Group – IV

Paper 16 – Advanced Financial Accounting and Reporting

1. (a) Venus Ltd. has an asset, which is carried in the Balance Sheet on 31.3.2014 at ₹ 1,000 lakhs. As at that date the value in use is ₹ 800 lakhs and the net selling price is ₹ 750 lakhs.
From the above data:
(i) Calculate impairment loss.
(ii) Give journal entries for adjustment of impairment loss.
(iii) Show, how impairment loss will be shown in the Balance Sheet.

1. (b) Ashmit Ltd. entered into a sale deed for its immovable property before the end of the year. But registration was done with registrar subsequent to Balance Sheet date. But before finalisation, is it possible to recognise the sale and the gain at the Balance Sheet date? Give your view with reasons.

1. (c) A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership of these goods had not been transferred to the foreign buyers. Comment on the valuation of the stocks by the company.

1. (d) During the year, the Software division supplied a special program for a foreign firm on a consideration of ₹ 200 lakhs. It was found on June 1st, 2014 that the foreign firm has become bankrupt. The company had received an advance of ₹ 100 lakhs in the year ended 31st March, 2014 from the foreign firm.

1. (a) Solution .
(i) Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.
Thus, Impairment loss = Carrying amount – Recoverable amount*
= ₹1000 lakhs – ₹ 800 lakhs = ₹ 200 lakhs

*Recoverable amount is higher of asset's net selling price ₹ 750 lakhs and its value in use ₹800 lakhs.

∴ Recoverable amount = ₹ 800 lakhs

Journals

ii)	Particulars	Debit Amount (₹ in lakhs)	Credit Amount (₹ in lakhs)
a)	Impairment loss A/c Dr. To Asset A/c (Being the entry for accounting impairment loss)	200	200
b)	Profit and loss A/c Dr. To Impairment loss A/c (Being the entry to transfer impairment loss to profit and loss account)	200	200

(iii)

Balance Sheet of Venus Ltd. as on 31.3.2014	₹ in lakhs
Asset less depreciation	1000
Less: Impairment loss	200

	800

1. (b) Solution. Yes, it is possible for Ashmit Ltd. to recognize the sale and the gain at the balance sheet date according to AS 9* 'Revenue Recognition'. It is evident that the significant risks and rewards of ownership had passed before the balance sheet date and the delay in transfer of property was merely because of formality in getting the transfer deed registered. Further the registration post the balance sheet date confirms the condition of sale at the balance sheet date as per AS 4 'Contingencies and Events occurring after the Balance Sheet Date'.

1. (c) Solution. Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realisable value. AS 9 on "Revenue Recognition" states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at Net-realisable value."
Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

1. (d) Solution. Sales to foreign firm: This is an event occurring after the balance sheet date and the accounts are only at draft stage. In accordance with para 13 of AS-4 (Revised) on Contingencies and Events Occurring after the Balance Sheet Date, adjustments to assets and liabilities are required. Hence the sum of ₹ 100 lakhs (₹ 200 lakhs – advance of ₹ 100 lakhs) should be provided for by way of provision for bad debts.

2.(a) M/s Prima Co. Ltd. sold goods worth ₹ 50,000 to M/s Y and Company. M/s Y and Co. asked for discount of ₹ 8,000 which was agreed by M/s Prima Co. Ltd. The sale was effected and goods were despatched. After receiving, goods worth ₹ 7,000 was found defective, which they returned immediately. They made the payment of ₹ 35,000 to M/s Prima Co. Ltd. Accountant booked the sales for ₹ 35,000. Please discuss

2.(b) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2014, when the exchange rate was ₹53 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2014 when the exchange rate was ₹57 per US Dollar. However, on 31st March, 2014, the rate of exchange was ₹58 per US Dollar. The company passed an entry on 31st March, 2014 adjusting the cost of raw materials consumed for the difference between ₹57 and ₹53 per US Dollar. In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss

2. (a) Solution. As per Para 4.1 of AS 9 "Revenue Recognition", revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

In the given case, M/s Prima Co. Ltd. should record the sales at gross value of ₹50,000. Discount of ₹8,000 in price and goods returned worth ₹7,000 are to be adjusted by suitable provisions. M/s Prime Co. Ltd. might have sent the credit note of ₹ 15,000 to M/s Y & Co. to account for these adjustments. The contention of the accountant to book the sales for ₹35,000 is not correct.

2.(b) Solution. As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Sundry creditors is a monetary item, hence should be valued at the closing rate i.e., ₹58 at 31st March, 2014 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of ₹5 (58-53) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2014 and is not to be adjusted against the cost of raw- materials. In the subsequent year, the company would record an exchange gain of Re.1 per US dollar, i.e., the difference between ₹58 and ₹57 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

3.(a) Amit purchased a computer for ₹44,000 and leased out it to Sumit for four years on leases basis, after the lease period , value of the computer was estimated to be ₹3,000; which she realized after selling it in the second hand market. Lease amount payable at the beginning of each year is ₹ 22,000; ₹13,640; ₹6,820 & ₹3,410. Depreciation was charged @ 40% p.a. You are required to pass the necessary journal entries in the books of both Amit and Sumit.

3.(b) A Company belonging to the process industry carries out three consecutive processes. The output of the first process is taken as input of the second process, and the output of the second process is taken as input of the third process . The final product emerges out of the third process. It is also possible to outsource the intermediate products. It has been found that over a period time cost of production of the first process is 10% higher than the market price of the intermediate product available freely in the market. The company has decided to close down the first process as a measure of cost saving (vertical spin off) and outsource. Should this event be treated as discontinuing operation?

3. (a) Solution:

Journal Entries
In the books of Amit

	Particulars	Dr.	Cr.
1st	**Purchase of Computers:** Computer A/c Dr. To, Bank A/c	 44,000 	 44,000
	Payment of first Year's Lease: Bank A/c Dr. To, Lease Rent A/c	 22,000 	 22,000
	Depreciation for First Year: Depreciation A/c Dr. To, Computer A/c	 17,600 	 17,600
	Transfer to Profit & Loss Account: Profit & Loss A/c Dr. To, Depreciation A/c Lease Rent A/c Dr. To, Profit & Loss A/c	 17,600 22,000 	 17,600 22,000
2nd	**Payment of Second Year's Lease:** Bank A/c Dr. To, Lease Rent A/c	 13,640 	 13,640
	Depreciation for Second Year: Depreciation A/c Dr. To, Computer A/c	 10,560 	 10,560
	Transfer to Profit & Loss Account: Profit & Loss A/c Dr. To, Depreciation A/c Lease Rent A/c Dr. To, Profit & Loss A/c	 10,560 13,640 	 10,560 13,640
3rd	**Payment of Third Year's Lease:** Bank A/c Dr. To, Lease Rent A/c	 6,820 	 6,820

	Depreciation for Third Year: Depreciation A/c Dr. To, Computer A/c	 6,336	 6,336
	Transfer to Profit & Loss Account: Profit & Loss A/c Dr. To, Depreciation A/c Lease Rent A/c Dr. To, Profit & Loss A/c	 6,336 6,820	 6,336 6,820
4th	**Payment of Fourth Year's Lease:** Bank A/c Dr. To, Lease Rent A/c	 3,410	 3,410
	Depreciation for Fourth Year: Depreciation A/c Dr. To, Computer A/c	 3,802	 3,802
	Transfer to Profit & Loss Account: Profit & Loss A/c Dr. To, Depreciation A/c Lease Rent A/c Dr. To, Profit & Loss A/c	 3,802 3,410	 3,802 3,410
	Sale of Leased assets: Bank A/c Dr. Loss on Sale A/c Dr. To, Computer A/c	 3,000 2,702	 5,702

In the books of Sumit

	Particulars	Dr.	Cr.
	Purchase of Computer:	**No Entry**	
	Payment of First Year's Lease: Lease Rent A/c Dr. To, Bank A/c	 22,000	 22,000
	Depreciation for First Year:	**No Entry**	
	Transfer to Profit & Loss Account: Profit and Loss A/c Dr. To, Lease Rent A/c	 22,000	 22,000
	Payment of Second Year's Lease: Lease Rent A/c Dr. To, Bank A/c	 13,640	 13,640
	Depreciation for Second Year:	**No Entry**	
	Transfer to Profit & Loss Account: Profit and Loss A/c Dr. To, Lease Rent A/c	 13,640	 13,640
	Payment of Third Year's Lease: Lease Rent A/c Dr. To, Bank A/c	 6,820	 6,820
	Depreciation for Third Year:	**No Entry**	
	Transfer to Profit & Loss Account: Profit and Loss A/c Dr. To, Lease Rent A/c	 6,820	 6,820
	Payment of Fourth Year's Lease: Lease Rent A/c Dr.	 3,410	

	To, Bank A/c		3,410
	Depreciation for Fourth Year:	**No Entry**	
	Transfer to Profit & Loss Account: Profit and Loss A/c Dr. To, Lease Rent A/c	 3,410	 3,410
	Sale of Lease Assets:	**No Entry**	

3. (b) Solution.

The change made by the company is focused on outsourcing of services, in respect of one single process – in a sequence of process. The net effect of this change is closure of facility relating to process.

This has been done by the company with a view to achieving productivity improvement and savings in costs.

Such a change does not meet definition criteria in paragraph 3(a) of AS 24- namely, disposing of substantially in its entirety, such as by selling a component of the enterprise in a single transaction. The change is merely a cost-saving endeavor. Hence, this change over is not a discontinuing operation.

4. (a) On 1st April, 2014 Good Morning Ltd. offered 100 shares to each of its 500 employees at ₹ 50 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan (ESPP) shall be subject to lock- in on transfers for three years from grant date. The market price of shares of the company on the grant dated is ₹60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹56 per share.

On 30th April, 2014, 400 employees accepted the offer and paid ₹30 per share purchased. Normal value of each share is ₹10.

Record the issue of shares in the books of the company under the aforesaid plan.

4. (b) Beautiful Ltd. acquired 30% of Ugly Ltd. Shares for ₹4,00,000 on 01-06-2013. By such an acquisition Beautiful Ltd. can exercise significant influence over Ugly Ltd. During the financial year ending on 31.03.2013 Ugly Ltd. earned profits ₹1,60,000 and Declared a dividend of ₹1,00,000 on 12.08.2013. Ugly Ltd. reported earnings of ₹6,00,000 for the financial year on 31.03.2014 and declared dividends of ₹1,20,000 on 12.06.2014.

Calculate the carrying amount of investment in:
(i) Separate financial statements of Beautiful Ltd. as on 31.03.2014
(ii) Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2014
(iii) What will be the carrying amount as on 30.06.2014 in consolidated financial Statements?

4. (a) . Solution.

Fair value of an ESPP = ₹56-₹50= ₹6.00
Number of shares issued = 400 employees X 100 shares / employee= 40,000 shares
Fair value of ESPP which will be recognized as expenses in the year 2013-2014= 40,000 shares X ₹ 6 = ₹2,40,000
Vesting period = 1 month
Expenses recognized in 2013-2014 = ₹ 2,40,000

Journal Entry

Date	**Particulars**	**Dr.** **₹**	**Cr.** **₹**
30.04.2014	Bank A/c (40,000 shares X ₹50) Dr. Employees compensation expenses A/c Dr. To, Share Capital A/c (40,000 shares X ₹10) To, securities Premium (40,000 shares X ₹46) (Being shares issued under ESPP @ ₹50.00)	20,00,000 2,40,000	 4,00,000 18,40,000

4. (b) Solution.

(i) Carrying Amount of Investment in Separate Financial Statement of Beautiful Ltd. as on 31.03.2014

	₹
Amount paid for investment in Associate (on 1.06.2013)	4,00,000
Less: Pre- acquisition dividend (₹ 1,00,000 X 30%)	30,000
Carrying Amount as on 31.03.2014 as per AS 13	3,70,000

(ii) Carrying Amount of Investment in Consolidated Financial Statements of Beautiful Ltd. as on 31.03.2014 as per AS 23

	₹
Carrying amount as on 31.03.2014	3,70,000
Add: Proportionate Share of Profit of investee as per equity method (30% of ₹ 6,00,000)	1,80,000
Carrying Amount as on 31.03.2014	5,50,000

(iii) Carrying Amount of Investment in Consolidated Financial Statement of Beautiful Ltd. as on 30.06.2014 as per AS 23

	₹
Carrying amount as on 31.03.2014	5,50,000
Less: Dividend Received (₹1,20,000 X 30%)	36,000
Carrying amount as on 30.06.2014	5,14,000

5. The following particulars are stated in the Balance Sheet of M/s Tamarind Ltd. as on 31.03.2012:

(₹ in Lakhs)

Deferred Tax Liability (Cr.)	**20.00**
Deferred Tax Assets (Dr.)	**10.00**
The following transactions were reported during the year 2012-13:	
(i) Tax Rate 50%	
(ii) Depreciation – As per Books	**50.00**
Depreciation – for Tax purposes	**30.00**
There were no addition to Fixed Assets during the year	
(iii) Items disallowed in 2011-12 and allowed for Tax purposes in 2012-13	**10.00**
(iv) Interest to Financial Institutions accounted in the Books on accrual basis, but actual payment was made on 30.09.2013	**20.00**
(v) Donations to Private Trusts made in 2012-13	**10.00**
(vi) Share issue expenses allowed under 35(D) of the I.T. Act, 1961 for the year 2012-13 (1/10th of ₹ 50.00 lakhs incurred in 2008-2009)	**5.00**
(vii) Repairs to Plant and Machinery ₹ 100.00 lakhs was spread over the period 2012- 13 and 2013-14 equally in the books. However, the entire expenditure was allowed for Income-tax purposes	

Indicate clearly the impact of above items in terms of Deferred Tax liability/Deferred Tax Assets and the balances of Deferred Tax Liability/Deferred Tax Asset as on 31.03.2013.

5. Solution.

Impact of various items in terms of deferred tax liability/deferred tax asset

Transactions	**Analysis**	**Nature of difference**	**Effect**	**Amount**
Difference in	Generally, written down value method of	Responding	Reversal	₹ 20 lakhs X

depreciation	depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	timing difference	of DTL	50% = ₹ 10 lakhs
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Responding timing difference	Reversal of DTA	₹ 10 lakhs X 50% = ₹ 5 lakhs
Interest to financial institutions	It is allowed as deduction under section 43B of the IT Act, if the payment is made before the due date of filing the return of income (i.e. 31st October, 2013).	No timing difference	Not applicable	Not applicable
Donation to private trusts	Not an allowable expenditure under IT Act	Permanent difference	Not applicable	Not applicable
Share issue expenses	Due to disallowance of full expenditure under IT Act, tax payable in the earlier years was higher.	Responding timing difference	Reversal of DTA	₹ 5 lakhs X 50% = ₹ 2.5 Lakhs
Repairs to plant and machinery	Due to allowance of full expenditure under IT Act, tax payable of the current year will be less.	Originating timing difference	Increase in DTL	₹ 50 lakhs X 50% = ₹ 25 lakhs

Deferred Tax Liability Account

Dr. Cr.

		₹ in lakhs			₹ in lakhs
31.3.2013	To Profit and Loss A/c (Depreciation) To Balance c/d	10.00 35.00	1.4.2012	By Balance b/d By Profit and Loss A/c (Repairs to plant)	20.00 25.00
		45.00			45.00
			1.4.2013	By Balance b/d	35.00

Deferred Tax Assets Account

Dr. Cr.

		₹ in lakhs			₹ in lakhs
1.04.2012	To Balance b/d	10.00	31.03.2013	By Profit and Loss Account: Items disallowed in 2011-12 and allowed as per I.T. Act in 2012-13 Share issue expenses By Balance c/d	 5.00 2.50 2.50
		10.00			10.00
1.4.2013	To Balance b/d	2.50			

6. Prasad Ltd. had the following borrowing during a year in respect of capital expansion.

Plant	Cost of Asset	Remarks
Plant A	**100 Lakhs**	**No specific Borrowings**
Plant B	**125 Lakhs**	**Bank loan of ₹65 Lakhs at 10%**
Plant C	**175 Lakhs**	**9% Debenture of ₹ 125 lakhs were issued**

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (1) ₹ 100 lakhs at 10% from Corporation Bank and (2) ₹110 lakhs at 11.5% from State Bank of India, Meet its capital expansion requirements. Determine the borrowing costs to be capitalized in each of the above plants, as per AS-16.

6. Solution:

A. Computation of Actual Borrowing Costs incurred during the year:

Source	Loan Amount ₹ in Lakhs	Interest Rate	Interest Amount ₹ in Lakhs
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	110.00	11.5%	12.65
Total	400.00		40.40
Specific Borrowing included in above	190.00		17.75

B. Weighted Average Capitalization Rate for General Borrowings:

$$= \frac{\text{Total Interest - Interest on Specific Borrowing}}{\text{Total Borrowing - Specific Borrowing}} = \frac{(40.40 - 17.75)}{(400 - 190)} = 22.65/210 lakhs = 10.79\%$$

C. Capitalization of Borrowing Costs under AS-16 will be as under:

Plant	Borrowing	Loan Amount ₹ in lakhs	Interest rate	Interest amount ₹ in lakhs	Cost of Asset	
					₹ in Lakhs	₹ in Lakhs
A	General	100	10.79%	10.79		110.79
B	Specific	65	10.10%	6.50	71.50	
	General	60	10.79%	6.47	66.47	137.97
C	Specific	125	9.00%	11.25	136.25	
	General	50	10.79%	5.39	55.39	191.64
	Total	400		40.40		440.40

Note: The amount of borrowing costs capitalized should not exceed the actual interest cost.

7. The Balance Sheet of Jupiter Ltd. as on 31st March, 2014 is as under:

(₹ in Lakhs)

Liabilities	₹	Assets	₹
Equity Shares ₹10 each	**3,000**	**Goodwill**	**744**
Reserves (including provision for taxation		**Premises and Land at cost**	**400**
of ₹300 lakhs)	**1,000**	**Plant and Machinery**	**3,000**
5% Debentures Secured Loans		**Motor Vehicles (purchased on 1.10.13)**	**40**
Sundry Creditors Profit & Loss A/c	**2,000**	**Raw materials at cost**	
Balance from previous B/S	**200**	**Work-in-progress at cost**	**920**
₹32	**300**	**Finished Goods at cost**	
Profit for the year (After taxation)	**1,132**	**Book Debts**	**130**
₹1100		**Investment (meant for replacement of Plant**	
		and Machinery)	**180**
		Cash at Bank and Cash in hand	
		Discount on Debentures	**400**
		Underwriting Commission	
			1,600

			192 **10** **16**
	7,632		**7,632**

The resale value of Premises and Land is ₹1,200 lakhs and that of Plant and Machinery is ₹2,400 lakhs. Depreciation @ 20% is applicable to Motor Vehicles. Applicable depreciation on Premises and Land is 2%, and that on Plant and Machinery is 10%. Market value of the Investments is ₹1,500 lakhs. 10% of book debts is bad. In a similar company the market value of equity shares of the same denomination is ₹25 per share and in such company dividend is consistently paid during last 5 years @ 20%. Contrary to this, Jupiter Ltd. is having a marked upward or downward trend in the case of dividend payment.

Past 5 years' profits of the company were as under:	
2008-09	**₹67 lakhs**
2009-10	**(-) ₹1,305 lakhs (loss)**
2010-11	**₹469 lakhs**
2011-12	**₹546 lakhs**
2012-13	**₹405 lakhs**

The unusual negative profitability of the company during 2009-10 was due to the lock out in the major manufacturing unit of the company which happened in the beginning of the second quarter of the year 2008-09 and continued till the last quarter of 2008-09.Value the Goodwill of the Company on the basis of 4 years' purchase of the Super Profit. (Necessary assumption for adjustment of the Company's inconsistency in regard to the dividend payment, may be made by the examinee).

7. Solution:

Calculation of capital employed		
Present value of assets:	**₹ (in lakhs)**	**₹ (in lakhs)**
Premises and land	1,200	
Plant and machinery	2,400	
Motor vehicles (book value less depreciation for ½ year)	36	
Raw materials	920	
Work-in-progress	130	
Finished goods	180	
Book debts (400 x 90%)	360	
Investments	1,500	
Cash at bank and in hand	192	
		6,918
Less: Liabilities:		
Provision for taxation	300	
5% Debentures	2,000	
Secured loans	200	
Sundry creditors	300	2,800
Total capital employed on 31.3.14		4,118

2. Profit available for shareholders for the year 2013-14		**₹ (in Lakhs)**
Profit for the year as per Balance Sheet		1,100
Less: Depreciation to be considered		
Premises and land	24*	
Plant & machinery	240*	
Motor vehicles	4	268
		832
Less: Bad debts		40
Profit for the year 13-14		792

3. Average capital employed	₹ (in Lakhs)
Total capital employed Less: ½ of profit for the current year [Refer point 2]	4,118 396
Average capital employed	3,722

* Depreciation on premises and land and plant and machinery have been provided on the basis of assumption that the same has not been provided for earlier

4. Average profit to determine Future Maintainable Profits	₹ (in lakhs)
Profit for the year 2013-14 Profit for the year 2012-13 Profit for the year 2011-12 Profit for the year 2010-11	792 405 546 469
2212 / 4	553

5. Calculation of General Expectation:
Jupiter Ltd. pays ₹2 as dividend (20%) for each share of ₹10.
Market value of equity shares of the same denomination is ₹25 which fetches dividend of 20%.
Therefore, share of ₹10 (Face value of shares of Jupiter Ltd.) is expected to fetch (20/25)x10 = 8% return.
Since Jupiter Ltd. is not having a stable record in payment of dividend, in its case the expectation may be assumed to be slightly higher, say 10%

6. Calculation of super profit	₹ (in Lakhs)
Future maintainable profit [See point 4] Normal profit (10% of average capital employed as computed in point 3)	553.00 372.2o
Super Profit	180.80

7. Valuation of Goodwill	₹ (in Lakhs)
Goodwill at 4 years' purchase of Super Profit	723.20

Notes:
(1) It is evident from the Balance Sheet that depreciation was not charged to Profit & Loss Account.
(2) It is assumed that provision for taxation already made is sufficient.
(3) While considering past profits for determining average profit, the years 2008-09 and 2009-10 have been left out, as during these years normal business was hampered.

8. (a) Given- (i) Future Maintainable Profit before Interest-₹ 125 Lakhs; (ii) Normal Rate of Return on Long Term Funds is 20% and on Equity Funds is 25%; (iii) Long Term Funds of the Company is ₹320 Lakhs of which Equity Funds is ₹ 210 Lakhs; (iv) Interest on loan Fund is 18%. Find out leverage effect on the Goodwill if tax rate is =30%.

8. (a) Solution.
A. Long Term Loan Funds= Total Long Term funds **Less** Equity Funds= ₹ (320-210) lakhs= ₹110 Lakhs
Interest at 18% thereon = ₹ 110 Lakhs X18% = ₹ 19.80 lakhs

B. Computation of Future Maintainable Profit (₹ in Lakhs)

Particulars	Shareholders funds approach	Long Term Funds approach
Profit Before Interest Less: Interest on Long Term Loan	125.00 19.80	125.00 N.A
Future Maintainable Profits before tax Less : Tax Expense at 30%	105.20 31.56	125.00 37.50

Future Maintainable Profit after tax	73.64	87.50

C. Computation of Goodwill under different approaches (₹ in Lakhs)

Particulars	**Shareholders' funds approach**	**Long Term Funds approach**
a. Future Maintainable Profit after tax	73.64	87.50
b. Normal Rate of Return	25%	20%
c. Normal Capital Employed =(a÷b)	294.56	437.50
d. Actual Capital Employed (given)	210.00	320.00
e. goodwill= (c-d)	**84.56**	**117.50**

Hence, Leverage Effect on Goodwill = (₹ 117.50 – ₹ 84.56)Lakhs = ₹ 32.94 Lakhs.

8. (b) From the following information , calculate the value of a share if you want to
(i) Buy a small lot of Shares;
(ii) Buy a controlling interest in the Company

Year	**Profit (₹)**	**Capital Employed (₹)**	**Dividend %**
2011	**27,50,000**	**1,71,87,500**	**12**
2012	**80,00,000**	**4,00,00,000**	**15**
2013	**1,10,00,000**	**5,00,00,000**	**18**
2014	**1,25,00,000**	**5,00,00,000**	**20**

The market Expectation is 12%.

8.(b) . Solution:
(i) Buy a Small Lot of Shares

If the purpose of valuation is to provide data base to aid decision of buying a small (non- controlling) position of the equity of a company, dividend yield method is most appropriate. Dividend rate is rising continuously, weighted average will be more appropriate for calculation of average dividend.

Year	**Rate of Dividend**	**Weight**	**Product**
2011	12	1	12
2012	15	2	30
2013	18	3	54
2014	20	4	80
		10	**176**

Average Dividend = $\frac{176}{10}$ = 17.6%

Value of share on the basis of dividend for buying a small lot of shares will be

$$\frac{\text{Average dividend rate}}{\text{Market expectation rate}}\times 100=\frac{17.6}{12}\times 100=Rs.146.67\text{ per share}$$

(ii) **Buy a Controlling Interest in the Company**

If the purpose of valuation is to provide data base to aid a decision of buying controlling interest in the company, total profit will be relevant to determine the value of shares as the shareholders have capacity to influence the decision of distribution of profit. As the profit is rising, weighted average will be more appropriate for calculation of average profit/ yield.

Year	Yield % (Profit/ capital employed) X 100	Weight	Product
2011	16	1	16
2012	20	2	40
2013	22	3	66

2014	25	4	100
		10	222

Average yield = $\frac{222}{10}$ = 22.2%

If controlling interest in the company is being taken over , then the value per share will be

= $\frac{\text{Average yield rate}}{\text{Market expectation rate}} \times 100 = \frac{22.2\%}{12\%} \times Rs.100 = Rs.187 \text{ per share}$

9. The Balance Sheet of Vijay Limited as on 31.12.2014 is as follows:

Liability	₹ (in lakhs)	Assets	₹ (in lakhs)
2,00,000 equity shares of ₹ 10 each Fully paid 2,00,000 equity shares of ₹ 6 each, Paid up fully Reserves and Surplus Liabilities	**20 12 8 20**	**Goodwill Fixed assets Other tangible assets Intangible assets (Market Value) Miscellaneous expenditure to the extent not written off**	**10 30 10 6 4**
	60		**60**

Fixed assets are worth ₹48 lakhs. Other tangible assets are revalued at ₹6 lakhs. The company is expected to settle the disputed bonus claim of ₹ 1 lakh not provided for in the accounts. Goodwill appearing in the balance sheet is purchased goodwill. It is considered reasonable to increase the value of goodwill by an amount equal to average of the book value and a valuation made at 3 year's purchase of average super-profit for the last 4 years. After tax, profit and dividend rates were as follows:

Year	PAT (₹ in lakhs)	Dividend%
2011	**6.0**	**11%**
2012	**7.0**	**12%**
2013	**8.0**	**13%**
2014	**8.2**	**14%**

Normal expectation in the industry to which the company belongs is 10%.
Rahim holds 40,000 equity shares of ₹ 10 each fully paid and 20,000 equity shares of ₹6 each, fully paid up. He wants to sell away his holdings.

A. Determine the break-up value and market value of both kinds of shares.

9. Solution.

WN # 1 : Computation of terminal capital employed:

Particulars	**₹ in lakhs**	**₹ in lakhs**
a. Assets :		
i. Fixed Assets	48.00	
ii. Other tangible assets	6.00	
iii. Intangible assets	6.00	60.00
b. Outside Liabilities		
i. Sundry liabilities	20.00	
ii. Bonus Payable	2.00	22.00

c. Terminal Capital Employed (a-b)		38.00

WN # 2 : Future Maintainable Profits

Year	PAT (Given)	Weights	Weight × PAT
2008	6.0	1	6.0
2009	7.0	2	14.0
2010	8.0	3	24.0
2011	8.2	4	32.8

Future Maintainable Profits= $\frac{6+14+24+32.8}{1+2+3+4} = \frac{Rs.76.8}{10}$ **=₹7.68 Lakhs**

WN # 3 :

Particulars	**₹ in Lakhs**
a. Terminal Capital Employed	38.00
b. NRR	10%
c. Normal Profit (a x b)	3.8
d. Future Maintainable Profit (WN # 3)	7.68
e. Super Profit (d-c)	3.88
f. Number of years purchase	3
g. Goodwill (e x f)	11.64

WN # 4 : Incremental goodwill to be considered for valuation of shares

An amount equal to average of book value as per valuation

Particulars	**₹ in Lakhs**
a. Value as per books	10.00
b. As per valuation (WN # 3)	11.64
c. Simple average of above $\left[\frac{a+b}{2}\right]$	10.82
d. Total Goodwill [b+c]	**20.82**

WN # 5 : Ascertainment of break- up- value

Particulars	**₹ in Lakhs**
a. Net trading assets (at fair value) (WN # 1)	38.00
b. Add : Non- trading assets	NIL
c. Add: goodwill (WN # 4)	20.82
d. Net assets available to equity shareholders	48.82
e. No. of shares of ₹ 10 equivalent shares	
i. ₹ 10 Shares 2,00,000	
ii. ₹ 6 Shares 1,20,000	3.2 Lakhs shares
f. Value of ₹ 10 shares	₹15.26
g. Value of ₹ 6 shares $(17.76\times\frac{6}{10})$	₹ 9.15

WN # 6 : Ascertainment of market value- Dividend capitalization method

(a) **Dividend per share**
= weighted average dividend of last four years as the % of dividend shows as a trend

$$= \frac{(11\times1)+(12\times2)+(13\times3)+(14\times4)}{1+2+3+4}$$

$$= \frac{11+24+39+56}{10} = \frac{130}{10} = 13\%$$

(b) **Dividend per share of** ₹ 10 shares = ₹1.30

₹ 6 shares = ₹0.78

(c) **Market value of** ₹ 10 shares = $\frac{1.30}{10\%}$ =₹ 13.00

₹ 10 shares = $\frac{0.78}{10\%}$ =₹ 7.80

WN # 7

Fair value of share if controlling interest is being sold

The fair value of share is ascertained as the simple average of net assets value per share and earning capitalization method value per share.

Particulars	₹ 10 Shares	₹ 6 Shares
a. Value as per net assets method	17.76	10.66
b. Value as per earnings capitalization method (WN # 8)	24.00	14.40
c. Fair value [(a+b)/2]	20.88	12.53

WN # 8

Value of shares as per Earnings Capitalisation Method

	Particulars	**Amount ₹**
a.	Future Maintainable Profit	3.84 lakhs
b.	Normal rate of return	10%
c.	Net trading assets	38.40 lakhs
d.	Add: Non-trading assets	Nil
e.	Value of business	38.4 lakhs
f.	Number of shares [equivalent ₹ 10 shares]	1.6 lakhs
g.	Value per shares of ₹ 10 shares (e÷ f)	₹24.00
h.	Value per shares of ₹ 10 shares [(24÷10) X 6]	₹14.40

10. The following is the Balance Sheet of Utkal Ltd. on 31st December,2011:- (₹ in Lakhs)

Liabilities	**₹**	**Assets**	**₹**
5,00,000 Equity Shares of ₹ 100 each	**500.00**	**Fixed Assets**	**1,701.63**
12,000 9% Preference Shares of ₹ 100 each	**12.00**	**Current Assets**	**1,657.60**
Reserves & Surplus	**1,031.50**	**Loans & Advances**	**719.50**
Secured Loans	**1048.73**		

Unsecured Loans **Current Liabilities & Provisions**	**382.77** **1,103.73**		
Total	**4,078.73**	**Total**	**4,078.73**

The Company has been granted a new industrial license for the manufacture of a product, the capital costs of the project are estimated at ₹9 Crores. The company desires to finance the new project to the extent of ₹4 Crores partly by accepting public deposits and partly from out of international resources, the balance of ₹5 Crores by way of issue of fresh Equity Capital at a premium of ₹ 150 per share.
You are required to submit a report to the Directors of the Company stating your reasons whether or not the premium amount of ₹ 150 per share would be justified.
The following further information is made available to you enable you to prepare the report-

i. **Rate of dividends on Equity Shares for the last five years were-**

Year	**2007**	**2008**	**2009**	**2010**	**2011**
rates	**18%**	**20%**	**20%**	**22%**	**22%**

ii. **Turnover for the last three years were: 2009-₹30 Crores; 2010- ₹35Crores;2011- ₹40Crores.**
iii. **Anticipated annual turnover of the new project for the next three years will be ₹8 Crores.**
iv. **Net profit before Tax had remained around 5 % on sales during the last three years . It is expected that the same would go upto 7% in the future on account of internal savings and the sales of the new product.**
v. **Rate of income tax to be taken at 40%.**
vi. **The trend of market price of Equity shares of the Company as per quotation in Stock Exchange was as under-**

Year	**High**	**Low**
2009	**₹525**	**₹400**
2010	**₹535**	**₹420**
2011	**₹550**	**₹450**

10. Solution .

Note: Since the Company's turnover , Dividend Rates and Share Price are on the increasing trend over the past few years, the premium of ₹ 150 per share on the new issue will be justified if –

- **Projected EPS is comparable with the past EPS earned by the Company.**
- **PE Ration after premium issue is comparable with Industry Norms.**

A. Computation of PE Ratio (₹ in Lakhs)

Particulars	**2009**	**2010**	**2011**
Sales	3000.00	3,500.00	4,000.00
Net profit at 5 % of sales Less: Tax expense at 40% of net profit	150.00 60.00	175.00 70.00	200.00 80.00
Profit after tax Less: Preference dividend (₹ 12,00,000 X 9%)	90.00 1.08	105.00 1.08	120.00 1.08
Residual earnings available to Equity Shareholders Number of Equity Shares	88.92 5 lakhs	103.92 5 lakhs	118.92 5 lakhs
Earnings per share Average Market Price = (Max + Min)÷ 2	₹ 17.78 (525+400)÷2 =462.50	₹20.78 (535+ 420) ÷2 =477.50	₹23.78 (550+ 450)÷2 =500.00
Price Earnings Ratio (MPS÷EPS)	26.20	22.98	21.03

2. Computation of Future Maintainable EPS for next three years

Particulars	2012	2013	2014
Sales Turnover: Existing turnover (based on ₹5 Crore annual increase) New Project.(given)	 4,500.00 800.00	 5,000.00 800.00	 5,500.00 800.00
Total Sales	5,300.00	5,800.00	6,300.00
Net profit before tax at 7 % of turnover Less: Tax expenses at 40%	371.00 148.40	406.00 162.40	441.00 176.40
Profit After Tax Less: Preference Dividend at 9 %	222.60 (1.08)	243.60 (1.08)	264.60 (1.08)
Future earnings available to Equity Shareholders	221.52	242.52	263.52
Weights	3	2	1
Weighted Product	664.56	485.04	263.52
Weighted Average [(666.56 + 485.04 + 263.52)÷6]			235.52
Number of shares [5 lakhs + (₹ 5 Crore ÷ ₹ 250)}			7 lakhs
Projected EPS [₹ 235.52 lakhs ÷ 7 lakhs shares]			₹33.65
Issue Price (including Premium)			₹250
Hence , Projected PE Ratio based on issue price			₹250÷ ₹ 33.65 =7.43

Note : Since future earnings show an increasing trend, weighted Average is more appropriate. Hence, more weightage is given to profits of near future years since these profits can be estimated with more reasonable certainty than profits of subsequent future years.

3. Justification of Issue at Premium

Particulars	Analysis	Effect for Premium
(a) Trend of PAT , Residual Earnings available to Equity Shareholders	Increasing Trend of PAT and Residual Earnings of Shareholders	Favourable , Positive
(b) Comparison of Projected EPS with past EPS of the Company	Increasing Trend	Favourable , Positive
(c) Comparison of Projected EPS with that of Industry Average	Assuming Industry Average PE Ration is about 7-8, the Company's projection are considered positive.	Favourable , Positive
(d) Comparison of Issue Price (₹100+ ₹ 150=₹ 250) with Average Market Price for the past three years	Since Issue Price is below Average Market Price, there will be sufficient takers for the Company's Shares.	Favourable , Positive

Conclusion: On the above grounds, the Issue Price of ₹250 (including Premium of ₹ 150) is justifiable. However , since the Average Market Price is substantially higher than the proposed issue price, it is advisable that the Company put its issue price nearer the average market price , by fixing a higher premium.

11. J Ltd., and K Ltd., had the following financial position as at 31st March, 2014.

Liabilities	J Ltd. ₹	K Ltd. ₹	Assets	J Ltd. ₹	K Ltd. ₹
Share capital : **Equity shares of ₹100 each fully paid**	**48,00,000**	**36,00,000**	**Goodwill**	**30,00,000**	**6,00,000**
General Reserve	**18,00,000**	**12,00,000**	**Fixed Assets**	**24,00,000**	**42,00,000**
Investment Allowance Reserve	**-**	**18,00,000**	**Investment at cost**	**18,00,000**	**12,00,000**
Current Liabilities	**24,00,000**	**9,00,000**	**Current Assets**	**18,00,000**	**15,00,000**
	90,00,000	**75,00,000**		**90,00,000**	**75,00,000**

It was decided that J Ltd. will take over the business of K Ltd., on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below :

i. **Investment of K Ltd., included 6,000 shares in J Ltd., acquired at a cost of ₹ 150 per share. The other investments of K Ltd., have a market value of ₹ 1,50,000;**
ii. **Investment Allowance Reserve was in respect of additions made to Fixed assets by K Ltd., in the years 2013-2014 on which Income Tax relief has been obtained. In terms of the Income Tax Act, the company has to carry forward till 2016, reserve of ₹ 9,00,000 for utilisation;**
iii. **Goodwill of J Ltd., and K Ltd., are to be taken at ₹ 24,00,000 and ₹ 12,00,000 respectively;**
iv. **The market value of investments of J Ltd., was ₹ 12,00,000;**
v. **Current assets of J Ltd., included ₹ 4,80,000 of stock in trade obtained from K Ltd. which company sold at a profit of 25% over cost ;**
vi. **Fixed assets of J Ltd., and K Ltd., are valued at ₹ 30,00,000 and ₹ 45,00,000 respectively.**

Suggest the scheme of absorption and show the journal entries necessary in the books of J Ltd. Also prepare the Balance Sheet of that company after takeover of the business of K Ltd.
Though in the question the balance sheet is not prepared as per Revised Schedule VI the answer should be as per Revised Schedule VI.

11. Solution.

Part I: Purchase Consideration
WN # 1 : Intrinsic Value of Shares

Particulars	J Ltd. (₹)	K Ltd. (₹)
Goodwill	24,00,000	12,00,000
Fixed assets	30,00,000	45,00,000
Investment-Outside	12,00,000	1,50,000
-Inter Co [6,000 Shares @₹125 each]	------	7,50,000
Current assets	18,00,000	15,00,000
Liabilities	(24,00,000)	(9,00,000)
Net assets	60,00,000	72,00,000
No. of shares outstanding	48,000	36,000
Intrinsic Value per share (60,00,000/48,000); (72,00,000/36,000)	125	200

WN # 2 : Purchase Consideration

Particulars	K Ltd. (₹)
Total no. of Shares outstanding in K Ltd.	36,000
Value of Shares @₹200 each	72,00,000
No. of shares issuable on the basis of intrinsic value of share (72,00,000÷125)	57,600
Less: Shares already held	(6,000)
No. of Shares to be issued	51,600
Shares price	125
Purchase Consideration (51,600×125)	64,50,000

Part II : In the Books of J Ltd.

- Nature of Amalgamation-Purchase
- Method of Accounting-Purchase

	Particulars		Debit (₹)	Credit (₹)
1.	For Purchase Consideration Due Business Purchase A/C To Liquidator of K Ltd. A/C	 Dr.	 64,50,000	 64,50,000
2.	For Assets and Liabilities taken over:			

	Goodwill A/C Fixed Assets A/C Investment A/C Current Assets A/C To Liabilities A/C To Business Purchase A/C	Dr. Dr. Dr. Dr.	12,00,000 45,00,000 1,50,000 15,00,000	 9,00,000 64,50,000
3.	For Discharge of purchase consideration Liquidator of K Ltd. A/C To Equity Share Capital A/C To Securities Premium A/c	 Dr.	 64,50,000	 51,60,000 12,90,000
4.	Contra entry for statutory reserve Amalgamation adjustment A/C To Investment allowance A/c	 Dr.	 9,00,000	 9,00,000
5.	For adjustment of stock reserve Goodwill A/C To Stock reserve A/C	 Dr.	 96,000	 96,000

Name of the Company: J Ltd.

Balance Sheet as at 31.03.2014

Ref No.		Particulars	Note No.	As at 31st March, 2014	As at 31st March, 2013
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	99,60,000	
		(b) Reserves and surplus	2	39,90,000	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		(a) Long-term borrowings			
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c) Other current liabilities	3	33,00,000	
		(d) Short-term provisions			
		Total		1,72,50,000	

	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	4	69,00,000	
		(ii) Intangible assets	5	42,96,000	
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		Non-current investments	6	19,50,000	
		Deferred tax assets (Net)			
		Long-term loans and advances			
		Other non-current assets	7	9,00,000	
	2	Current assets			
		(a) Current investments			
		(b) Inventories			
		(c) Trade receivables			
		(d) Cash and cash equivalents			
		(e) Short-term loans and advances			
		(f) Other current assets	8	32,04,000	
		Total		1,72,50,000	

		(₹)
Note 1. Share Capital	**As at 31st March, 2014**	**As at 31st March, 2013**
Authorised, Issued, Subscribed and paid up:- 99,600 Equity Shares of ₹ 100 (of which 51,600 shares of ₹ 1,00 each issued for consideration other than cash)	99,60,000	
Total	99,60,000	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2014**		**As at 31st March, 2013**	
	Nos.	**Amount (₹)**	**Nos.**	**Amount (₹)**
Opening Balance as on 01.04.11	48,000	48,00,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares, Right shares, split	51,600	51,60,000	NIL	NIL

shares, shares issued other than cash)				
	99,600	99,60,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	99,600	99,60,000	NIL	NIL

Note 2. Reserves and Surplus	**As at 31st March, 2014**	**As at 31st March, 2013**
Securities Premium	12,90,000	
Investment allowance Reserve	9,00,000	
General Reserve	18,00,000	
Total	39,90,000	

Note 3. Other Current Liabilities	**As at 31st March, 2014**	**As at 31st March, 2013**
Current Liabilities	33,00,000	
Total	33,00,000	

Note 4. Tangible assets	**As at 31st March, 2014**	**As at 31st March, 2013**
Fixed Assets (24,00,000+45,00,000)	69,00,000	
Total	69,00,000	

Note 5. Intangible assets	**As at 31st March, 2014**	**As at 31st March, 2013**
Goodwill	42,96,000	
Total	42,96,000	

Note 6. Non-Current Investments	**As at 31st March, 2014**	**As at 31st March, 2013**
Investment at cost	19,50,000	
Total	19,50,000	

Note 7. Other Non Current Assets	**As at 31st March, 2014**	**As at 31st March, 2013**
Amalgamation Adjustment Accounts	9,00,000	
Total	9,00,000	

Note 8. Other Current Assets	**As at 31st March, 2014**	**As at 31st March, 2013**
Current Assets (33,00,000 – 96,000)	32,04,000	
Total	32,04,000	

12. The Balance Sheet of Googly Ltd. as on 31.3.2014 is given :

(₹ in '000)

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital :		Fixed Assets	5,400
Equity shares of ₹ 10 each	1,600	Non-trade Investments	600
Securities Premium	200	Stock	1,200
General Reserve	1,560	Sundry Debtors	720
Profit and Loss Account	240	Cash and Bank	320
10% Debenture	4,000		
Creditors	640		
	8,240		8,240

Gunshot Ltd. buy back 32,000 shares of ₹ 20 per share. For this purpose, the Company sold its all non-trade investments for ₹ 6,40,000. Give Journal Entries with full narrations effecting the buy back.

12.Solution. **Journal Entries for Buy-back of shares of Googly Ltd.**

			₹	₹
(i)	Bank A/c To Non-trade Investments To Profit & Loss A/c (Being the entry for sale of Non-trade Investments)	Dr.	6,40,000	 6,00,000 40,000
(ii)	Shares Buy back A/c (32,000 x ₹ 20) To Bank A/c (Being purchase of 32,000 shares @ ₹20 per share)	Dr.	6,40,000	 6,40,000
(iii)	Equity Share Capital A/c (32,000 x ₹10) Buy-back Premium (32,000 x ₹10) To Shares Buy-back A/c (Being cancellation of shares bought back)	Dr. Dr.	3,20,000 3,20,000	 6,40,000
(iv)	Securities Premium A/c General Reserve A/c To Buy-back Premium (Being adjustment of buy-back premium)	Dr. Dr.	2,00,000 1,20,000	 3,20,000
(v)	General Reserve A/c To Capital Redemption Reserve (Being the entry for transfer of General Reserve to Capital Redemption Reserve to the extent of face value of equity shares bought back)	Dr.	3,20,000	 3,20,000

13. Red Ltd. and Blue Ltd. propose to amalgamate. Their balance sheets as at 31st March,2014 were as follows:

Liabilities	Red Ltd	Blue Ltd	Assets	Red Ltd.	Blue Ltd.
Share Capital	15,00,000	6,00,000	Fixed Assets:		
Equity shares of ₹ 10			Less: Depreciation	12,00,000	3,00,000
each			Investments	3,00,000	----
	6,00,000	60,000	(Face value of ₹ 3		
General Reserves	3,00,000	90,000	lakhs ,6%		
Profit and Loss Account	3,00,000	1,50,000	Tax free G.P notes)		
Creditors			Stock	6,00,000	3,90,000
			Debtors	5,10,000	1,80,000
			Cash and Bank balance	90,000	30,000
	27,00,000	9,00,000		27,00,000	9,00,000

Their Net Profit (after taxation) were as follows:

Year	Red Ltd.	Blue Ltd.
2011-12	**3,90,000**	**1,35,000**
2012-13	**3,75,000**	**1,20,000**
2013-14	**4,50,000**	**1,68,000**

Normal trading profit may be considered as 15% on closing capital invested. Goodwill may be taken as 4 year's purchase of average super profit. The stock of Red Ltd. and Blue Ltd. are to be taken at ₹ 6,12,000 and ₹ 4,26,000 respectively for the purpose of amalgamation. Green Ltd. is formed for the purpose of amalgamation of two companies. Assume Tax Rate 40%.
(a) Suggest a Ratio of exchange of shares and
(b) Draft the opening balance sheet of Green Ltd (revised schedule VI format is not required).

13. Solution.
(i) Scheme of Capitalization of Green Ltd. and ratio of exchange of shares

Computation of Net Assets of amalgamating companies

	Red Ltd.	Blue Ltd.
Goodwill (W.N 2) Fixed Assets 6% investments (Non- trade) Stock Debtors Cash and Bank Balances	3,19,200 12,00,000 3,00,000 6,12,000 5,10,000 90,000	1,21,200 3,00,000 ---- 4,26,000 1,80,000 30,000
	30,31,200	10,57,200
Less: Creditors	3,00,000	1,50,000
Net Assets	27,31,200	9,07,200
No. of Equity Shares	1,50,000	60,000
Intrinsic value of a share	₹18.208	₹15.12
No of shares to be issued by Green Ltd. to		
Red Ltd. 1,50,000 X 18.208/10	2,73,120 shares	
Blue Ltd. 60,000 X 15.12/10		90,720 shares

In total 2,73,120+ 90,720 i.e. 3,63,840 shares will be issued by Green Ltd.
Ratio of exchange of shares will be as follows:
A. Holders of 1,50,000 equity shares of Red Ltd. will get 2,73,120 shares in Green Ltd.
B. Similarly, holders of 60,000 equity shares of Blue Ltd. will get 90,720 shares in Green Ltd.

(ii) Opening balance sheet of Green Ltd.

Liabilities	₹	**Assets**	₹
Share Capital : 3,63,840 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation) Current Liabilities: Creditors	36,38,400 4,50,000	Fixed Assets: Goodwill (W.N 2) (3,19,200+ 1,21,200) Other fixed Assets (12,00,000+ 3,00,000) Investments in 6% Tax free G.P Notes Current Assets: Stock (6,12,000+4,26,000) Debtors (5,10,000+ 1,80,000) Cash and Bank balance (90,000+30,000)	 4,40,400 15,00,000 3,00,000 10,38,000 6,90,000 1,20,000
	40,88,400		40,88,400

Working Notes:

1. Calculation of Closing trading capital employed on the basis of net assets

	Red Ltd. (₹)	**Blue Ltd. (₹)**
Fixed Assets	12,00,000	3,00,000
Stock	6,12,000	4,26,000
Debtors	5,10,000	1,80,000
Cash and Bank Balance	90,000	30,000
	24,12,000	9,36,000
Less: Creditors	3,00,000	1,50,000
Net Assets	21,12,000	7,86,000

2. Calculation of value of Goodwill

A. Average trading profit

	Red Ltd. (₹)	**Blue Ltd. (₹)**
2011-12	3,90,000	1,35,000
2012-13	3,75,000	1,20,000
2013-14	4,50,000	1,68,000
Profit after tax	12,15,000	4,23,000
Profit before tax	20,25,000	7,05,000
Add: Under valuation of closing stock	12,000	36,000
	20,37,000	7,41,000
Average of 3 years' profit before tax	6,79,000	2,47,000
Less: Income from non-trade investments (3,00,000 X 6%)	18,000	--
Average profit before tax	6,61,000	2,47,000
Less: 40% tax	2,64,400	98,800
Average profit after tax	3,96,600	1,48,200

(B) Super Profits

	Red Ltd. (₹)	**Blue Ltd. (₹)**
Average trading profit	3,96,600	1,48,200
Less: Normal Profit		
Red Ltd. ₹21,12,000 X 15%	3,16,800	--
Blue Ltd. ₹ 7,86,000 X 15%	--	1,17,900
	79,800	**30,300**

(C)

	Red Ltd. (₹)	**Blue Ltd. (₹)**
Value of Goodwill at 4 years' purchase of super profits	3,19,200	1,21,200

14. The following are the Balance Sheet of Anurag Ltd. and Farhan Ltd. as at 31.12.2014

Anurag Ltd.

Liabilities	**₹'000**	**Assets**	**₹'000**
Share Capital		**Fixed Assets**	**3,400**
3,00,000 Equity shares of ₹ 10 each	**3,000**	**Stock (pledge with secured loan creditors)**	**18,400**
10,000 Preference shares of ₹10 each	**1,000**	**Other Current Assets**	**3,600**
General Reserves	**400**	**Profit and Loss Account**	**16,600**
Secured Loans (secured against pledge of	**16,000**		
stocks)	**8,600**		
Unsecured Loans	**13,000**		
Current Liabilities			

	42,000		42,000

Farhan Ltd.

Liabilities	₹'000	Assets	₹'000
Share Capital (1,00,000 Equity shares of ₹ 10 each) General Reserves Secured Loans Current Liabilities	1,000 2,800 8,000 4,600	Fixed Assets Current Assets	6,800 9,600
	16,400		16,400

Both the companies go into liquidation and Oscar Ltd. is formed to take over their businesses. The following information is given-

(a) All current Assets of two companies, except pledged stock are taken over by Oscar Ltd. The realizable value of all Current Assets are 80% of book values in case of Anurag Ltd. and 70% for Farhan Ltd. , Fixed assets are taken over at book value .

(b) The breakup of Current liabilities-

Particulars	Anurag Ltd. ₹	Farhan Ltd. ₹
Statutory Liabilities (including ₹22 lakhs in case of Anurag Ltd. , incase of claim not having been admitted shown as contingent liability)	72,00,000	10,00,000
Liabilities to employees	30,00,000	18,00,000

Note: Balance of Current liability is miscellaneous creditors.

(c) Secured Loan include ₹16,00,000 accrued interest in case of Farhan Ltd.

(d) 2,00,000 equity shares of ₹10 each are allotted by Oscar Ltd. , at par against cash payment of entire face value to the shareholders of Anurag Ltd. and Farhan Ltd. in the ratio of shares held by them in Anurag Ltd. and Farhan Ltd.

(e) Preference shareholders are issued Equity shares worth ₹2,00,000 in lieu of present holding.

(f) Secured Loan Creditors agree to continue the balance amount of their loans to Oscar Ltd. , after adjusting value of pledged security in case of Anurag Ltd. and after waiving 50% of interest due in the case of Farhan Ltd.

(g) Unsecured Loans are taken over by Oscar Ltd. at 25% of loan amount.

(h) Employees are issued fully paid Equity Shares in Oscar Ltd. in full settlement of their dues.

(i) Statutory liabilities are taken over by Oscar Ltd. at full values and miscellaneous creditors are taken over at 80% of the book value.

Compute the purchase consideration

Compute the account of Goodwill/Capital reserve on takenover of businesses.

14. Solution.

A. Computation of Purchase Consideration (₹'000)

Note: In the absence of method for computing Purchase Consideration, Net Assets Method is used.

	Anurag Ltd.	Farhan Ltd.
Fixed Assets (at Book Value) Current Assets 	3,400 2,880 (3,600X80%)	6,800 6,720 (9,600 X 70%)
Total of Assets Taken Over	6,280	13,520
Current Liabilities: Liability to Employees Statutory Liabilities (Recognized) Statutory Liabilities (Disputed) Miscellaneous Creditors (@ 80%)	 3,000 5,000 2,200 4,000	 1,800 1,000 -- 1,440

Secured Loan	[(13,000 – 3,000-5,000) X 80%] 1,280	[(4,600-1,000-1,800)X80%] 7,200
Unsecured Loan	(16,000 – 80% of stick 18,400) 2,150	(8,000-Acc. Int. 1,600 X 50%) --
Total of Liabilities Taken over	**17,630**	**11,440**
Net Assets Taken Over	**(11,350)**	**2,080**

Equity Shareholders of Farhan Ltd. will be allotted Equity Share Capital in Oscar Ltd. worth ₹2,080 (issued at par). Equity Shareholders of Anurag will not be allotted any Equity Capital in Oscar Ltd. for transfer of assets and liabilities. Shares issued for cash cannot be considered as Purchase Consideration, as it is not for purchase of assets of the Companies, but only against receipt of cash.

B. Statement of Purchase Consideration

Mode	Description	Amount
Anurag Ltd. Equity Shareholders Preference Shareholders	 Net Assets taken over is negative . Therefore , no equity is allotted. 20,000 Equity Shares of Oscar Ltd. of ₹ 10each, issued at par as fully paid up.	 **NIL** **₹2,00,000**
Purchase Consideration for Anurag Ltd.		**₹2,00,000**
Farahn Ltd. Equity Share holders (= to Net Assets Takenover)	2,08,000 Equity Shares of Oscar Ltd. of ₹ 10 each , issued at par as fully paid up.	₹20,80.000

C. Computation of Goodwill/ Capital Reserve on Takenover (₹'000)

	Anurag Ltd.	**Farhan Ltd.**
Purchase Consideration	200	2,080
Less: Net Assets Taken over (Add: Net Liabilities)	11,350	(2,080)
Goodwill/ Capital Reserve	11,550	NIL

15. Techno Ltd. has 2 divisions Laptops and Mobiles.
Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses.
On 31st March 2014 the division-wise draft Balance Sheet was: (₹ in crores)

		Laptops	**Mobiles**	**Total**
Fixed assets cost		**250**	**500**	**750**
Depreciation		**(225)**	**(400)**	**(625)**
Net Assets	**(A)**	**25**	**100**	**125**
Current assets:		**200**	**500**	**700**
Less: Current liabilities		**(25)**	**(400)**	**(425)**
	(B)	**175**	**100**	**275**
Total (A+B)		**200**	**200**	**400**
Financed by:				
Loan funds		**-**	**300**	**300**
Capital: Equity ₹10 each		**25**	**-**	**25**
Surplus		**175**	**(100)**	**75**
		200	**200**	**400**

Division Mobiles along with its assets and liabilities was sold for ₹50 crores to Turnaround Ltd. a new company, who allotted 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration, in proportion to their shareholding in the company.
Assuming that there are no other transactions, you are asked to:

(i) Pass journal entries in the books of Techno Ltd.

(ii) Prepare the Balance Sheet of Techno Ltd. after the entries in (i).

(iii) Prepare the Balance Sheet of Turnaround Ltd.

Though in the question the balance sheet is not prepared as per Revised Schedule VI the answer should be as per Revised Schedule VI.

15. Solution.

Journal of Techno Ltd. (₹ in crores)

			Dr. ₹	Cr. ₹
(1)	Turnaround Ltd.	Dr.	50	
	Loan Funds	Dr.	300	
	Current Liabilities	Dr.	400	
	Provision for Depreciation	Dr.	400	
	To Fixed Assets			500
	To Current Assets			500
	To Capital Reserve			150
	(Being division Mobiles along with its assets and liabilities sold to Turnaround Ltd. for ₹ 50 crores)			
	Capital Reserve	Dr.		
	To Turnaround Ltd.		50	
(2)	(Being allotment of 1 crore equity shares of ₹10 each at a premium of ₹40 per share to the members of Techno Ltd. in full settlement of the consideration)			50

Techno Ltd,

Balance Sheet after reconstruction

		Note No.		
I.	**Equity and liabilities**			
	(1) **Shareholders' funds**			
	(a) Share Capital		25	
	(b) Reserves and surplus	1	175	200
	(2) **Current Liabilities**			25
	Total			225
II.	**Assets**			
	(1) **Non-current assets**			
	(a) Fixed assets			25
	(2)**Current assets**			200
	Total			225

Notes to Accounts

1.		(₹ in crores)
	Reserves and Surplus	75
	Add: Capital Reserve on reconstruction	100
		175

Note to Accounts: Consequent on transfer of Division Mobiles to newly incorporated company Turnaround Ltd., the members of the company have been allotted 1 crore equity shares of ₹10 each at a premium of ₹40 per share of Turnaround Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

Balance Sheet of Turnaround Ltd.

		Note No.		
1.	**Equity and liabilities**			
	(1) **Shareholders' funds**			
	(a) Share Capital	1	10	
	(b) Reserves and surplus:			
	Securities Premium		40	50
	(2) **Non-current liabilities**			
	Long term borrowings			300
	(3) **Current liabilities**			400
	Total			750
	Assets			
II.	**(1) Non-current assets**			
	Fixed assets			
	(i) Tangible assets			
	(ii) Intangible assets	2	100	
			150	250
	(2) Current assets			500
	Total			750

Notes to Accounts

		(₹ in crores)
1.	**Share Capital:**	
	Issued and Paid-up capital	
	1 crore Equity shares of ₹ 10 each fully paid up	10
	(All the above shares have been issued for consideration other than cash, to the members of Techno Ltd. on take over of Division Mobiles from Techno Ltd.)	
	Intangibles Assets:	
2.	Goodwill (WN 1)	150

Working Note

1. **Calculation of Goodwill/Capital Reserve for Turnaround Ltd.**

Assets taken over

Non Current Assets	100
Current Assets	500
Total Assets(A)	600
Loan Funds	300
Current Liabilities	400
Total Liabilities (B)	700
Net Assets C= (A-B)	(100)
Purchase Consideration (given) D	50
Goodwill (D-C)	150

16. The summarized Balance sheets of Aman Ltd. and its subsidiary Ayan Ltd. as at 31.3.2014 were as follows :

Liabilities	Aman Ltd.	Ayan Ltd.	Assets	Aman Ltd.	Ayan Ltd.
Share capital	**50,00,000**	**10,00,000**	**Fixed assets**	**60,00,000**	**18,00,000**

(Share of ₹10 each)					
General reserves	**50,00,000**	**20,00,000**	**Investment in Ayan Ltd. (60,000 shares)**	**6,00,000**	**---**
Profit and Loss account	**20,00,000**	**15,00,000**	**Sundry debtors**	**35,00,000**	**5,00,000**
Secured loan	**20,00,000**	**2,50,000**	**Inventories**	**30,00,000**	**25,00,000**
Current liabilities	**30,00,000**	**2,50,000**	**Cash and bank**	**39,00,000**	**2,00,000**
	1,70,00,000	**50,00,000**		**1,70,00,000**	**50,00,000**

Aman Ltd. holds 60% of the paid-up capital of Ayan Ltd. and the balance is held by a foreign company.
A memorandum of understanding has been entered into with the foreign company by Aman Ltd. to the following effect:
(i) The shares held by the foreign company will be sold to Aman Ltd. at a price per share to be calculated by capitalizing the yield at 15%. Yield, for this purpose, would mean 50% of the average of pre-tax profits for the last 3 years, which were ₹12 lakhs, 18 lakhs and 24 lakhs respectively. (Average tax rate was 40%).
(ii) The actual cost of shares to the foreign company was ₹4,40,000 only. Gains accruing to the foreign company are taxable at 20%. The tax payable will be deducted from the sale proceeds and paid to government by Aman Ltd. 50% of the consideration (after payment of tax) will be remitted to the foreign company by Aman Ltd. and also any cash for fractional shares allotted.
(iii) For the balance of consideration, Aman Ltd. would issue its shares at their intrinsic value. It was also decided that Aman Ltd. would absorb Ayan Ltd. Simultaneously by writing down the Fixed assets of Ayan Ltd. by 10%. The Balance Sheet figures included a sum of ₹1,00,000 due by Ayan Ltd. to Aman Ltd. and stock of Aman Ltd. included stock of ₹1,50,000 purchased from Ayan Ltd., who sold them at cost plus 20%. The entire arrangement was approved and put through by all concern effective from 1.4.2012.

You are required to indicate how the above arrangements will be recorded in the books of Aman Ltd. and also prepare a Balance Sheet after absorption of Ayan Ltd. Workings should form part of your answer.

Though in the question the balance sheet is not prepared as per Revised Schedule VI the answer should be as per Revised Schedule VI.

16.Solution.

Name of the Company: Aman Ltd.					
Balance Sheet as at 1.04.2014					
Ref No.	**Particulars**		**Note No.**	**As at 1st April, 2014**	**As at 1st April, 2013**
				₹	₹
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	53,34,660	
		(b) Reserves and surplus	2	89,64,320	
		(c) Money received against share warrants			
	2	Share application money pending allotment			

	3	Non-current liabilities			
		(a) Long-term borrowings	3	22,50,000	
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c) Other current liabilities	4	33,00,000	
		(d) Short-term provisions			
		Total		1,96,98,980	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	76,20,000	
		(b) Intangible assets			
		(c) Capital work-in-progress			
		(d) Intangible assets under development			
		(b) Non-current investments			
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	Current assets			
		(a) Current investments			
		(b) Inventories	6	54,75,000	
		(c) Trade receivables	7	39,00,000	
		(d) Cash and cash equivalents	8	27,03,980	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total		1,96,98,980	

		(₹)
Note 1. Share Capital	**As at 1st April, 2014**	**As at 1st April, 2013**
Authorised, Issued, Subscribed and paid up:- 5,33,466 Equity Shares of ₹ 10 (of which 33,466 shares of ₹ 10 each issued for consideration other than cash)	53,34,660	
Total	53,34,660	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 1st April, 2014**		**As at 1st April, 2013**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.13	5,00,000	50,00,000	NIL	NIL
Add: Fresh Issue (Include Bonus shares, Right shares, split shares, shares issued other than cash)	33,466	3,34,660	NIL	NIL
	5,33,466	53,34,660	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	5,33,466	53,34,660	NIL	NIL

Note 2. Reserves and Surplus	**As at 1st April, 2014**	**As at 1st April, 2013**
General Reserve	50,00,000	
Capital Reserve	13,20,000	
Profit and Loss A/c (20,00,000 - 25,000)	19,75,000	
Securities Premium (33,466 × 20)	6,69,320	
Total	89,64,320	

Note 3. Long-term borrowings	**As at 1st April, 2014**	**As at 1st April, 2013**
Secured Loans (20,00,000 +2,50,000)	22,50,000	
	22,50,000	

Note 4. Other Current Liabilities	**As at 1st April, 2014**	**As at 1st April, 2013**
Current Liabilities (32,50,000 – Mutual Debt. 1,00,000)	31,50,000	
Total	31,50,000	

Note 5. Tangible assets	**As at 1st April, 2014**	**As at 1st April, 2013**
Fixed Assets (78,00,000 – 1,80,000)	76,20,000	

Total	76,20,000	

Note 6. Inventories	**As at 1st April, 2014**	**As at 1st April, 2013**
Inventories (30,00,000 + 25,00,000 – Unrealised Profit 25,000)	54,75,000	
Total	54,75,000	

Note 7. Trade receivables	**As at 1st April, 2014**	**As at 1st April, 2013**
Sundry Debtors (40,00,000 – Mutual debts 1,00,000)	39,00,000	
Total	39,00,000	

Note 8. Cash and cash equivalent	**As at 1st April, 2014**	**As at 1st April, 2013**
Cash at Bank	27,03,980	
Total	27,03,980	

Working Notes:

i. **Average of Pre Tax Profit** = $\frac{12+18+24}{3}$ =₹18Lakhs

Yield = 18 × $\frac{50}{100}$ =₹9 lakhs

ii. **Price per share of Ayan Ltd:-**

Capitaised value of yield of Ayan Ltd. = $\frac{9\text{ lakhs}}{15}\times 100 = 60$ lakhs.

No. of shares = 1,00,000

Price per share = $\frac{60\text{ lakhs}}{1\text{ lakhs}}$ =₹60 per share

iii. **Purchase consideration for 40% of share capital of Ayan Ltd.**

= 1,00,000 x 60 x $\frac{40}{100}$ = ₹24,00,000

iv. **Calculation of intrinsic value of shares of Aman Ltd.**

Total Assets excluding Investments in Ayan Ltd. Value of Investment 60,000 ×60		1,64,00,000 36,00,000
		2,00,00,000
Less: Outside Liabilities: Secured Loan Current Liabilities	 20,00,000 30,00,000	 50,00,000
Net Assets		1,50,00,000

Intrinsic value per share = $\frac{\text{Net asset}}{\text{No of shares}} = \frac{\text{Rs.}1{,}50{,}00{,}000}{5{,}00{,}000} = Rs.30\,per\text{ share}$

v. **Discharge of purchase consideration by Aman Ltd.**

	Equity share capital ₹	Cash ₹	Total ₹

$\text{Payment of tax } (24-4.40)\times\frac{20}{100}=$	----	3,92,000	3,92,000
Issue of shares to foreign company $\begin{bmatrix} 50\% \text{ of } (24-3.92)=10.04\text{lakhs} \\ \text{No. of shares issued by Aman Ltd.} \frac{10,04,000}{30} \\ =33,466.666 \text{ shares} \end{bmatrix}$ $\text{Value of shares capital} = 33,466\times 30$	10,03980	----	10,03,980
Cash payment $[50\% \text{ of } (24-3.92)=10.04 Lakhs]$	----	10,04,000	10,04,000
Cash for fractional shares $=0.6666\times 30$	----	20	20
Total	10,03,980	13,96,020	24,00,000

vi. Calculation for Goodwill/Capital Reserve to Aman Ltd.

		₹
Total of Assets as per Balance Sheet of Ayan Ltd.		50,00,000
Less: 10% Reduction in the value of Fixed Assets $(\frac{10}{100}\times 18,00,000)$		1,80,000
		48,20,000
Less: Secured Loan	₹2,50,000	
Current Liabilities	₹2,50,000	5,00,000
Net Assets		43,20,000
Less: Purchase consideration (outside shareholders)		24,00,000
		19,20,000
Less: Investment in Ayan Ltd. as per Balance Sheet of Aman Ltd.		6,00,000
		13,20,000

vii. Cash and Bank Balance of Aman Ltd. after acquisition of shares

	₹
Opening Balance (Aman Ltd.)	39,00,000
Cash and Bank Balance of Ayan Ltd.	2,00,000
	41,00,000
Less: Remittance to the foreign company	10,04,020
	30,95,980
Less: T.D.S. paid to Government 3,92,000	3,92,000
	27,03,980

viii. Unrealised profit included in stock of Aman Ltd. $1,50,000\times\frac{20}{120}=$₹$25,000$

17. Given below summarized balance sheets of X Limited and Y Limited as at 31.3.2014.

		X Ltd. ₹ in Lakhs		Y Ltd. ₹ in Lakhs
Sources of Funds				
Shareholders' funds		**600**		**400**
Equity Shares of ₹ 100 each				
Reserves and surplus				
General Reserve		**300**		**200**
Profit and Loss A/c		**100**		**100**
Loan Funds				
Secured Loans (of less than 12 months)		**300**		**300**
Unsecured Loans(of less than 12 months)		**200**		**200**
		1,500		**1,200**
Applications of Funds:				
Fixed Assets				
Gross block		**1,000**		**900**
Less: Depreciation		**(200)**		**(250)**
Net block		**800**		**650**
Investments - in 2.4 lakhs shares of Y Ltd.		**300**		**–**
Others		**–**		**200**
Current assets, Loans and Advances				
Less: Current liabilities	**600**		**500**	
Net Current assets	**(200)**		**(150)**	
		400		**350**
		1,500		**1,200**

Note: Secured and unsecured loans are assumed to be of more than 12 months hence treated as long term borrowing . (ignoring interest)

X Ltd. agreed to take over all the assets and liabilities of Y Ltd. at book value and discharge the claims of minority shareholders by issuing its one share for every two shares held. Minorities claims are to be discharged on the basis of intrinsic value per share. For computing intrinsic value per share net Fixed assets of Y Ltd are to be valued at ₹ 850 Lakhs. Prepare post merger Balance Sheet of X Ltd. Show all your workings.

Though in the question the balance sheet is not prepared as per Revised Schedule VI the answer should be as per Revised Schedule VI.

17. Solution.

Part I : Calculation of Purchase Consideration

WN # 1 : Computation of Intrinsic Value

(₹ in Lakhs)

	X Ltd	Y Ltd
Fixed assets	800	850

Investments: In Y Ltd. (2.4 x 225)	540	–
Other investments	–	200
Current assets, Loans and Advances	600	500
Less: Current liabilities	(200)	(150)
Less: Unsecured Loans	(200)	(200)
Less: Secured Loans	(300)	(300)
Net Assets	1240	900
Intrinsic Value (Net Assets ÷ No. of shares outstanding)	1240/6	900/4
	= 206.67	= 225

WN # 2 : Purchase Consideration

Particulars	
Total number of shares outstanding (lakhs)	4,00,000
Less: Shares held by X Ltd. (lakhs)	2,40,000
Shares held by Outsiders (lakhs)	1,60,000
Exchange Ratio (lakhs)	1:2
No. of shares to be issued (lakhs)	80,000
Intrinsic Value Per share	206.67
Purchase Consideration (80,000 × ₹ 206.67)	₹1,65,33,600

Part II - In the Books of Purchasing Co. X Ltd

- Nature of Amalgamation : Merger
- Method of Accounting : Pooling of interest

(₹ in amount)

	Particulars				Debit	Credit
1.	For Purchase Consideration Due:					
	Business Purchase A/c			Dr.	1,65,33,600	
	To Liquidator of Y Ltd A/c					1,65,33,600
2.	For Assets and Liabilities Takeover:					
	a. Aggregate Consideration					
	i. Already Paid		3,00,00,000			
	ii. Balance Payable		1,65,33,600			
			4,65,33,600			
	b. Less: Paid-up Capital of Vendor Co.		(4,00,00,000)			
	c. Excess					
	(The above excess to be adjusted against:					
	*General Reserves of Y Ltd.	65,33,600				
	d. Balance of General Reserves of Y Ltd. to be incorporated (2,00,00,000 – 65,33,600)	1,34,66,400				
	Fixed Assets A/c			Dr.	9,00,00,000	

Investments A/c		Dr.	2,00,00,000	
Current Assets A/c		Dr.	5,00,00,000	
To	Provision for depreciation A/c			2,50,00,000
To	Current liabilities and Provisions A/c			1,50,00,000
To	Secured Loans A/c			3,00,00,000
To	Unsecured Loans A/c			2,00,00,000
To	Business Purchase A/c			1,65,33,600
To	Investments in Y Ltd A/c			3,00,00,000
To	General Reserve A/c			1,34,66,400
To	Profit and Loss A/c			1,00,00,000

3. For Discharge of Purchase Consideration

Liquidator of Y Ltd A/c		Dr.	1,65,33,600	
To	Equity Share Capital A/c			80,00,000
To	Securities Premium A/c			85,33,600

Name of the Company: X Ltd.

Balance Sheet as at 31.03.2014

Ref No.		**Particulars**	**Note No.**	**As at 31st March, 2014**	**As at 31st March, 2013**
				(₹in Lakhs)	**(₹in Lakhs)**
	I.	Equity and Liabilities			
	1	Shareholders' funds			
		(a) Share capital	1	6,80,00,000	
		(b) Reserves and surplus	2	7,20,00,000	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		(a) Long-term borrowings	3	10,00,00,000	
		(b)Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables			

		(c)Other current liabilities	4	3,50,00,000	
		(d) Short-term provisions			
		Total (1+2+3+4)		27,50,00,000	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	14,50,00,000	
		(ii) Intangible assets			
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments	6	2,00,00,000	
		(c)Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	Current assets			
		(a)Current investments			
		(b) Inventories			
		(c) Trade receivables			
		(d) Cash and cash equivalents			
		(e) Short-term loans and advances			
		(f) Other current assets	7	11,00,00,000	
		Total (1+2)		27,50,00,000	

Notes on accounts

		(₹in Lakhs)
Note 1. Share Capital	**As at 31st March, 2014**	**As at 31st March, 2013**
A. Authorised Capital	-	
B. Issued, Subscribed and paid up Capital of ₹100 each[out of which 30,000 shares were issued for consideration other than for cash)	6,80,00,000	
Total	6,80,00,000	

RECONCILATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	**As at 31st March, 2014**		**As at 31st March, 2013**	
	Nos	**Amount (₹)**	**Nos**	**Amount (₹)**
Opening Balance as on 01.04.13	6	6,00,00,000	NIL	NIL
Add: Fresh Issue (Incld Bonus shares , Right shares, split shares, shares issued other than cash)	0.80	80,00,000	NIL	NIL
	6.80	6,80,00,000	NIL	NIL
Less: Buy Back of shares	-	-	-	-
	6.80	6,80,00,000	NIL	NIL

Note 2. Reserves and Surplus	**As at 31st March, 2014**	**As at 31st March, 2013**
General Reserve (3,00,00,000 + 1,34,66,400)	4,34,66,400	
Securities Premium	85,33,600	
Profit and Loss A/c (1,00,00,000 + 1,00,00,000)	2,00,00,000	
Total	7,20,00,000	

Note 3. Long Term Borrowings	**As at 31st March, 2014**	**As at 31st March, 2013**
Secured (3,00,00,000 + 3,00,00,000)	6,00,00,000	
Unsecured (2,00,00,000 + 2,00,00,000)	4,00,00,000	
Total	10,00,00,000	

Note 4. Other Current Liabilities	**As at 31st March, 2014**	**As at 31st March, 2013**
Current Liabilities (2,00,00,000 + 1,50,00,000)	3,50,00,000	
Total	3,50,00,000	

Note 5. Tangible assets	**As at 31st March, 2014**	**As at 31st March, 2013**
Fixed Assets	19,00,00,000	
Less Accumaleted Depreciation	4,50,00,000	
Total	14,50,00,000	

Note 6. Non Current Investment	**As at 31st March, 2014**	**As at 31st March, 2013**
Investment	2,00,00,000	
Total	2,00,00,000	

Note 7. Other Current assets	As at 31st March, 2014	As at 31st March, 2013
Current assets	11,00,00,000	
Total	11,00,00,000	

18. The draft consolidated data of A Ltd., and its 100% subsidiary B Ltd. and also information of C Ltd. relating to the year end 31st March, 2014 is given below:

DRAFT BALANCE SHEET **(₹ in thousand)**

	CBS of A Ltd. and its 100% Subsidiary B Ltd.	C Ltd.
Issued ordinary share capital	2,000	1,000
Reserves	3,450	2,000
Debentures	2,000	1,500
Current liabilities	4,550	2,500
Total	12,000	7,000
Fixed assets (net)	6,500	4,000
Investment in C Ltd. at cost	2,000	-
Current assets	3,500	3,000
Total	12,000	7,000

PROFIT AND LOSS ACCOUNT (DRAFT)

	A Ltd and its 100% Subsidiary B Ltd.	C Ltd.
Sales	2,000	1,200
Expenses	(900)	(500)
Trading profit before tax	1,100	700
Dividend from Uncertain Ltd.	100	—
Taxation	(600)	(200)
Profit after tax	600	500
Opening Balance	3,150	1,100
Dividends paid	(300)	(200)
Retained Profit	3,450	1,400

A Ltd. acquired 50% of the ordinary share capital of C Ltd. on 1st April, 2013 for ₹2,000 thousands when its reserves were ₹1,700 thousands and sold this holding on 3rd April, 2014 for ₹2,050 thousands.

You are required to prepare the 'Group' Profit and Loss account (draft) and Balance Sheet (draft) on four bases as follows:

- **When C Ltd. is treated as a subsidiary**
- **When C Ltd. is treated as an associated company**
- **When C Ltd. is treated as an investment**
- **When C Ltd. is treated as a Joint Venture.**

18.Solution:

When C Ltd. is treated as a subsidiary or an Investment company

	Particulars	Subsidiary	Investment

a.	Accounting Standard Applicable	21	13
b.	Method	Full Consolidation	Cost method
c.	Date of Acquisition	1^{st} April 2011	1^{st} April 2011
d.	Shareholding	A Ltd -50% Minority Int. - 50%	Not applicable
e.	Analysis of reserves	1) Opening balance 1,700 thousands pre- acquisition 2) Current year retained profit 300 thousands post-acquisition	Not applicable
f.	Apportionment of Profits 1) Pre-acquisition 2) Post-acquisition	1) A Ltd. - 850 thousand 2) Minority – 850 thousands 1)A Ltd.-150 thousands 2) Minority - 150 thousands	Not applicable
g.	Outsider's interest	Minority Interest 1) Share capital - 500 thousands 2) Pre-acquisition - 850 thousands 3) Post acquisition - 150 thousands Total 1500 thousands	
h.	Goodwill/Capital Reserve	1) Cost of Investment -2,000. thousands 2) Share of Net Assets on the date of Investment - Share Capital 500 thousands - Capital Profits 850 thousands 1350 thousands 3) Goodwill 650 thousands	Not applicable
I.	Inter Company Transactions 1) Inter Company Owings 2) Unrealised Profits	Eliminate in full Eliminate in full	Not applicable
J.	Reserves for CBS	*	Not applicable
k.	Carrying amount of Investment in CBS	Nil	2000 thousand

When C Ltd. treated as an associated company or as a Joint Venture

	Particulars	Associate	Joint venture
a.	Accounting Standard Applicable	23	27
b.	Method	Equity method	Proportionate consolidation
c.	Date of Acquisition	1^{st} April 2013	1^{st} April 2013
d.	Shareholding	Extent of investment 50%	Extent of financial interest 50%
e.	Analysis of reserves	1) Opening balance 1,700 thousand pre-acquisition 2) Current year retained profit 300 thousands post acquisition	1) Opening balance 1,700 thousand pre-acquisition 2) Current year retained profit 300 thousands post acquisition

f.	Apportionment of Profits 1) Pre-acquisition 2) Post-acquisition	1) A Ltd. – 850 thousand (investing Co. Interest) 2) A Ltd. – 150 thousands	1) A Ltd. – 850 thousand (investing Co. Interest) 2) A Ltd. – 150 thousands.
g.	Outsider's interest	Not applicable	Not applicable
h.	Goodwill/Capital Reserve	1) Cost investment 2,000 thousands 2) Share of net assets on the date of investment -share capital 500 thousands -capital profits 850 thousands Total 1,350 thousands - Goodwill 650 thousands	1) Cost investment 2000 thousands 2) Share of net assets on the date of investment -share capital 500 thousands -capital profits 850 thouisands Total 1,350 thousands - Goodwill 650 thousands
I.	Inter Company Transactions 1) Inter Company Owings 2) Unrealised Profits	Not applicable Eliminate to the extent of investing co's interest	Eliminate to the extent of venturer's interest
J.	Reserves for CBS	*	*
k.	Carrying amount of Investment in CBS	a) Amount invested i) Share of Net Assets 1,350 thousands ii) Goodwill - 650 thousands 2000 thousands b) Add: Share of Post Acquisition profits 250 thousands c) Less: Dividend Received 100 thousands Total 2150 thousands	Nil

* Reserves for CBS

Draft Consolidate Profit and Loss A/c
as at 31.03.2014

₹ in thousands

Particulars	Subsidiary	Investment	Associate	Joint Venture
Sales	3,200	2,000	2,000	2,600
Expenses	(1,400)	(900)	(900)	(1,150)
Dividend	-	100	-	-
PBT	1,800	1,200	1,100	1,450
Tax	(800)	(600)	(600)	(700)

PAT	1,000	600	500	750
Share of profits from Associate	-	-	250	-
Opening Balance B/d	3,150	3,150	3,150	3,150
Dividend Paid	(300)	(300)	(300)	(300)
Share of Minority Interest	(250)	-	-	-
Balance carried forward to Balance Sheet	3,600	3,450	3,600	3,600

Draft Consolidated Balance Sheet

As at 31.03.2014 ₹ in thousands

	If Subsidiary	If Investment	If Associate	If Joint Venture
Equity and Liabilities				
Share Capital	2,000	2,000	2,000	2,000
Reserves	3,600	3,450	3,600	3,600
Debentures	3,500	2,000	2,000	2,750
Current Liabilities	7,050	4,550	4,550	5,800
Minority Interest	1,500	-	-	-
Total Assets	17,650	12,000	12,150	14,150
Non-current assets				
Fixed Assets				
Tangible Assets	10,500	6,500	6,500	8,500
Intangible Assets	650	-	-	650
Investments	-	2,000	2,150 (Goodwill - ₹ 650 thousands) 3,500	-
Current Assets	6,500	3,500		5,000
Total	17,650	12,000	12,150	14,150

19. The summarized balance sheets of Good Ltd. and Luck Ltd as at 31.12.2014 are as follows-

Liabilities	Good Ltd. ₹	Luck Ltd. ₹	Assets	Good Ltd. ₹	Luck Ltd. ₹
Equity Share Capital (₹10)	**17,50,000**	**5,00,000**	**Fixed assets**	**18,00,000**	**8,00,000**
Reserves			**Current Assets**	**5,20,000**	**80,000**
Profit & Loss Account – as at 01.01.2012	**2,00,000**	**50,000**	**Investments at cost:**		**-**
			30,000 Shares in Luck Ltd		
Add: Profit for the year	**3,00,000**	**1,00,000**		**3,50,000**	
Add: Dividends from Tharini Ltd	**80,000**	**80,000**			
Less: Dividends paid	**40,000**	**-**			
Creditors	**-**	**(50,000)**			
	3,00,000	**2,00,000**			
Total	**26,70,000**	**8,80,000**	**Total**	**26,70,000**	**8,80,000**

Good Ltd acquired 40,000 shares in Luck Ltd at ₹20 each on 01.01.2014 and sold 10,000 of them at the same price on 30.09.2014 sale at cum- dividend price. An interim dividend of 10% was paid by Luck Ltd on 01.07.2014. Prepare the consolidated Balance Sheet as at 31.12.2014.

Though in the question the balance sheet is not prepared as per Revised Schedule VI the answer should be as per Revised Schedule VI.

19. Solution.

1. Basic Information

Company Status	**Dates**	**Holding Status**
Holding company = Good Ltd. Subsidiary = Luck Ltd.	Acquisition: 01.01.14 Consolidation: 31.12.14	Holding Co: = 60% Minority Interest: = 40%

2. Analysis of Reserves and surplus of Luck Ltd

(a) **General Reserve**

Balance as on 31.12.2014 ₹50,000

Balance on 01.01.2014 (date of acquisition) ₹50,000 **(Capital Profit)**

Transfer during 2014 (upto consolidation) (balancing figure) ₹ **NIL** **(Revenue Reserve)**

(b) **Profit and Loss Account**

Balance as on 31.12.2014 ₹1,30,000

Balance on 01.01.2013 (date of acquisition) ₹1,00,000 **(Capital Profit)**

Profit for 2014 (upto consolidation)	80,000
Less: Interim Dividend	50,000
Revenue Profit	30,000

1. Computation of Cost of Control & Minority Interest

Particulars	Total	Minority Interest	Pre-Acquisition	Post Acquisition	
				Gen. Res.	P&L A/c
Luck Ltd (Holding 60%, minority 40%) Equity Capital General Reserves Profit and Loss A/c	 5,00,000 50,000 1,30,000	 2,00,000 20,000 52,000	 3,00,000 30,000 60,000		 18,000
Minority interest		2,72,000			
Total [Cr.] Cost of Investment [Dr.] (Note 1) Parent's Balance (Note 1)			3,90,000 (3,50,000)	 2,00,000	 4,20,000
For consolidated balance sheet			(40,000) (Capital Reserve)	2,00,000	4,38,000

Note: adjustment for dividend is required since the shares are sold on cum – dividend basis i.e. including dividend. The dividend when declared will be received by the buyer of the shares.

Name of the Company: Good Ltd. And its subsidiary Luck Ltd.
Balance Sheet as at 31.12.2014

Ref No.	Particulars		Note No.	As at 31.12.14	As at 31.12.13
				(₹)	(₹)
I		**EQUITY AND LIABILITIES**			
	1	**Shareholders' fund**			
		(a) Share capital	1	17,50,000	
		(b) Reserves and surplus	2	6,78,000	
		(c) Money received against share warrants			
	2	**Minority Interest (W.N)**		2,72,000	
	3	**Share application money pending allotment**			
	4	**Non-current liabilities**			
		(a) Long-term borrowings			
		(b)Deferred tax liabilities (Net)			
		(c)Other Long term liabilities			
		(d) Long-term provisions			
	5	**Current Liabilities**			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c)Other current liabilities	3	5,00,000	
		(d) Short-term provisions			
		Total		**32,00,000**	
II		**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			

		(i) Tangible assets	4	28,00,000	
		(ii) Intangible assets			
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments			
		(c)Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	**Current assets**			
		(a)Current investments			
		(b) Inventories			
		(c) Trade receivables			
		(d) Cash and cash equivalents			
		(e) Short-term loans and advances			
		(f) Other current assets	5	4,00,000	
		Total		**32,00,000**	

Notes on accounts

(₹)

1. Share capital	**31.12.14**	**31.12.13**
1,75,000 Equity Share Capital @10 each	17,50,000	
Total	**17,50,000**	
2. Reserve and Surplus	**31.12.14**	**31.12.13**
General Reserve	2,00,000	
Profit & Loss A/c Capital Reserve	4,38,000	
Total	**6,78,000**	

3. Other current liabilities	**31.12.14**	**31.12.13**
Current Liabilities (30,000 + 20,000)	5,00,000	

Total	**5,00,000**	

4. Tangible Assets	**31.12.14**	**31.12.13**
Other Fixed Assets (18,00,000+8,00,000)	26,00,000	
Total	**26,00,000**	

5. Other Current Assets	**31.12.14**	**31.12.13**
Current Assets (5,20,000 + 80,000)	6,00,000	
Total	**6,00,000**	

20. From the following Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.2014. Figures given are in ₹ Lakhs:

Balance Sheets as on 31.3.2014

Liabilities	**X ₹**	**Y ₹**	**Z ₹**	**Assets**	**X ₹**	**Y ₹**	**Z ₹**
Shares capital (in shares of ₹ 10 each)	**1,650**	**1,100**	**550**	**Fixed Assets (Tangible)**	**715**	**825**	**550**
Reserves	**275**	**220**	**165**	**Cost of investment in Y Ltd.**	**990**		
Profit and Loss balance	**330**	**275**	**220**	**Cost of investment in Z Ltd.**	**220**		
Bills payables	**55**		**27.5**	**Cost of investment in Z Ltd.**		**440**	
Creditors	**165**	**55**	**55**	**Stock**	**275**	**110**	**110**
Y Ltd. balance			**82.5**	**Debtors**	**385**	**55**	**110**
Z Ltd. balance	**275**			**Bills receivables**		**55**	**110**
				Z Ltd. balance		**55**	
				X Ltd. balance			**165**
				Cash and bank balance	**165**	**110**	**55**
	2,750	**1,650**	**1,100**		**2,750**	**1,650**	**1,100**

i. **X Ltd. holds 8,80,000 shares and 1,65,000 shares respectively in Y Ltd. and Z Ltd.; Y Ltd. holds 3,30,000 shares in Z Ltd. These investments were made on 1.7.2013 on which date the provision was as follows:**

	Y Ltd. ₹	**Z Ltd. ₹**
Reserves	**110**	**55**
Profit and loss account	**165**	**88**

ii. **In December, 2013 Y Ltd. invoiced goods to X Ltd. for ₹ 220 lakhs at cost plus 25%. The closing stock of X Ltd. includes such goods valued at ₹27.5 lakhs.**
iii. **Z Ltd. sold to Y Ltd. an equipment costing ₹132 lakhs at a profit of 25% on selling price on 1.1.2014. Depreciation at 10% per annum was provided by Y Ltd. on this equipment.**
iv. **Bills payables of Z Ltd. represent acceptances given to Y Ltd. out of which Y Ltd. had discounted bills worth ₹ 16.5 lakhs.**
v. **Debtors of X Ltd. Include ₹16.5 lakhs being the amount due from Y Ltd.**
X Ltd. proposes dividend at 10%.

Though in the question the balance sheet is not prepared as per Revised Schedule VI the answer should be as per Revised Schedule VI.

20.Sulution.

Name of the Company: X Ltd. and its subsidiary Y Ltd. and Z Ltd.
Consolidated Balance Sheet as at 31st March,2014

Ref No.		Particulars	Note No.	As at 31st March, 2014	As at 31st March, 2013
				₹	₹
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	1,650.00	-
		(b) Reserves and surplus	2	835.45	-
		(c)Money received against share warrants		-	-
				2,485.45	-
	2	**Minority Interest**		436.15	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	247.50	-
		(c) Other current liabilities	4	71.50	-
		(d) Short-term provisions	5	165.00	-
				456.50	-
		TOTAL (1+2+3+4)		3,405.60	-
	B	**ASSETS**			

Ref No.		Particulars	Note No.	As at 31st March, 2014	As at 31st March, 2013
				₹	₹
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	6	2,047.10	-
		(ii) Intangible assets		-	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments		-	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				2,047.10	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories	7	489.50	-
		(c) Trade receivables	8	522.50	-
		(d) Cash and cash equivalents	9	192.50	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	10	154.00	-
				1,496	-
		TOTAL (1+2)		3,405.60	-

Annexure

Note 1. Share Capital	**As at 31st March, 2014**	**As at 31st March, 2013**
Share Capital in Equity Shares	1,650.00	
Total	1,650.00	

Note 2. Reserves and Surplus	**As at 31st March, 2014**	**As at 31st March, 2013**
Capital reserves	73.70	
Other Reserves	448.80	
Profit & Loss A/c	312.95	
Total	835.45	

Note 3. Other Current Liabilities	**As at 31st March, 2014**	**As at 31st March, 2013**

X Ltd.	165.00	
Y Ltd.	55.00	
Z Ltd.	55.00	
	275.00	
Less: Mutual Indebtedness	27.50	
Total	247.50	

Note 4. Other Current Liabilities	**As at 31st March, 2014**	**As at 31st March, 2013**
X Ltd.	55.00	
Y Ltd.	27.50	
	82.50	
Less: Mutual Indebtedness	11.00	
	71.50	

Note 5. Short Term Provisions	**As at 31st March, 2014**	**As at 31st March, 2013**
Proposed Dividend	165.00	
Total	165.00	

Note 6. Tangible assets	**As at 31st March, 2014**	**As at 31st March, 2013**
X Ltd.	715.00	
Y Ltd.	825.00	
Z Ltd.	550.00	
	2,090.00	
Less: Unrealised Profit	42.90	
Total	2,047.10	

Note 7. Inventories	**As at 31st March, 2014**	**As at 31st March, 2013**
X Ltd.	275.00	
Y Ltd.	110.00	
Z Ltd.	110.00	
	495.00	
Less: Unrealised Profit	5.50	
Total	489.50	

Note 8. Trade Receivables	**As at 31st March, 2014**	**As at 31st March, 2013**
X Ltd.	385.00	
Y Ltd.	55.00	
Z Ltd.	110.00	
	550.00	
Less: Mutual Indebtedness	27.50	
Total	522.50	

Note 9. Cash and cash equivalents	**As at 31st March, 2014**	**As at 31st March, 2013**
Cash and Bank Balances	330.00	
Current Account Balances [(275.00+82.50)-(55+165)]	137.50	
Total	192.50	

Note 10. Other current assets	**As at 31st March, 2014**	**As at 31st March, 2013**
Y Ltd.	55.00	
Z Ltd.	110.00	
	165.00	
Less: Mutual Indebtedness	11.00	
Total	154.00	

Working Notes:

(₹ in lakhs)

Analysis of Profits of Z Ltd.	**Capital Profit**	**Revenue Reserve**	**Revenue profit**
Reserves on 1.7.2013	55.00		
Profit and Loss A/c on 1.7.2013	88.00		
Increase in Reserves		110.00	
Increase in Profit	_____	_____	132.00
	143.00	110.00	132.00
Less: Minority Interest (10%)	14.30	11.00	13.20
	128.70	99.00	118.80
Share of X Ltd.	42.90	33.00	39.60
Share of Y Ltd.	85.80	66.00	79.20
Analysis of Profits of Y Ltd.			
Reserves on 1.7.2013	110.00		
Profit and Loss A/c on 1.7.2013	165.00		
Increase in Reserves		110.00	
Increase in Profit	_____	_____	110.00
	275.00	110.00	110.00
Share in Z Ltd.	_____	66.00	79.20
	275.00	176.00	189.20
Less: Minority Interest (20%)	55.00	35.20	37.84
Share of X Ltd.	220.00	140.80	151.36
Cost of Control			
Investments in Y Ltd.			990.00
Investments in Z Ltd.			660.00
			1,650.00
Less: Paid up value of investments			
in Y Ltd.	880.00		
in Z Ltd.	495.00	1,375.00	
Capital Profit			

in Y Ltd.	220.00		
in Z Ltd.	128.70	348.70	1,723.70
Capital Reserve			73.70
Minority Interest	**Y Ltd.**	**Z Ltd.**	
Share Capital	220.00	55.00	
Capital Profit	55.00	14.30	
Revenue Reserves	35.20	11.00	
Revenue Profits	37.84	13.20	
	348.04	93.50	
Less: Unrealised profit on stock (20% of 5.5)	1.1		
Unrealised profit on equipment (10% of 42.90)	_____	4.29	
	346.94	89.21	
Total	**436.15**		
Unrealised Profit on equipment sale			
Cost	132.00		
Profit	44.00		
Selling Price	176.00		
Unrealised profit = $44 - 44 \times \frac{10}{100} \times \frac{3}{12}$ = 44.00 – 1.1 = 42.90			
Profit and Loss Account – X Ltd.			
Balance	330.00		
Less: Proposed Dividend	165.00		
	165.00		
Share in Y Ltd.	151.36		
Share in Z Ltd.	39.60		
	355.96		
Less: Unrealised profit on equipment (90% of 42.90)	38.61		
	317.35		
Less: Unrealised profit on stock $\left(27.50 \times \frac{25}{125} \times 80\%\right)$	4.4		
	312.95		
Reserves – X Ltd.			
X Ltd.	275.00		
Share in Y Ltd.	140.80		
Share in Z Ltd.	33.00		
	448.80		

21. R Ltd. owns 80% of S and 40% of T and 40% of Q. T is jointly controlled entity and Q is an associate. Balance Sheet of four companies as on 31.03.2014 are:

Assets	R Ltd. ₹	S Ltd. ₹	T Ltd. ₹	Q Ltd. ₹
Investment in S	**1,200**	**-**	**-**	**-**
Investment in T	**1,800**	**-**	**-**	**-**
Investment in Q	**1,800**	**-**	**-**	**-**

Fixed Assets	**1,500**	**1,200**	**2,100**	**1,500**
Current Assets	**3,300**	**4,950**	**4,875**	**5,475**
Total	**7,800**	**6,150**	**6,975**	**6,975**
Liabilities				
Share capital ₹1 Equity Share	**1,500**	**600**	**1,200**	**1,200**
Retained Earnings	**6,000**	**5,100**	**5,400**	**5,400**
Creditors	**300**	**450**	**375**	**375**
Total	**7,800**	**6,150**	**6,975**	**6,975**

R Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were ₹ 780 lakhs. R Ltd. acquired its shares in 'T' at the beginning of the year when 'T" retained earnings were ₹ 600 lakhs. R Ltd. acquired its shares in 'Q' on 01.04.2013 when 'Q' retained earnings were ₹ 600 Lakhs.

The balance of goodwill relating to 'S' had been written off three years ago. The value of goodwill in 'T' remains unchanged.

Prepare the Consolidated Balance Sheet of R Ltd. as on 31.03.2014 as per AS 21, 23 and 27.

Though in the question the balance sheet is not prepared as per Revised Schedule VI the answer should be as per Revised Schedule VI.

21. Solution.

Name of the Company: R Ltd.
Consolidated Balance Sheet as at 31st March,2014

Ref No.		**Particulars**	**Note No.**	**As at 31st March, 2014**	**As at 31st March, 2013**
				₹	**₹**
	A	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**			
		(a) Share capital	1	1,500	-
		(b) Reserves and surplus	2	13,200	-
		(c)Money received against share warrants		-	-
				14,700	-
	2	**Minority Interest**		1,140	-
	3	**Non-current liabilities**			
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	900	-

Ref No.		Particulars	Note No.	As at 31st March, 2014	As at 31st March, 2013
				₹	₹
		(c) Other current liabilities		-	-
		(d) Short-term provisions		-	-
				900	-
		TOTAL (1+2+3+4)		16,740	-
	B	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	3,540	-
		(ii) Intangible assets	5	180	-
		(iii) Capital work-in-progress		-	-
		(iv) Intangible assets under development		-	-
		(v) Fixed assets held for sale		-	-
		(b) Non-current investments	6	2,820	
		(c) Deferred tax assets (net)		-	-
		(d) Long-term loans and advances		-	-
		(e) Other non-current assets		-	-
				6,540	-
	2	**Current assets**			
		(a) Current investments		-	-
		(b) Inventories		-	-
		(c) Trade receivables		-	-
		(d) Cash and cash equivalents		-	-
		(e) Short-term loans and advances		-	-
		(f) Other current assets	7	10,200	-
				10,200	-
		TOTAL (1+2)		16,740	-

Annexure

Note 1. Share Capital	**As at 31st March, 2014**	**As at 31st March, 2013**
Share Capital in Equity Shares	1,500	
Total	1,500	

Note 2. Reserves and Surplus	As at 31st March, 2014	As at 31st March, 2013
Retained Earnings (W.N 2)	13,200	
Total	13,200	

Note 3. Trade Payables	As at 31st March, 2014	As at 31st March, 2013
Creditors [300+450+40% of 375]	900	
Total	900	

Note 4. Tangible assets	As at 31st March, 2014	As at 31st March, 2013
Fixed Assets [1,500 +1,200 + 840(2,100×40%)]	3,540	
Total	3,540	

Note 5. Intangible assets	As at 31st March, 2014	As at 31st March, 2013
Goodwill (W.N 1)	180	
Total	180	

Note 6. Noncurrent investments	As at 31st March, 2014	As at 31st March, 2013
Investment in Associates (W.N 4)	2,820	
Total	2,820	

Note 7. Other current assets	As at 31st March, 2014	As at 31st March, 2013
Current Assets [3,300+4,950+ 1,950 (4,875 × 40%)]	10,200	
Total	10,200	

Working Notes :

1.Computation of Goodwill

S Ltd.(subsidiary)

		₹ in lakhs
Cost of Investment		1,200
Less :Paid up value of shares acquired	480	
Share in pre-acquisition profits of S Ltd. (780 × 80%)	624	1,104
Goodwill		96

T (Jointly Controlled Entity)

		₹ in lakhs
Cost of Investment		900
Less: Paid up value of shares acquired (40% of 1,200)	480	
Share in pre-acquisition profits (40% of 600)	240	720
Goodwill		180

Note: Jointly controlled entity 'T' to be consolidated on proportionate basis i.e. 40% as per AS 27

Associate Q (AS 23)

		₹ in lakhs
Cost of investment		900
Less:Paid up value of shares acquired (1,200 × 40%)	480	
Share in pre-acquisition profits (400 × 40%)	240	720
Goodwill		180

Goodwill shown in the Consolidated Balance Sheet

	₹ in lakhs
Goodwill of 'T'	180
Goodwill of 'S'	96
Less: Goodwill written off of 'S'	96
Goodwill	180

2. Consolidated Retained Earnings

	₹ in lakhs
R Ltd.	6,000
Share in post acquisition profits of S - 80% (5,100 – 780)	3,456
Share in post acquisition profits of T - 40% (5,400 – 600)	1,920
Share in post acquisition profits of Q - 40% (5,400 – 600)	1,920
Less: Goodwill written off	(96)
	1,3200

3. Minority Interest 'S'

	₹ in lakhs
Share Capital (20% of 600)	120
Share in Retained Earnings (20% of 5,100)	1,020
	1,140

4. Investment in Associates

	₹ in lakhs
Cost of Investments (including goodwill ₹ 180 lakhs)	900
Share of post acquisition profits	1,920
Carrying amount of Investment (including goodwill ₹ 180 lakhs)	2,820

22. On 31st March, 2013 BA Ltd. became the holding company of CA Ltd. and DA Ltd. by acquiring 1,800 lakhs fully paid shares in CA Ltd. for ₹ 27,000 lakhs and 960 lakhs fully paid shares in DA Ltd. for ₹ 8,640 lakhs. On that date, CA Ltd. showed a balance of ₹ 10,200 lakhs in General Reserve and a credit balance of ₹ 3,600 lakhs in Profit and Loss Account. On the same date, DA Ltd. showed a debit balance of ₹ 1,440 lakhs in Profit and Loss Account. While its Preliminary Expenses Account showed a balance of ₹ 120 lakhs.

After one year, on 31st March, 2014 the Balance Sheets of three companies stood as follows:

			(₹ in lakhs)
Liabilities	**BA Ltd.**	**CA Ltd.**	**DA Ltd.**
Fully paid equity shares of ₹ 10 each	**1,08,000**	**30,000**	**12,000**
General Reserve	**1,32,000**	**12,600**	**-**
Profit and Loss Account	**36,000**	**4,800**	**3,000**
60 lakh fully paid 9.5%			
Debentures of ₹ 100 each	**-**	**-**	**6,000**

Loan from CA Ltd.	-	-	300
Bills Payable	-	-	600
Sundry Creditors	56,400	10,800	3,720
	3,32,400	58,200	25,620
Assets			
Machinery	1,56,000	30,000	8,400
Furniture and Fixtures	24,000	6,000	2,400
Investments:			
1,800 lakhs shares in CA Ltd.	27,000	-	-
960 lakhs shares in DA Ltd.	8,640	-	-
12 lakhs debentures in DA Ltd.	1,176	-	-
Stocks	66,000	12,000	6,000
Sundry Debtors	36,000	5,400	5,160
Cash and Bank balances	12,804	4,200	3,600
Loan to DA Ltd.	-	360	-
Bills Receivable	780	240	-
Preliminary Expenses	-	-	60
	3,32,400	58,200	25,620

The following points relating to the above mentioned Balance Sheets are to be noted:

(i) All the bills payable appearing in DA Ltd.'s Balance Sheet were accepted in favour of CA Ltd. out of which bills amounting to ₹ 300 lakhs were endorsed by CA Ltd. in favour of BA Ltd. and bills amounting to ₹ 180 lakhs had been discounted by CA Ltd. with its bank.

(ii) On 29th March, 2014 DA Ltd. remitted ₹ 60 lakhs by means of a cheque to CA Ltd. to return part of the loan; CA Ltd. received the cheque only after 31st March, 2012.

(iii) Stocks with CA Ltd. includes goods purchased from BA Ltd. for ₹ 800 lakhs. BA Ltd. invoiced the goods at cost plus 25%.

(iv) In August, 2013 CA Ltd. declared and distributed dividend @ 10% for the year ended 31st March, 2013. BA Ltd. credited the dividend received to its Profit and Loss Account.

You are required to prepare a Consolidated Balance Sheet of BA Ltd. and its subsidiaries CA Ltd. and DA Ltd. as at 31st March, 2014.

22. Solution.

Consolidated Balance Sheet of BA Ltd. and its subsidiaries CA Ltd. and DA Ltd. as at 31st March, 2014

₹ In Lakhs

Ref No.	Particulars	Note No.	As at 31st March,2014	As at 31st March,2013

	1	**EQUITY AND LIABILITIES**			
		(a) Share capital	1	1,08,000	
		(b) Reserves and surplus	2	1,73,600	
		(c) Money received against share warrants			
	2	**Minority Interest (W.N.2)**		21,948	
	3	**Share application money pending allotment**			
	4	**Non-current liabilities**			
		(a) Long-term borrowings	3	4,800	
		(b)Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	5	**Current Liabilities**			
		(a) Short-term borrowings			
		(b) Trade payables	4	70,920	
		(c)Other current liabilities	5	180	
		(d) Short-term provisions			
		Total (1+2+3+4+5)		**3,79,448**	
	II	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	2,26,800	
		(ii) Intangible assets	7	984	
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments			
		(c)Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	**Current assets**			
		(a)Current investments			
		(b) inventories	8	83,840	

		(c) trade receivables	9	46,560	
		(d) Cash and cash equivalents	10	20,664	
		(e)Short-term loans and advances			
		(f) Other current assets	11	600	
		Total (1+2)		**3,79,448**	

₹ In lakhs

Note 1. Share Capital	**As at 31st March,2014**	**As at 31st March,2013**
Authorized, Issued, Subscribed and fully paid-up Share capital:-		
5400 Lakhs Equity share of ₹10 each	1,08,000	
	1,08,000	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	**As at 31st March,2014**		**As at 31st March,2013**	
	Nos.	**Amount(₹)**	**Nos.**	**Amount(₹)**
Opening Balance as on 01.04.11	10,800	1,08,000		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)				
	10,800	1,08,000		
Less: Buy Back of share				
Total	10,800	1,08,000		

Note 2. Reserve & Surplus	**As at 31st March,2014**	**As at 31st March,2013**
General Reserve (WN.4)	1,33,440	
Profit & Loss A/c (WN.4)	40,160	
Total	1,73,600	

Note 3. Long- term borrowings	**As at 31st March,2014**	**As at 31st March,2013**
9.5% Debentures	4,800	
Total	4,800	

Note 4. Trade Payables	**As at 31st March,2014**	**As at 31st March,2013**
Sundry Creditors (56,400+10,800+3,720)	70,920	
Total	70,920	

Note 5. Other Current liabilities	**As at 31st March,2014**	**As at 31st March,2013**
Bills Payable	180	
Total	180	

Note 6. Tangible Assets	**As at 31st March,2014**	**As at 31st March,2013**
Machinery	1,94,400	
Furniture & Fixture	32,400	
Total	2,26,800	

Note 7.Intangible assets	**As at 31st March,2014**	**As at 31st March,2013**
Goodwill (WN.3)	984	
Total	984	

Note 8. Inventories	**As at 31st March,2014**	**As at 31st March,2013**
Stock	84,000	
Less: unrealized profit	160	
Total	83,840	

Note 9.Trade Receivables	**As at 31st March,2014**	**As at 31st March,2013**
Debtors (more than six months considered good) – (36,000+5,400+5,160)	46,560	
Total	46,560	

Note 10. Cash and cash equivalents	As at 31st March,2014	As at 31st March,2013
Cash and bank	20,604	
Cash-in-transit	60	
Total	20,664	

Note 11.Other current assets	As at 31st March,2014	As at 31st March,2013
Bills receivables	1,020	
Less: mutual debts(WN.5)	420	
Total	600	

Working Notes:

(i) Calculation of pre and post acquisition profits of subsidiaries:

				(₹ in lakhs)
		Pre-acquisition capital profit	Post-acquisition	
			General Reserve	Profit/Loss A/c
CA Ltd.				
General Reserve (Cr.)		10,200	2,400	
Profit and Loss A/c (Cr.)	3,600			
(-) Dividend	3,000	600		4,200
		10,800	2,400	4,200
Holding (60%)		6,480	1,440	2,520
Subsidiary (40%)		4,320	960	1,680

			(₹ in lakhs)
	Pre-acquisition capital profit	Post-acquisition	
		Preliminary expenses	Profit / Loss A/c
DA Ltd.			

Profit and Loss A/c (Cr.)	(1,440)		4,440
Preliminary expenses (Dr.)	(120)	60	
	(1,560)	60	4,440
Holding (80%)	(1,248)	48	3,552
Subsidiary (20%)	(312)	12	888

(ii) Minority Interest

(₹ in lakhs)

CA Ltd.				
Share capital			12,000	
Capital profit		4,320		
Revenue General Reserve		960		
Profit/Loss		1,680	6,960	18,960
DA Ltd.				
Share capital			2,400	
Capital profit		(312)		
Revenue profit (Cr.)	888			
Add: Preliminary expenses written off	12	900	588	2,988
				21,948

(iii) Cost of Control

(₹ in lakhs)

CA Ltd.			
Investment	27,000		
Less: Dividend received and wrongly credited to Profit and Loss	1,800	25,200	
Less: Paid-up share capital (60%)	18,000		
Capital profit	6,480	24,480	720
DA Ltd.			
Investment in Shares	8,640		
in debentures	1,176	9,816	

Less: Paid-up share capital (80%)	9,600		
Nominal value of debentures	1,200		
Capital profit	(1,248)	9,552	264
Goodwill			984

(iv) Consolidated General Reserve and Profit and Loss Account (₹ in Lakhs)

	General Reserve ₹	Profit and Loss A/c ₹
BA Ltd.	1,32,000	36,000
Less: Wrong dividend credited	-	1,800
	1,32,000	34,200
CA Ltd.	1,440	2,520
DA Ltd. (3,552 + 48)	-	3,600
	1,33,440	40,320
Less: Unrealised profit on stock	-	160
	1,33,440	40,160

(v) Mutual owing regarding bills = ₹ (600 – 180) lakhs = ₹ 420 lakhs.

(vi) Unrealised profit

$$= 800 x \frac{25}{125} \text{Lakhs}$$

= ₹ 160 lakhs

(vii) Amount of dividend wrongly credited to Profit and Loss A/c
= 60% of ₹ 3,000 lakhs = ₹1,800 lakhs.

23. Following are the balances in the Balance Sheet of Blue Ltd. and Green Ltd.

- **i. As on 31.03.2013 Equity Share Capital (₹10): Blue Ltd. ₹80,000; Green Ltd. ₹1,00,000.**
- **ii. As on 31.03.2013 shares of Green Ltd. held by Blue Ltd. is ₹99,000.**
- **iii. Profit and Loss A/c balances as on 31.03.2013 of Blue Ltd. is ₹22,000 and Green Ltd. is ₹30,000.**
- **iv. Net Profit during 2012-13 included in above were : Blue Ltd. ₹18,000; Green Ltd. ₹9,000.**
- **v. Both the companies have proposed a dividend of 10% which is yet to be recorded.**
- **vi. On 01.04.2012, Blue Ltd. was formed and on the same day it acquired 4,000 shares of Green Ltd. at ₹55,000.**
- **vii. On 31.07.2012, 10% dividend was received from Green Ltd. and also bonus shares at 1:4 was received. The dividend was credited to P&L A/c.**
- **viii. On 31.08.2012 Blue Ltd. purchased another 3,000 shares of Green Ltd. at ₹44,000.**

Analyse the profit .

23. Solution.

Company Status	Date of Acquisition
Holding Co.– Blue Ltd. Subsidiary Co.– Green Ltd.	Lot 1 4,000 Shares = 01.04.12 Bonus 1,000 Shares 31.07.12 Lot 2 3,000 Shares = 31.08.12

Period	No. of Shares	Status
Before 01.04.12	All shares acquired i.e. 80%	Pre-acquisition
01.04.12 to 31.08.12	Shares acquired on 31.08.12 i.e. 30%	Pre-acquisition
01.04.12 to 31.08.12	Shares acquired before 31.08.12 i.e. 40%	Post acquisition
After 31.08.12	All shares acquired i.e. 80%	Post acquisition

Holding Status:
Holding Company = 80%
Minority Interest = 20%
Date of Consolidation = 31.03.2013

Analysis of Profit & Loss Account of Green Ltd.

P&L balance on 31.03.2013	₹ 30,000
Less: Proposed Dividend for FY 2012-13 (₹ 1,00,000×10)**(Note 1)**	(₹10,000)
Correct Profit	**₹ 20,000**

Balance as on 01.04.2012

Balance as on 31.03.2013	₹30,000
Less: Net Profit during 2012-13	(₹9,000)
Less: 2012-13 Dividend	(₹1,000)
Capital Profit	**₹20,000**

Profit from 01.04.12 to 31.03.13

Profit during 2012-13	₹9,000
Less: Dividend for 2012-13	(₹9,000)
Revenue Profit	**NIL**

Note :

1. Dividend declared and paid by Green Ltd. is ₹10,000 (₹1,00,000 × 10%).

Dividend for 2012-13

Dividend for 2012-13 **₹10,000**

Out of Profit as at 01.04.2012 ₹1,000 **Out of Profit for FY 12-13 ₹9,000**

01.04.12 to 31.08.12 (5 Months) ₹3,750

01.09.12 to 31.03.13 (7 Months) ₹5,250

Consolidation of Balances

Particulars	Total ₹	Minority Interest ₹	Pre- Acquisition ₹	Post Acquisition
Green Ltd. (Holding 80%, Minority 20%)				P&L A/c ₹
Equity Capital	1,00,000	20,000	80,000	
Profit and Loss A/c	20,000	4,000	16,000	
Proposed Dividend	10,000	2,000	1,925 (Note 2)	6,075 (Note 3)
Minority Interest		26,000		
Total [Cr.]			97,925	
Cost of Investment [Dr.]			(99,000)	
Parent's Balance				10,000
For consolidated Balance Sheet			**1,075 Goodwill**	**16,075**

Note:

1. **Pre-acquisition : [80 % × ₹1,000 = ₹800] + [30% × ₹3,750] = ₹1,925.**
2. **Post acquisition : [50% × 3,750 = ₹1,875] + [80% × ₹5,250] = ₹6,075.**

24. From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2014 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2014

Particulars	Amount ₹ '000	Particulars	Amount ₹ '000
Balance on 1.4.2013	**400**	**Payment to Suppliers**	**2,600**
Issue of Equity Shares	**1,000**	**Purchase of Fixed Assets**	**1,200**
Receipts from Customers	**4,500**	**Overhead expense**	**200**
Sale of Fixed Assets	**200**	**Wages and Salaries**	**600**
		Taxation	**450**
		Dividend	**100**
		Repayment of Bank Loan	**800**
		Balance on 31.3.2014	**150**
	6,100		**6,100**

24. Solution.

X Ltd.

Cash Flow Statement for the year ended 31st March, 2014 (Using the direct method)

Particulars	₹ '000	₹ '000
Cash flows from operating activities		
Cash receipts from customers	4,500	
Cash payment to suppliers	(2,600)	
Cash paid to employees	(600)	
Cash payments for overheads	(200)	
Cash generated from operations	1,100	
Income tax paid	(450)	
Net cash from operating activities		650

Cash flows from investing activities		
Payment for purchase of fixed assets	(1,200)	
Proceeds from sale of fixed assets	200	
Net cash used in investing activities		(1,000)
Cash flows from financing activities		
Proceeds from issuance of equity shares	1,000	
Bank loan repaid	(800)	
Dividend paid	(100)	
Net cash from financing activities		100
Net increase in cash		(250)
Cash at beginning of the period (01.04.2013)		400
Cash at end of the period(31.03.2014)		150

25. (a) Radhika Corporation had been preparing value added statements for the past five years. The personnel manager of the company has suggested that a value added incentive scheme when introduced will motivate employees to better performance. To introduce the scheme, it is proposed that the best index performance, i.e., employee costs to added value for the last 5 years will be used as the target index for future calculations of the bonus to be earned.

After the target index is determined, any actual improvement in the index will be rewarded, the employer and employees sharing any such bonus in the ratio 1:2. The bonus is given at the end of the year, after the profit for the year is determined. From the following details, find out the bonus to be paid to the employees ,if any, for 2014.

Value Added Statement for 5 years

Year	2009 ₹ '000	2010 ₹'000	2011 ₹'000	2012 ₹'000	2013 ₹'000
Sales	2,800	3,800	4,600	5,200	6,000
Less: Bought in goods & services	1,280	2,000	2,500	2,800	3,200
Added Value	1,520	1,800	2,100	2,400	2,800
Employees Cost	650	760	840	984	1,120
Dividend	100	150	200	240	300
Taxes	320	380	420	500	560
Depreciation	260	310	360	440	560
Debenture Interest	40	40	40	40	40
Retained earnings	150	160	250	196	200
Added value	1,520	1,800	2,100	2,400	2,800

Summarized P & L for 2014

	₹ '000	₹'000
Sales		7,300
Cost of material	2,500	
Wages	700	
Prod. Salaries	200	
Prod. Expenses	700	
Depreciation of machinery	500	
Adm. Salaries	300	
Adm. Expenses	300	
Adm. Depreciation	200	
Deb. Interest	40	
Salaries (Sales Deptts)	60	
Sales Expenses	200	

Dep. (Sales Deptt. Assets)	**60**	
Profit		**1,540**

25. (a) Solution:

Statement Showing Added Value and Amount of Bonus Paid to Employees

(₹'000)

Year	2009	2010	2011	2012	2013
Employees Cost	650	760	840	984	1,120
Added Value	1,520	1,800	2,100	2,400	2,800
Percentage	42.76%	42.20%	40%	41%	40%
Target Index=40%					

Working Note:

Value Added Statement

		(₹'000)
Sales Less: Cost of bought –out goods and services: Materials Production Expenses Admn. Expenses Selling Expenses	 2,500 700 300 200	730 3,700
Added Value		3,600
Employees Costs: Wages Production salaries Admn. Cost Selling Salaries	 700 200 300 60	 1,260

Working showing the bonus for 2014	₹ '000
Employees cost as per Target Index $(3{,}600 \times 40\%)$	1,440
Annual Employees Cost	1,260
Saving/ Improvement	180
Employees share = ₹ $1{,}80{,}000 \times \frac{2}{3}$ **=₹1,20,000**	

25. (b)

Equity Share Capital	**₹10,00,000**
Reserves & Surplus	**₹ 3,00,000**
12% Preference Share Capital	**₹ 2,00,000**
10% Debenture	**₹ 4,00,000**
Immovable property (held as investment)	**₹1,00,000**
Profit after tax	**₹2,00,000**
Rate of tax	**40%**

Companies with Beta factor of 1 in similar business have market rate of return 15% . Beta factor of Anant Ltd. is 1.1 calculate EVA assuming Risk Free Return-7%.

25. (b) Solution:

EVA = (Return on operating capital – weighted average cost of capital) X Operating Capital
=(12.44%-13.33%) X 18,00,000 = (16,020)

Working Note – 1

Operating Capital	₹
Equity Share Capital Reserves & Surplus 12% Preference Share Capital 10% Debenture	10,00,000 3,00,000 2,00,000 4,00,000
Total Less: Non operating Investment	19,00,000 1,00,000
Operating Capital	18,00,000

Working Note – 2
Calculation of Return on operating Capital

	₹
NOPAT = Profit after Tax + Taxes $(2,00,000 \times 40/60)$	2,00,000 1,33,333
 + Interest Expense	3,33,333 40,000
Operating EBIT (-) Economic taxes @ 40%	3,73,333 1,49,333
NOPAT	2,24,000

Working Note – 3

Calculation of WACC
Kd = 10% (1-0.40) X 4,00,000/19,00,000=1.26 Kp = 12% X 2,00,000/19,00,000 = 1.26% Ke = 7% + 1.1(15%-7%) = 15.8% X 13/19 = 10.81=13.33%

26. (a) From the following information in respect of Upkar Ltd., prepare a value added statement for the year 2014

	₹'000
Turnover	**2,300**
Plant and Machinery (net)	**1,080**
Depreciation on Plant and Machinery	**275**
Dividends to ordinary shareholders	**146**
Debtors	**195**
Creditors	**127**
Total stock of all materials, WIP and finished goods	
Opening Stock	**160**
Closing Stock	**200**
Raw materials purchased	**625**
Cash at Bank	**98**
Printing and Stationary	**22**
Auditor's remuneration	**28**
Retained Profits (Opening balance)	**994**
Retained Profits for the year	**288**

Rent, Rates and Taxes	**165**
Other expenses	**85**
Ordinary share capital issued	**1,500**
Interest on borrowing	**40**
Income tax for the year	**276**
Wage and Salaries	**327**
Employees State Insurance	**35**
PF- Contribution	**28**

Calculate the Value added per employee, average earning per employee and sales per employee on the basis that 95 employees work in Upkar Ltd.

26 .(a) Solution.

Gross Value Added Statement

Sales			**2,300**
Add: Increase in Stock (200-160)			**40**
		Total (A)	**2,340**
<u>Cost of B/M</u>			
Raw materials	625		
Printing & Stationary	22		
Rent	165		
Other Expenses	85		
Auditor's remuneration	28		**925**
		GVA	**1,475**
Application Towards			
Employee (28+35+327)	390		
Interest on Borrowing	40		
Government-tax	276		
Share Holder	146		
Retained by the entity(275+288)	563		
	1,415		

(i) Value Added= $\frac{1,415}{95}=14.89$

(ii) $\frac{288}{95}=3.03$

(iii) $\frac{2,300}{95}=24.21$

26.(b)

The following is the Profit and Loss Account of Morning Glory for the year ended 31.03.2014. Prepare a Gross Value Added Statement of Morning Glory and show also the reconciliation between Gross Value Added and Profit before taxation.

Profit and Loss Account for the year ended 31.03.2014

(₹ in lakhs)

	Notes		Amount

Income:			
Sales		**-**	**890**
Other Income		**-**	**55**
			945
Expenditure:			
Production and operational expenses	**(a)**	**641**	**-**
Administration expenses (Factory)	**(b)**	**33**	**-**
Interest	**(c)**	**29**	**-**
Depreciation		**17**	**720**
Profit before taxes		**-**	**225**
Provision for taxes	**(d)**	**-**	**30**
Profit after tax		**-**	**195**
Balance as per last Balance Sheet		**-**	**10**
			205
Transferred to General Reserve		**45**	**-**
Dividend paid		**95**	**-**
		140	**-**
Surplus carried to Balance Sheet		**65**	**-**
		205	**-**

Notes:

(a) Production and Operational expenses	**₹ in lakhs**
Consumption of raw materials	**293**
Consumption of stores	**59**
Salaries, Wages, Gratuities etc. (Admn.)	**82**
Cess and Local taxes	**98**
Other manufacturing expenses	**109**
	641

(b) Administration expenses include salaries, commission to Directors ₹9.00 lakhs .Provision for doubtful debts ₹ 6.30 lakhs.

(c)

	₹ in lakhs
Interest on loan from ICICI Bank for working capital	**9**
Interest on loan from ICICI Bank for fixed loan	**10**
Interest on loan from IFCI for fixed loan	**8**
Interest on Debentures	**2**
	29

(d) The charges for taxation include a transfer of ₹ 3.00 lakhs to the credit of Deferred Tax Account.
(e) Cess and Local taxes include Excise Duty, which is equal to 10% of cost of bought-in material.

26. (b) Solution.

Morning Glory

Gross Value Added Statement for the year ended 31st March, 2014

	₹ in lakhs	₹ in lakhs
Sales		890
Less: Cost of bought in materials and services:		
Production and operational expenses (293 + 59 + 109)	461	

Administration expenses (33 – 9)	24	
Interest on working capital loan	9	
Excise duty (Refer working note)	55	549
Value added by manufacturing and trading activities		341
Add: Other income		55
Total value added		396

Application of Value Added

			%
To Employees			
Salaries, wages, gratuities etc.		82	20.71%
To Directors			
Salaries and commission		9	2.27%
To Government			
Cess and local taxes (98 – 55)	43		
Income tax	27		17.68%
To Providers of capital		70	
Interest on debentures	2		
Interest on fixed loan	18		
Dividends	95		29.04%
To Provide for maintenance and expansion of the company		115	
Depreciation	17		
General reserve	45		
Deferred tax	3		
Retained profits (65 – 10)	55	120	30.30%
		396	100%

Statement showing reconciliation of Gross Value Added with Profits before taxation

₹ in lakhs

Profits before taxes		225
Add:		
Depreciation	17	
Directors' remuneration	9	
Salaries, wages & gratuities etc.	82	
Cess and local taxes	43	
Interest on debentures	2	
Interest on fixed loan	18	
		171
Total value added		396

Working Note:
Calculation of Excise Duty
Say cost of bought in materials and services is 'x'
Excise Duty is 10% of x = x/10
x = 461 + 24 + 9 + x/10
x = 494 + x/10 = 549 (approx.)*
Excise Duty = 549 – 494 = ₹ 55
* The above calculated excise duty is not exactly 10% of cost of bought in material amounting ₹ 549. The difference is due to approximation.

27. (a) ABC CO. Ltd. needs $ 6,00,000 on May 1,2014 for repayment of loan installment and interest. As on December 1, 2013 , it appears to the company that the dollar may be dearer as compared to the exchange rate

prevailing on that date, \$ 1= ₹ 43.50. assume the spot rate as on 1st May , 2014 is \$ 1= ₹ 44.80. Journalize in the books of ABC Co. Ltd.

27.(a) Solution.

Journal entries in the books of ABC Co. Ltd.

Date	Particulars	Debit	Credit
1.12.2013	Premium on FEC A/c Dr. To, SWAP Bank A/c (Being Premium Recognised) [$6{,}00{,}000 \times (44 - 43.50)$]	3,00,000	 3,00,000
	Profit & Loss A/c Dr. To, Premium on FEC (Being Premium written off) [$3{,}00{,}000 \times \frac{122}{153}$]	2,39,216	 2,39,216
1.05.2014	Loan A/c Dr. Exchange Difference A/c Dr. To, Bank (Being liability settled)	2,61,00,000 7,80,000	 2,68,80,000
1.05.2014	SWAP Bank A/c Dr. To, Exchange (Being amount of exchange difference transfer)	7,80,000	 7,80,000
1.05.2014	Bank A/c Dr. To, SWAP Bank A/c (Being SWAP settled)	4,80,000	 4,80,000
1.05.2014	Profit & Loss A/c Dr. To, Premium on FEC (Being Premium written off)	60,784	 60,784

27. (b) Mr.Dey buys a stock option of PQR Co. Ltd. in July, 2013 with a strike price on 30.07.2013 of ₹ 250 to be expired on 30.08.2013. The premium is ₹ 20 per unit and the market lot is 100. The margin to be paid is ₹ 120 per unit.
Show the accounting treatment in the books of Buyer when:
(i) the option is settled by delivery of the asset, and
(ii) the option is settled in cash and the index price is ₹ 260 per unit.

27.(b) Solution.

Date	Particulars	Debit ₹	Credit ₹
	At the time of inception		
2013. July	Stock option premium account Dr. To Bank account (Being premium paid to buy a stock option)	2,000	 2,000
	Deposit for margin money account Dr. To Bank account (Being margin money paid on stock option)	12,000	 12,000
	At the time of settlement		
August	**(i) Option is settled by delivery of the asset** Shares of PQR Ltd. account Dr. To Deposit for margin money account To Bank account (Being option exercised and shares acquired, ₹ 12,000 margin money adjusted and the balance amount was paid)	 25,000	 12,000 13,000

	Profit and loss account Dr. To Stock option premium account (Being the premium transferred to profit and loss account on exercise of option)	2,000	2,000
	(ii) Option is settled in cash Profit and loss account Dr. To Stock option premium account (Being the premium transferred to profit and loss account)	2,000	2,000
	Bank account (₹ 100 ´ 10) Dr. To Profit and loss account (Being profit on exercise of option)	1,000	1,000
	Bank account Dr. To Deposit for margin money account (Being margin on equity stock option received back on exercise of option)	12,000	12,000

28. On February 1,2013 , Purushottam Ltd. entered into a contract with Sun Ltd. to receive the fair value of 1,000 Purushottam Ltd.'s own equity shares outstanding as on 31-01-2014 in exghange for payment of ₹ 1,04,000 in cash i.e. ₹ 104 per share. The contract will be settled in net cash on 31.01.2014.
The fair value of this forward contract on the different dates were:

(i) Fair value value of forward on 01-02-2013	**NIL**
(ii) Fair value value of forward on 31-12-2013	**₹6,300**
(iii) Fair value value of forward on 01-02-2013	**₹ 2,000**

Presuming that Purushottam Ltd. closes its books on 31st December each year, pass entries :
(i) If net settled is in cash
(ii) If net is settled by Sun Ltd. by delivering shares of Purushottam Ltd.

28. Solution:

	If net is settled in cash		
Date	**Particulars**	**Debit ₹**	**Credit ₹**
(i) 1.2.2013	No entry is required because fair value of derivative is zero and no cash is paid or received		
(ii) 31.12.2013	Forward Contract (asset) A/c Dr. To, Profit and Loss A/c (Loss recorded due to increase in fair value of the forward contract)	6,300	6,300
(iii)31.01.2013	Profit and Loss A/c Dr. To, Forward Contract (Asset) A/c (Loss recorded due to decrease in fair value of the forward contract)	4,300	4,300
(iv)	Cash A/c Dr. To, Forward Contract (Asset) A/c (Being forward contract settled in cash)	2,000	2,000
	If net settled by delivery of shares		
	First three entries will be same. Entry no. (iv) will change as under:		
	Equity A/c Dr. To, Forward Contract (Asset) A/c (Being forward contract settled by delivery of shares)	2,000	2,000

29. Write a note on the following:

(a) Reversal of an Impairment Loss.

(b) Timing differences and Permanent differences.
(c) Human Resources Accounting.
(d) Major issues in environmental accounting.

29. Solution.

29. (a) Reversal of an Impairment Loss:

As per AS 28 on Impairment of Assets, an enterprise should assess at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased. If there is any such indication , the enterprise should estimate the recoverable amount of that asset. In assessing whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased, an enterprise should consider, as a minimum, the following indications:

External sources of information
(i) the asset's market value has increased significantly during the period;

(ii) there are significant changes with a favourable effect on the enterprise have taken place during the period,or will take place in the near future, in the technological market, economic or legal environment in which the enterprise operates or in the market to which the asset is dedicated;

(iii) market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

Internal sources of information
(i) significant changes with a favourable effect on the enterprise have taken place during the period, or are expected to take place in the near future, to the extent to which, or manner in which, the asset is used or is expected to be used. These changes include capital expenditure that has been incurred during the period to improve or enhance an asset in excess of its originally assessed standard of performance or a commitment to discontinue or restructure the operation to which the asset belongs;

(ii) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected

29. (b) Timing and Permanent Differences:
As per AS 22 states that timing differences are those differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods. Unabsorbed depreciation and carry forward of losses which can be set off against future taxable income are also considered as timing differences and result in deferred tax assets subject to consideration of prudence i.e., deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Permanent differences are the differences between taxable income and accounting income for a period that originate in one period and do not reverse subsequently. For instance, if for the purpose of computing taxable income, the tax laws allow only a part of an item of expenditure, the disallowed amount would result in a permanent difference.

29. (c) Human Resource Accounting (HRA):
Human Resource Accounting (HRA) is an attempt to identify, quantify and report investments made in human resources of an organization. Leading public sector units like OIL, BHEL, NTPC and SAIL etc. have started

reporting human resources in their annual reports as additional information. Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resource. Human resources are not thus recognized as 'assets' in the Balance Sheet While investments in human resources are not considered as assets and not amortised over the economic service life, the result is that the income and expenditure statement comprising current revenue and expenditure gives a distorted picture of the real affairs of the organization. Accountants have been severely criticized by the Behavioural Scientists for their failure to value human resources, as this has come out as a handicap for effective management. Human resource accounting provides scope for planning and decision making in relation to proper manpower planning. Also, such accounting can bring out the effect of various new rules, procedures and incentives relating to work force, and in turn, can act as an eye opener for modifications of existing statutes and laws.

29.(d) Major accounting issues involved in environmental accounting can be explained as follows:

(i) Distinction between environmental expenditure and normal business expenditure: Many new machines may incorporate state-of-the-art environmental technology and accordingly, portion of such capital costs and also the running and maintenance expenditure may be treated as environmental expenditure. It is necessary to frame guidelines indicating whether the reporting entity should properly allocate the capital and revenue expenditures between environmental expenditure and normal business expenditure.
(ii) Whether to capitalise environmental expenditures or expensing them during the current accounting period: Environmental protection costs relating to prior periods and current period are generally very high and if expensed in one year as and when a reporting entity is persuaded to follow environmental accounting, the adverse impact in EPS is a major concern. Accordingly many Western Corporations prefer to capitalize environment costs instead of immediate expensing and adopt an amortization policy extending up to 10 years. Although this accounting practice has no theoretical support and rather contradicts the well established accounting
concept of "prudence", it is considered as a practical solution to off-load burden of accumulated environmental costs without abruptly disturbing the cash flows attributable to the lenders, Government and finally to the shareholders. However, recognition of environmental costs should not necessarily be restricted to the expenses accrued in view of the applicable environmental laws. It should be guided by ethical consideration.
(iii) Recognition of environment related contingent liabilities: Environmental contingent liabilities are a matter of increasing concern throughout the world. Recognizing a liability of hazardous waste remediation frequently depends on the ability to estimate remediation costs reasonably.
In fact, identification and measurement of contingent liabilities are highly debatable accounting aspects. The United Nations Conference on Environment and Development (UNCEAD) papers raise the basic question why environmental contingencies should not be merged with other business contingencies. There is an urgent need for tightening the reporting rules on contingencies incorporating specific requirements for disclosure of environmental contingencies along with other contingencies.

30. Write a note on the following:

- **(a) Discuss the concept of Cost v/s Fair value with reference to Indian Accounting Standards.**
- **(b) Advantages of preparation of Value Added (VA) statements.**
- **(c) Impairment of asset and its application to inventory.**
- **(d) Briefly describe the significance of Environmental Accounting.**

30. Solution.

30.(a) Cost vs. Fair value:

Meaning of Cost basis: The term cost refers to cost of purchase, costs of conversion on other costs incurred in bringing the goods to its present condition and location. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire them at the time of their acquisition.

Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Meaning of Fair value: Fair value of an asset is the amount at which an enterprise expects to exchange an asset between knowledgeable and willing parties in an arm's length transaction.

Indian Accounting Standards are generally based on historical cost with a very few exceptions:
AS 2 "Valuation of Inventories" – Inventories are valued at lower of net realizable value (NRV) and cost of inventories .
AS 10 "Accounting for Fixed Assets" – Items of fixed assets that have been retired from active use and are held for disposal are stated at net realizable value if their net book value is more than NRV.
AS 13 "Accounting for Investments" – Current investments are carried at lower of cost and fair value. The carrying amount of long term investments is reduced to recognise the permanent decline in value.
AS 15 "Employee Benefits" – The provision for defined benefits is made at fair value of the obligations.
AS 26 "Intangible Assets" – If an intangible asset is acquired in exchange for shares or other securities of the reporting enterprise, the asset is recorded at its fair value, or the fair value of the securities issued, whichever is more clearly evident.
AS 28 "Impairment of Assets"– Provision is made for impairment of assets. On the other hand IFRS and US GAAPs are more towards fair value. Fair value concept requires a lot of estimation and to the extent, it is subjective in nature.

30.(b) The various advantages of preparation of Value Added (VA) Statements are as under:
(i) Reporting on VA helps to improve the attitude of employees towards their employing companies. This is because the VA statement reflects a broader view of the company's objectives and responsibilities.
(ii) VA statement helps the company to introduce a productivity linked bonus scheme for employees based on VA. The employees may be given productivity bonus on the basis of VA / Payroll Ratio.
(iii) VA based ratios (e.g. VA / Payroll, taxation / VA, VA / Sales etc.) are useful diagnostic and predictive tools. Trends in VA ratios, comparisons with other companies and international comparisons may be useful.
(iv) VA provides a very good measure of the size and importance of a company. To use sales figure or capital employed figures as a basis for company's rankings can cause distortion. This is because sales may be inflated by large bought-in expenses or a capital-intensive company with a few employees may appear to be more important than a highly skilled labour–intensive company.
(v) VA statement links a company's financial accounts to national income. A company's VA indicates the company's contribution to national income.
(vi). VA statement is built on the basic conceptual foundations which are currently accepted in balance sheets and income statements. Concepts such as going concern, matching, consistency and substance over form are equally applicable to VA statement.

30.(c) The objective of AS 28 'Impairment of Assets' is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Statement requires the enterprise to recognize an impairment loss. This standard should be applied in accounting for the impairment of all assets, except the following
(i) inventories (AS 2, Valuation of Inventories);
(ii) assets arising from construction contracts (AS 7, Accounting for Construction Contracts);
(iii) financial assets, including investments that are included in the scope of AS 13, Accounting for Investments;
(iv) deferred tax assets (AS 22, Accounting for Taxes on Income). AS 28 does not apply to inventories, assets arising from construction contracts, deferred tax assets or investments because other accounting standards applicable to these assets already contain specific requirements for recognizing and measuring the impairment related to these assets

30. (d) Environmental Accounting can be defined as a Shiva for measuring environmental performance and communicating the results of these measurements to users. It helps in presenting the utilization of natural resources by an enterprise, the costs incurred to use them and the income earned therefrom in a transparent manner. Environmental accounting is entirely a new concept and a faithful attempt to identify the resources exhausted and the costs rendered reciprocally to the enterprise by a business corporation. Thus environmental accounting stands for recording and documenting environmental performance to facilitate effectiveness of environmental management Shiva with reference to compliance, safety and quality control. It provides a data base for taking corrective steps and future action for developing organisation's environmental strategy and for identifying environmentally based opportunities for gaining an edge over one's competitors. If proper environmental accounting Shiva is established, the enterprise will be able to anticipate environmental damage and therefore can prevent it from happening.