arrears of Preference Dividend = ₹4,00,000 × 11% × 3 years)	1,32,000	 1,32,000
3.	Equity Share Capital A/c Dr. To Capital Reduction A/c (Being reduction of paid up value of 10,640 Equity Shares of ₹100 each, ₹50 paid up to Shares of ₹50 each, ₹25 paid up) (50% of 5,32,000)	2,66,000	 2,66,000
4.	Bank A/c Dr. To Equity Share Capital A/c (Being Call money received on 10,640 Equity Shares at ₹25 to make the Equity Shares fully paid up)	2,66,000	 2,66,000
5.	Capital Reduction A/c Dr. To Goodwill A/c To Investment A/c To Fixed Assets A/c (8,50,000 - 2,70,000) - 5,00,000 To Sundry Debtors A/c (Being value of Sundry Assets written down owing to the scheme of reconstruction vide Board resolution dated...)	1,57,750	 40,000 25,000 80,000 12,750
6.	Stock A/c Dr. To Capital Reduction A/c (Value of stock written up under scheme of reconstruction vide Board resolution dated...)	21,000	 21,000
7.	General Reserve A/c Dr. To Capital Reduction A/c (Being shortfall in Capital Reduction transferred from General Reserve)	2,750	 2,750

C. Capital Reduction Account

Dr. **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Equity Share Capital A/c	1,32,000	By Equity Share Capital A/c	2,66,000
To Goodwill A/c	40,000	By Stock	21,000
To Investment A/c	25,000	By General Reserve (bal. figure)	2,750
To Fixed Assets A/c	80,000		
To Sundry Debtors A/c	12,750		
Total	2,89,750	Total	2,89,750

(b) Discuss 'discontinuing operations' as per AS-24? [5]

Answer:

As per Para 3 of the standard, a discontinuing operation is a component of an enterprise:-
(i) that the enterprise, pursuant to a single plan is:

- disposing of substantially in its entirety such as selling the component in a single transaction or by demerger or spin off of ownership of the component to the enterprise's shareholders ; or

- disposing of piecemeal, such as by selling off the components assets and setting its liabilities individually; or
- terminating through abandonment and

(ii) that represents separate major line of business or geographical area of operation, and
(iii) that can be distinguished operationally and for financial reporting purposes.

It may be construed that discontinuing operation is relatively large component of an enterprise which is major line of business or geographical segment, this is distinguishable operationally or for financial reporting such component of business is being disposed on the basis of an overall plan in its entirety or in piecemeal. Discontinuance will be carried either through demerger or spin-off, piecemeal disposal of assets and settling of liabilities or by abandonment.

6. Given below is the Balance Sheet of M Ltd as on 31.12.2014 —

Equity and Liabilities	₹ (Lakhs)
(1) Shareholders' Funds:	
(a) Share Capital	50.00
(b) Reserves & Surplus (i) Reserve	32.00
(ii) P&L A/c	3.00
(2) Current Liabilities:	
(a) Trade payables – Sundry Creditors	8.20
(b) Other Current Liabilities – Proposed Dividend	10.00
Total	103.20
Assets	
(1) Non-Current Assets:	
(a) Fixed Assets (Sundry):	72.00
(b) Non-Current Investments (Non-Trade)	12.00
(2) Current Assets:	
(a) Inventories	7.80
(b) Trade Receivables – Sundry Debtors	6.20
(c) Cash & Cash Equivalents	5.20
Total	103.20

Other Information –

- **Profit Before Tax and other relevant information: (₹ lakhs)**

Year	Profit Before Tax	Provision for Gratuity required	Gratuity Paid	Loss of uninsured stock
2010	42.00	2.20	--	--
2011	39.00	2.30	1.67	0.62
2012	44.00	2.50	0.32	--
2013	42.00	2.60	1.42	--
2014	37.00	2.70	0.12	--

- **Past Tax rate is 51% while Expected Tax Rate is 45%**

- **The Company wants to switch over towards maintaining gratuity provision on actuarial calculation rather than accounting on payment basis. The company's non-Trade investments fetched 11%.**

Find out value of Goodwill. It may be assumed that Super Profit. If any, is maintainable for 5 years. 20% should be the appropriate discount factor. Normal Rate of return may be taken as 16%. [15]

Answer:

A. Computation of Future Maintainable Profits (₹ lakhs)

Particulars	2010	2011	2012	2013	2014
Profit Before Tax	42.00	39.00	44.00	42.00	37.00
Less: Provision for Gratuity	(2.20)	(2.30)	(2.50)	(2.60)	(2.70)
Add: Gratuity Paid	---	1.67	0.32	1.42	0.12
Add: Abnormal Loss	---	0.62	---	---	---
Adjusted Profits	39.80	38.99	41.82	40.82	34.42
Simple Average Profit (See Note Below) $\frac{39.80+38.99+41.82+40.82+34.42}{5}$					39.17
Less: Non-Trade Investments at 11% of ₹ 12 lakhs					(1.32)
Adjusted profit Before Tax = Future Maintainable PBT					37.85
Less: Tax Expense at 45%					(17.03)
Adjusted Profit After Tax = Future Maintainable PAT					20.82

Note: Since Profits show an oscillation trend, Simple Average Profit shall be more appropriate than Weighted Average or Trend Equation Methods.

B. Computation of Average Capital Employed

Particulars	₹ lakhs
Total of Assets as per Balance Sheet	103.20
Less: Non-Trade Investments and Sundry Creditors (12.00 + 8.20)	(20.20)
Closing Capital Employed	83.00
Less: 50% of Profit After Tax earned in 2014 as per Books (Revised Profits after adjustments)	
50% of PAT = 50% × (PBT less Tax at 51%) = 50% × (34.42 Less 51% thereon) =	(8.44)
50% × (₹ 16.87 lakhs) = 8.44	
Average Capital Employed	74.56

C. Computation of Goodwill (₹ lakhs)

(i) Capitalisation Method:

Particulars	**₹ lakhs**
Expected Capital $\frac{\text{Future Maintainable Profits}}{\text{NRR}} = \frac{₹20.82\text{ lakhs}}{16\%}$	130.13
Less: Closing Capital Employed Less Proposed Dividend = 83.00 – 10.00	73.00
Goodwill using Capitalisation Method	57.13

(ii) Super Profit Method:

Particulars	₹ lakhs
Future Maintainable Profit	20.82
Less: Normal Profit at 16% Average Capital Employed (16% of ₹ 74.56 lakhs)	11.93
Super Profits	8.89
Goodwill at 5 years' purchase of super profits	44.45

Note: Alternatively Normal Profit can be computed based on Closing Capital Employed.

(iii) Annuity Method:

Particulars	₹ lakhs
Super Profits	8.89
Annuity Factor for 5 years at 20%	2.9906
Goodwill using Annuity Method	26.59

Note and Assumptions:

- Under Capitalisation Method, Closing Capital is considered, whereas under Super Profits method, Average Capital Employed is considered for calculating Normal Profits.
- Discount Rate and Normal Rate of Return given above are after tax rates.

7. (a) Compute EVA of Santhi Ltd. for 3 years from the information given -

(in ₹ Lakhs)

Year	1	2	3
Average Capital Employed	**3,000.00**	**3,500.00**	**4,000.00**
Operating Profit before Interest (adjusted for Tax Effect)	**850.00**	**1250.00**	**1600.00**
Corporate Income Taxes	**80.00**	**70.00**	**120.00**
Average Debt + Total Capital Employed (in %)	**40.00**	**35.00**	**13.00**
Beta Variant	**1.10**	**1.20**	**1.30**
Risk Free Rate (%)	**12.50**	**12.50**	**12.50**
Equity Risk Premium (%)	**10.00**	**10.00**	**10.00**
Cost of Debt (Post Tax) (%)	**19.00**	**19.00**	**20.00**

[10]

Answer:

EVA Statement of Santhi Ltd.

Particulars	**Year 1**	**Year 2**	**Year 3**
(i) Cost of Equity (K_e) = Risk Free Rate + (Beta × Equity risk premium)	12.5 + (1.1 x 10) = 23.50%	12.5 + (1.2 x 10) = 24.50%	12.5 + (1.3 x 10) = 25.50%
(ii) Cost of Debt (K_d) (given)	19.00%	19.00%	20.00%
(iii) Debt-Equity Ratio (Debt=given, Equity is bal.	40% & 60%	35% & 65%	13% & 87%

(iv) WACC = [(K_d) x Debt % + (K_e) x Equity%]	**21.70%** (19 x 40% + 23.50 x 60%)	**22.58%** (19 x 35% + 24.50 x 65%)	**24.79%** (20 x 13% + 25.50 x 87%)
(v) Average Capital Employed (given)	3,000.00	3,500.00	4,000.00
(vi) Capital Charge (Fair Return to Providers of Capital i.e. Average Capital Employed x WACC) (4 x 5)	3,000 x 21.70% = 651.00	3,500 x 22.58% = 790.30	4,000 x 24.79% = 991.60
(vii) Operating Profit before Taxes & Interest	**850.00**	**1,250.00**	**1,600.00**
(viii) **Less:** Taxes Paid	80.00	70.00	120.00
(ix) Operating Profit after Taxes (This is the	770.00	1,180.00	1,480.00
(x) Capital Charge (computed in 6 above)	651.00	790.30	991.60
(xi) Economic Value Added (9 - 10)	**119.00**	**389.70**	**488.40**
(xii) EVA as a % of Average Capital Employed	**3.96%**	**11.13%**	**12.21%**

(b) From the following details, compute according to Lev and Schwartz (1971) model, the value of human resources of skilled employees group.

(i) Annual average earning of an employee till the retirement age	**₹2,00,000**
(ii) Age of Retirement	**65 years**
(iii) Discount rate	**15%**
(iv) No. of employees in the group	**20**
(v) Average age	**62 years**

[5]

Answer:

Particulars	
(i) Average Annual Earning till retirement	₹2,00,000
(ii) Annuity Factor for 3 years at 15%	2.2832
(iii) No. of employees	20
(iv) Value of Human Resource of Skilled Employees group (i)×(ii)×(iii)	91,32,800

Note: As the employees are 62 years (Average) , there are 3 more years for them i.e., till 65 years of age to retire. Hence the average earning is discounted for 3 years at 15%.

8. Write short notes on any three of the following: **[5x3=15]**

(a) Growing scope of Human Capital Reporting;
(b) Aspects covered in Corporate Environmental Accounting System;
(c) Responsibilities of the Comptroller and Auditor General of India;
(d) Treatment of refund of Government grants.

Answer:

(a) Growing scope of Human Capital reporting:

Human Capital Reporting —

- Recent Reporting Trends: In the recent years, there is a growing trend of shift from the traditional focus on financial reporting of quantifiable resources (i.e. which can be measured in monetary terms) to a more comprehensive approach of reporting under which Human Resources are also considered as Measurable Assets of a Going Concern.
- Relevance: An organization is a dynamic entity and operates through the effort of its human resources. The ratio of human to non-human capital indicates the degree of labour intensity of an organisation. Comparison of the specific values of human capital based on the organisation's scales of wages and salaries with the general industry standards can provide inputs on the Firm's HR policies.
- Purpose: Human Capital Reporting provides scope for planning and decision-making in relation to proper manpower planning. Such reporting can also bring out the effect of various rules, procedure and incentives relating to work force. This can even act as an eye opener for modifications of existing statutes, laws etc.
- Accounting: Business entities account for Fixed Assets on Historical Cost basis. Similarly, employee related costs like cost of recruitment, training and orientation of employees, etc. can be considered for the purpose of capitalization. An appropriate portion of such capitalized costs can be amortised each year over the estimated years of effect of such costs.
- Standards: Currently, there is no standard format for Human Capital Reporting. Generally, the Human Capital Report contains data pertaining to number of employees, employment and training policies, collective bargaining arrangements, industrial disputes, pension and pay arrangement and number of disabled employees.

(b) Aspects covered in Corporate Environmental Accounting System:

Environmental Accounting System should include aspects such as –

- Concept of National Income arising out of the use of Natural Resources;
- Concept of Costs incurred to make use of such Resources;
- Depreciation of Natural Resources;
- Valuation of Natural Resources;
- Disclosing the value of Natural Resources in the Balance Sheet;
- Contribution of Natural Resources to Industrial Development;
- Contribution of Industries to the Environment; and
- Extent to which changes in the environment due to business activities has affected social well being.

(c) Role of the Comptroller and Auditor General of India:

Under section 10 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971), the Comptroller and Auditor General shall be responsible-

- for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and
- for keeping such accounts in relation to any of the matters specified in clause (a) as may be necessary;

Provided that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-

(i) the said accounts of the Union (either at once or gradually by the issue of several orders); or (ii) the accounts of any particular services or departments of the Union;

Provided further that the Governor of a State with the previous approval of the President and after consultation with Comptroller and Auditor General, by order, relieve him from the responsibility for compiling-

(i) the said accounts of the State (either at once or gradually by the issue of several orders); or (ii) the accounts of any particular services or departments of the State;

Provided also that the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for keeping the accounts of any particular class or character.

(2) Where, under any arrangement, a person other than the Comptroller and Auditor General has, before the commencement of this Act, been responsible-

(i) for compiling the accounts of any particular service or department of the Union or of a State, or (ii) for keeping the accounts of any particular class or character, such arrangement shall, notwithstanding anything contained in subsection (1), continue to be in force unless, after consultation with the Comptroller and Auditor General, it is revoked in the case referred to in clause (i), by an order of the President or the Governor of the State, as the case may be, and in the case referred to in clause (ii) by an order of the President.

(d) Treatment of refund of Government Grants:

As per AS 12 "Accounting for Government Grants", government grant that becomes refundable should be treated as an extraordinary item. The amount refundable in respect of a government grant related to revenue is applied first against any unamortized deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement.

The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable.

In the first alternative, *i.e.*, where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset. Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfillment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve.