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PJC PUNARVAS JAYAKUMAR CLASSES

Financial Reporting old syllabus Charts, Problems, Solutions

Chinmaya Hegde

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CA Final Fastrack Classes - May 2020

CA Aarti Lahoti

India's Best Audit Faculty

Audit

March 11,12,13

9am to 5.30pm

Fee - 2000

Text book to be purchased separately

CA Chinmaya Hegde

Multiple Rank Holder

AIR 13 PE-1 AIR 3 IPCC
AIR 39 CA Final

FR

New syllabus only

20th Feb to 28th Feb
Timings : 10am to 7pm

4500 includes materials
Consolidation + Financial Instruments + Ind AS115 package 3000Rs (20 Feb to 23rd Feb)

SFM

New syllabus only !

11th Feb to 18th Feb
Timings:10am to 7pm

4500 includes materials
Forex + Derivatives package - 3000 (15th-18th Feb)

CA Punarvas Jayakumar

Bare Act Decoder

Corporate and Economics Law

Old and New syllabus
Feb 3rd to Feb 10th

10am to 7pm

Fee- 4500

includes 2 books + 1 chart book

Group 2 Dates to be announced soon

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Why we fail in Financial Reporting

Challenge	Reason	Solution
Accounting standards	Detailed answers	Use key words in solution
How to start	Not having standard techniques	Customised formats
Order of treatment of Adjustments	Lack of practice	Make list of possible adjustments with treatments

Level of Knowledge: Advanced knowledge

Syllabus

Objectives:

(a) To gain ability to analyze financial statements including consolidated financial statements of group companies and financial reports of various types of entities,

(b) To gain ability to apply valuation principles,

(c) To familiarise with recent developments in the area of financial reporting,

(d) To gain ability to solve financial reporting and valuation cases.

Contents:

1. Accounting Standards, Accounting Standards Interpretations and Guidance Notes on various accounting aspects issued by the ICAI and their applications.

2. Overview of Ind AS

3. Corporate Financial Reporting - Issues and problems with special reference to published financial statements.

4. Accounting for Corporate Restructuring (including inter-company holdings).

5. Consolidated Financial Statements of Group Companies Concept of a Group,purposes of consolidated financial statements minority interest, Goodwill, Consolidation procedures – Minority interests, Goodwill, Treatment of pre- acquisition and postacquisition profit. Consolidation with two or more subsidiaries, consolidation with foreign subsidiaries. Consolidated profit and loss account, balance sheet and cash flow statement.Treatment of investment in associates in consolidated financial statements. Treatment of investments in joint ventures in consolidated financial statements.

6. Accounting and Reporting of Financial Instruments

Meaning, recognition, derecognition and offset, compound financial instruments Measurement of financial instruments Hedge accounting Disclosures

7. Share based payments Meaning, Equity settled transactions, Transaction with employees and non- employees Determination of fair value of equity instruments Vesting conditions Modification, cancellation and settlement Disclosures

8. Financial Reporting by Mutual funds, Non-banking finance companies, Merchant bankers, Stock and commodity market intermediaries.

9. Valuation (a) Concept of Valuation (b) Valuation of Tangible Fixed Assets (c) Valuation of Intangibles including Brand Valuation and Valuation of Goodwill (d) Valuation of Liabilities (e) Valuation of Shares (f) Valuation of Business

10. Developments in Financial Reporting (a) Value Added Statement (b) Economic Value Added, Market Value Added, Shareholders' Value Added (c) Human Resource Reporting (d) Inflation Accounting*

Define Accounting

"the art of recording, classifying, and summarizing

in a significant manner

and

in terms of money, transactions and events

which are, in part at least of financial character,

and

interpreting the results thereof."

American Institute of Certified Public Accountants (AICPA)




Basics- Accounting standards

- **Meaning**
  - Standardises policies
- **Contents**
  - Recognition
  - Measurement
  - Presentation
  - Disclosure
- **Types of AS**
  - By ICAI
  - By MCA-AS
  - By MCA – Ind AS
  - CBDT -ICDS
- **Legal provisions**
  - Sec 133 : CG power
  - Sec 143(3) : Auditor responsibility

Legal provisions for applicability of accounting standards

Before Companies (Amendment) Act, 1999 :

Members of ICAI should ensure compliance of AS's in report/opinion

After Companies (Amendment) Act, 1999 :

S. 211 of the Companies Act, 1956 : Companies to follow accounting standards notified by MC

227(3)(d) : Auditors to ensure compliance of AS

S. 210A : National Advisory Committee on Accounting Standards is formed

S. 642 : 'Companies (Accounting Standards) Rules, 2006' is notified

After companies Act 2013.(W.e.f. 1.4.2014)

- S.133 Central Government to prescribe accounting standards in consultation with NFRA
- S.143(3) : Auditors to ensure compliance of AS
- ***Indian Accounting Standard Rules 2015 notified with road map for Ind AS***
- ***Companies (Accounting Standards) Amendment Rules 2016 notified on 30.03.2016***
- ***Companies (Indian Accounting Standards) (Amendment) Rules, 2016 notified on 30.3.2016***

Applicability of Accounting Standards

- By ICAI
  - Level I
    - Any one category
    - 1.Listed
      2.FI, Banks
      3.T.O > 50 Cr in IPAY
      4.Borrowing > 10Cr
      5.Holding & Subsidiary of above
  - Level II
    - Any one category
    - 1.T.O 40L to 50 Cr in IPAY
      2.Borrowing 1- 10Cr
      3.Holding & Subsidiary of above
  - Level III
    - Others
- By MCA
  - Non-SMC
    - Others
  - SMC
    - All to be satisfied
    - Not Listed
      Not FI, Banks T.O < 50 Cr in IPAY
      Borrowing < 10Cr Not Holding & Subsidiary of above
- By CBDT
  - Assesse u/s 145

<u>SMC exemption available only if</u>
company remains an SMC for two consecutive accounting periods




Ind AS applicability

Summary of accounting standards applicability

- Accounting standards
  - Companies With Net worth >500 Cr
    - Ind AS from 1.4.2.016
  - All listed companies
    - Ind AS from 1.4.2017
  - Unlisted companies net worth >250 Cr
    - Ind AS 1.4.2017
  - Unlisted companies net worth < 250 Cr
    - Accounting standards by MCA
  - Non-corporate entities
    - Accounting standards by ICAI

Salient Features of IFRS-converged Ind AS

- Principle-based Standards
- Applicable on separate as well as consolidated financial statements.
- Give more importance to concept of ‘substance over form’, i.e., economic reality of a transaction.
- Rely more on fair valuation approach, and measurements based on time value of money.
- Require more disclosures of all the relevant information and assumptions used.
- Require higher degree of judgment and estimates.

Impact of Ind AS

- **Features:**
  - Time Value of Money
  - Fair Value approach
  - More disclosures
- **Application:**
  - Separate as well as CFS
  - Presentation of Financial Statements

Ind AS use 'Other Comprehensive Income' (OCI) concept

- Reason: Definition of Income
  - Enhancement of an Asset or reduction of a Liability (other than transactions with owners)
  - Accordingly, any increase in asset, e.g., upward revaluation of asset, is an 'income' even though not realised
  - Earlier, such increase transferred directly to Revaluation Reserve in Balance Sheet
  - Now, transferred to Reserve through OCI

OCI concept (Contd.)

- Statement of profit and loss is, therefore, divided into two sections:
  - Profit or loss section: Containing items of revenue/income and expenses which are hitherto normally included in the statement of profit and loss with a few exceptions (e.g. actuarial gains & losses on measurement of defined benefit obligations now not included)
  - Other Comprehensive Income (OCI) section: containing, e.g.,
    - Revaluation surplus
    - Actuarial gains & losses
    - Fair value changes in equity instruments opted to be measured through OCI

OCI concept (Contd.)

- OCI section contains generally unrealised gains and losses arising from re-measurements of assets & liabilities
- On realisation, with few exceptions, gains & losses are recognised in profit or loss section
- **Exceptions:**
  - Sale of revalued assets
  - Equity Instruments opted to be measured at Fair Value through OCI

AS 1

AS1 Disclosure of Accounting Policies

- **Purpose**
  - For better understanding
  - meaningful comparison
- **Meaning**
  - specific accounting principles
  - methods of applying those principles
  - Examples
    - Treatment of Goodwill,
    - Valuation of Inventories/
    - Investments
    - Fixed Assets etc
- **Considerations**
  - Primary
    - True and Fair view
  - **Secondary**
    - Prudence
    - Materiality
    - Substance over form
- **Fundamental accounting assumption**
  - **Going concern**
  - Consistency
  - **Accrual**
- **Disclosure of accounting policies**

Disclosure of accounting policies

- All significant accounting policies In once place
- If Fundamental accounting assumption not followed
- Change in accounting policy
  - Material effect
    - In Current period
      - If quantifiable,
        - Quantify
      - If not quantifiable,
        - disclose the fact
    - In Subsequent period
      - disclose the fact
  - Not material effect
    - No disclosure required

Problem 1

FINMIN Ltd. is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claim/petitions in a Special Court. FINMIN Ltd. has accepted Inter-Corporate Deposits (ICDs) and is making its best efforts to settle the dues. There were claims at varied rates of interest from lenders from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non provision of interest from the due date to date of repayment was affected in the financial statements. On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt," and the same has been disclosed by way of a note in the accounts instead of making a provision in the statement of profits and loss.

Comment on the correctness of the treatment for such claims as done by the company

Solution

- As per accrual concept, Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, interest is payable
- Amount not waived by the lenders
- Non-provision of the interest from the due date to the date of repayment of loan amounts to violation of accrual basis of accounting

Ind AS1 PRESENTATION OF FINANCIAL STATEMENTS

- **Purpose**
  - For better understanding
  - meaningful comparison
- **Scope**
  - Applies to all types
    - Consolidated
    - separate
- **FINANCIAL STATEMENTS ELEMENTS**
  - BS,PL,CFS,
  - changes in equity
  - notes,
  - OCI
- **GENERAL FEATURES**
  - Fair Presentation and Compliance with Ind AS
  - Disclose departure
  - Going Concern
  - Accrual Basis
  - Materiality
  - Offsetting :
  - Consisitenc
  - Frequency : Atleast annually
  - Comparitive information

Sl.No	Points of Difference	AS 1	Ind AS 1
1	Compliance with AS	Not required	Disclose
2	Extraordinary items	Disclose separately	Prohibited
3	Opening balance sheet	Not required	In case of change in policy
4	Statement of change in equity	Not required	Required
5	Statement of Other Comprehensive Income	Not required	Below P&L
6	Comparative information	Not required	Required
7	Classification of assets and liabilities into current and non-current	No mention	Required
8	Disclosure of judgements by management while framing accounting policies	Not required	Required
9	Classification of expenses on nature of expenses	Not required	Required

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AS 2

Valuation of inventories

- Meaning & applicability
  - Inventories are assets
    - Held in ordinary course for sale
    - Raw materials
    - WIP
    - Finished goods
    - Consumables
  - Non applicability
    - Construction
    - Service provider
    - Financial instruments
    - Live stock/minerals
- Valuation
  - Lower of
    - Cost
    - OR
    - Net realizable Value
- Disclosure
  - Valuation policy
  - Cost formula
    - Specific identification
    - FIFO
    - Weighted average cost

Cost of inventories

Includes

- costs of purchase
- non-recoverable duties and taxes
- Cost of conversion
  - Labour
  - Allocated overheads Based on higher of Normal and Actual Production
- Other costs
  - To bring inventories

Excludes

- Abnormal Loss
- Storage cost
- Admin and selling
- Interest and borrowing

Machinery spares

- General
  - AS 2
- ~~Specific~~
  - ~~AS 10~~

Joint and by products

- Joint
  - Rational basis upto split off
- By product
  - Subtract NRV from Main cost

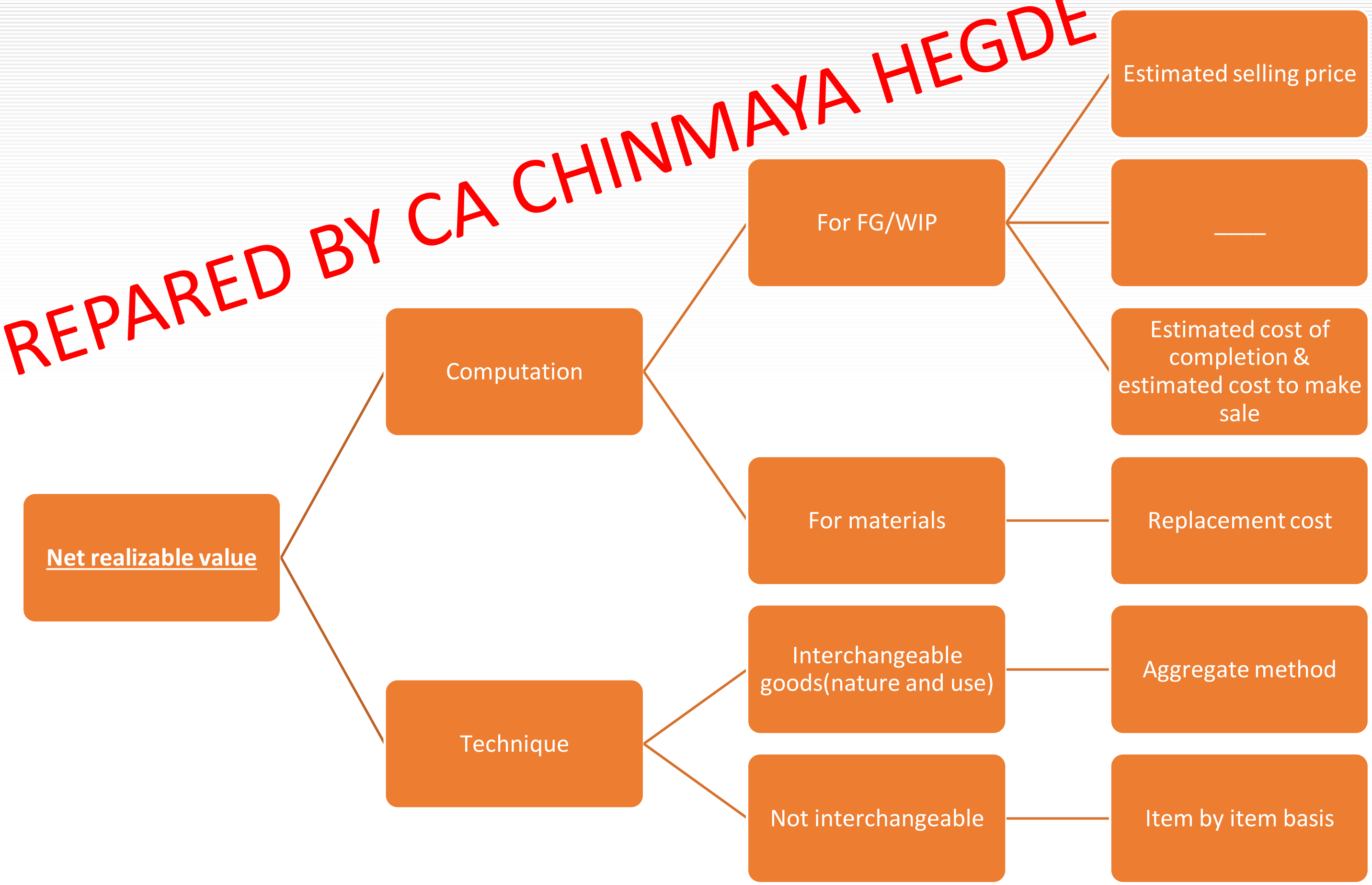
Cost formula

- Specific identification
  - Where ever possible
- Other methods
  - FIFI
  - weighted cost
  - Others

Techniques for the Measurement

- Standard cost method
  - normal capacity utilization
- retail method
  - subtracting appropriate GP%

NRV


Net realizable value
Computation
Technique
For FG/WIP
For materials
Interchangeable goods(nature and use)
Not interchangeable
Estimated selling price
_____
Estimated cost of completion & estimated cost to make sale
Replacement cost
Aggregate method
Item by item basis

1

Alpha Ltd. sells beer to customers; some of the customers consume the beer in the bars run by Alpha Limited. While leaving the bars, the consumers leave the empty bottles in the bars and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders. Keeping this in view:

(i) Decide whether the inventory of empty bottles is an asset of the company;

(ii) If so, whether the inventory of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS 2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

Solution

(i) Tangible objects or intangible rights having probable future benefits, owned by an enterprise are called assets. Hence, empty bottles are assets for the company

(ii) Stock of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2 at nominal value

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2

Calculate the value of raw materials and closing stock based on the following information:

<u>Raw material X : Closing balance 500 units</u>

Cost price including excise duty 200 Rs per unit, Excise duty (Cenvat credit is receivable on the excise duty paid) 10 Rs per unit, Freight inward 20 Rs per unit, Unloading charges 10 Rs per unit, Replacement cost 150 Rs per unit,

<u>Finished goods Y Closing Balance 1200 units</u>

Material consumed 220 Rs per unit, Direct labour 60 Rs per unit, Direct overhead 40 Rs per unit

Total fixed overhead for the year was Rs 2,00,000 on normal capacity of 20,000 units.

Calculate the value of the closing stock, when

(i) Net Realizable Value of the Finished Goods Y is Rs 400.

(ii) Net Realizable Value of the Finished Goods Y is Rs 300

Solution

Finished goods Y

Materials consumed 220
Direct Labour 60
Direct overhead 40
Fixed overheads
(2,00,000/20,000 units) 10
Cost 330

When NRV of the Finished Goods Y is Rs 400

Cost 330
NRV 400
Finished goods valued at cost 330*1200

When NRV of the Finished Goods Y is Rs 300

Cost 330
NRV 300
Finished goods valued at NRV 300*1200

Raw Material X

Cost Price 200
Less: Cenvat Credit (10) 190
Add: Freight Inward 20
Unloading charges 10
Cost 220

When NRV of the Finished Goods Y is Rs 400

Finished goods valued at cost, hence raw material also at cost at 220*500

When NRV of the Finished Goods Y is Rs 300

Finished goods valued at NRV, hence raw material also at replacement cost at 150*500

Inventories

- **Doesn't include**
  - financial instruments
  - biological assets
  - construction contracts
  - Agricultural
  - commodity broker-traders
- **Meaning**
  - held for sale in the ordinary course
  - in the process of production
  - in the form of materials or supplies
- **Measurement**
  - lower of cost and net realisable value
  - on item by item basis except
    - are interchangeable
    - and similar in nature

- **Cost of Inventories**
  - Includes
    - the purchase price
    - taxes subsequently not recoverable
    - Transport
    - handling and other costs
  - Excludes
    - trade discounts,
    - Rebates
  - Costs of conversion
    - direct material, direct labour and other direct costs
    - overheads recovered on higher
      - of normal capacity and normal capacity.
  - joint products
    - on a rational and consistent
  - by-products
    - deducted from the cost of main
  - inventories of service provider
- NRV
  - estimated selling price
  - less costs of completion
  - Less selling cost
  - If FG valued at NRV
    - RM at Replcement cost

Other points

- **Reversals of write-downs**
  - when there is clear evidence
  - reversal is limited write-down
- **Techniques and formulas**
  - Inventory ordinarily interchangeable
    - Non Historical cost
      - Retail method where cost = Sales price – estimated profit
      - Standard Cost
    - Historical cost
      - FIFO
      - Weighted Average
  - Inventory not ordinarily interchangeable
    - Specific Identification Method
- RECOGNITION AS AN EXPENSE
  - sold in the period in which it is sold
  - any write-down reduced by reversals

Sl.No	Points of Difference	AS 2	Ind AS 2
1	Inventory of Service Provider	Excluded	Included
2	Inventory of Commodity trader/ broker	Included	Excluded
3	Subsequent assessment of NRV	Covered in AS 5	Covered in Ind AS 2
4	Inventory purchased on deferred basis	Recorded at purchase price	Purchase price less interest chargeable beyond normal credit period
5	Machine spares	Defined	Defined in Ind AS 16
6	Subsequent recognition of carrying amount as expense	No Such provision	Provided
7	NRV Vs fair value	Not distinction	Difference provided
8	Use of consistent cost formulas	Specifically provided	Provides fairest approximation possible
9	Inventory of Service Provider	Excluded	provides explanation

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AS 3

Cash flow statement

- **Cash flow**
  - Inflow and outflow
  - Cash and cash equivalent
- **Activities**
  - Operating
  - Investing
  - Financing

Format and structure

Cash flows from operating activities

+ Cash flows from investing activities

+ Cash flows from financing activities

Net change in cash during period

+ Beginning cash balance

Ending cash balance

1

Search Ltd. submits the following information pertaining to the year 2011-12 for the purpose of Cash Flow Statement. Using the data, you are required to find the closing cash and bank balances, given an opening figure thereof Rs 1.55 million.

	(Rs millions)	
Additional shares issued	6.50	
CAPEX (Capital expenditure)		9.90
Proceeds from assets sold	1.60	
Dividends declared		0.50
Gain from disposal of assets		(1.20)
Net income		3.30
Increase in trade receivable		1.50
Redemption of 4.5% debentures	2.50	
Depreciation & Amortization		0.75

Solution

Cash Flow Statement for the year ended 31st March, 2012

Cash flows from operating activities					
Net income	3.30				
Add: Depreciation & amortization		0.75			
Loss from disposal of assets		1.20			
Less: Increase in accounts receivables			(1.50)		
Net cash generated from operating activities				3.75	
Cash flows from investing activities					
Capital expenditure	(9.90)				
Proceeds from sale of fixed assets		1.60			
Net cash used in investing activities			(8.30)		
Cash flows from financing activities					
Proceeds from issuance of additional shares			6.50		
Dividend declared	(0.50)				
Redemption of 4.5% debentures		(2.50)			
Net cash generated from financing activities				<u>3.50</u>	
Net decrease in cash and bank balances				(1.05)	
Cash and bank balances at the beginning of the period					<u>1.55</u>
Cash and bank balances at the end of the period				0.50	

Sl.No	Points of Difference	AS 3	Ind AS 7
1	Bank OD	Financing Activity	Cash Equivalent
2	Asset purchase and sale in rental business	Investing Activity	Operating Activity
3	Undistributed profits of associate	Not covered	Deduct from profit while calculating cash flow from OA
4	Cash flow from Extra ordinary Activity	Separately disclosed	Not covered
5	Sale of subsidiary stake without loss of control	Investing Activity	Financing Activity
6	Dividend paid in case of Financial Enterprise	Operating Activity	Financing Activity
7	Currency used	Reporting currency	Functional currency

AS 4

AS Contingencies & Events Occurring After the Balance Sheet Date

- Applicability
  - Not Applicable in
    - Insurance
    - Retir. benefits
    - Lease
- Events after BS Date
  - After BS date before approval
  - Conditions existed at BS date
    - Adjusting events
  - Conditions existed after BS date
    - If going concern is not appropriate
      - Adjusting event
    - Others
      - Non Adjusting events
        - May be disclosed
    - Disclosures
      - Nature,
      - uncertainties
      - estimate

1

A company deals in petroleum products. The sale price of petrol is fixed by the government. After the Balance Sheet date, but before the finalisation of the company's accounts, the government unexpectedly increased the price retrospectively. Can the company account for additional revenue at the close of the year? Discuss

Solution

Increase in price does not represent a condition present at the balance sheet date

Event occurring after balance sheet date but non-Adjusting event

2

While preparing its final accounts for the year ended 31st March, 2014 a company made a provision for bad debts @ 5% of its total debtors. In the last week of February, 2014 a debtor for Rs 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2014 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2014?

Solution

Adjusting event. Provide for 2 lakhs doubtful debts.

Sl.No	Points of Difference	AS 4	Ind AS 10
1	Material Non Adjusting Events	Disclose in Directors report	Disclose in notes to accounts
2	Going concern	Restate balance sheet	Fundamental change in basis of accounting
3	Breach rectified later of long term loan arrangement	Not covered	Continue to classify as long term loan

1

A case is going on between ABC & Co and Sales Tax department on claiming the exemption for certain goods, for the year 20X1-20X2. The court has issued the order on 15th April and rejected the claim of the company. Accordingly, company is liable to pay the additional tax. Shall company account for such tax in the year 20X1-20X2 or shall it account for in the years 20X2-20X3?

adjusting event

2

- ABC Ltd. has purchased the new machinery during the year 20X1-20X2. The asset was finally installed and made ready for use on 15th March 20X2. However, the company involved in installation and training, has not yet submitted the final bills for the same.
- The supplier company sent the bills on 10th April 20X2, when the accounts were not yet approved. Shall the company include the amount of capitalization in the year 20X1-20X2 or in the year 20X2-20X3?

adjusting event

3

ABC Co declares the dividend on 15th July 20X2 as the results of year 20X1-20X2 as well as Q1 ending 30th June 20X2 are better than expected. The accounts of the company are approved on 20th July 20X2 for the financial year ending 31st March 20X2. State, whether the dividend will be accounted in F.Y. 20X2-20X3 or will it be considered as proposed dividend and accounted in the year 20X1-20X2?

Non Adjusting




AS 5

Net Profit or Loss for the Period, Prior Period Items, Changes in Accounting Policies

- Net Profit or Loss for the Period
  - Ordinary
  - Exceptional
    - Such size nature incidence
    - Disclose separately
  - Extra ordinary
    - Disclose separately
- Prior Period Items
  - As a result of error or omission
  - **Excludes necessitated by circumstances**
  - Disclose separately
- Change in accounting policy
  - Allowed only in 3 circumstances
    - **New accounting standard OR**
    - New Statute OR
    - **Change results in True and fair view**
  - Different from accounting estimate
  - Disclosure
    - **As discussed in AS 1**

1

Fuel surcharge is billed by the State Electricity Board at provisional rates. Final bill for fuel surcharge of Rs 5.30 lakhs for the period October, 2008 to September, 2012 has been received and paid in February, 2013. However, the same was accounted in the year 2013-14. Comment on the accounting treatment done in the said case

Solution

Should have been accounted in 2012-2013. It was not done.

Qualifies for error or omission in 2013-14

It should be treated as 'Prior period item'

2

While preparing its final accounts for the year ended 31st March, 2014 Rainbow Limited created a provision for Bad and Doubtful debts are 2% on trade debtors. A few weeks later the company found that payments from some of the major debtors were not forthcoming. Consequently the company decided to increase the provision by 10% on the debtors as on 31st March, 2014 as the accounts were still open awaiting approval of the Board of Directors

Solution

- Revision of an estimate does not bring the resulting amount within the definition either of prior period item or of an extraordinary item
- Change in accounting estimate which has a material effect in the current period should be disclosed and quantified

Sl.No	Points of Difference	AS 5	Ind AS 8
1	Extraordinary items	Covered	Excluded
2	Accounting for change in accounting policy	Retrospective calculation, prospective accounting	Retrospective calculation retrospective accounting
3	Change in accounting policy in case required by statute	Covered	Not covered
4	Prior period items	Accounting in current year Uses the word “item”	Accounting retrospectively. Uses the word “error”
5	Disclosure requirement	Comparatively less	Comparatively more
6	Definition of accounting policy	specific accounting principles and the methods of applying those principles	bases, conventions, rules and practices (in addition to principles) applied
7	Consistency of accounting policies to similar transactions	No specific reference	Specifically stated
8	Errors definition	Prior period items as incomes or expenses which arise in the current period as a result of errors or omissions	arising from a failure to use or misuse of reliable information that could have been identified
9	Frauds	Not covered	Included in definition of errors
10	Extraordinary Items	Deals with the concept of extra-ordinary item	Prohibits the presentation of any items of income or expense as extraordinary
11	Exceptions in Retrospective Accounting of Changes in Accounting Policies	No Exceptions	retrospective effect subject to limited exceptions viz., where it is impracticable to determine the period specific effects or the cumulative effect of applying a new accounting policy.

1

1 During 20X2, Beta Ltd. discovered that some products that had been sold during 20X1 were incorrectly included in inventory at March 31, 20X1 at Rs 6,500.

2 Beta's accounting records for 20X2 show sales of Rs 1,04,000, cost of goods sold of Rs 86,500 (including Rs 6,500 for the error in opening inventory), and income taxes of Rs 5,250.

In 20X1, Beta Ltd. reported:

Sales of Rs 73,500

Cost of goods sold of Rs 53,500

Profit before income taxes of Rs 20,000

Income taxes of Rs 6,000

Profit of Rs 14,000

20X1 opening retained earnings was Rs 20,000 and closing retained earnings was Rs 34,000.

Beta's income tax rate was 30 per cent for 20X2 and 20X1. It had no other income or expenses.

Beta Ltd. had Rs 5,000 of share capital throughout, and no other components of equity except for retained earnings. Its shares are not publicly traded and it does not disclose earnings per share.

Beta Ltd.

Extract from the statement of profit and loss

	20X2	Restated 20X1
Sales	1,04,000	73,500
Cost of goods sold	-80,000	-60,000
Profit before income taxes	24,000	13,500
Income taxes	-7,200	-4,050
Profit	16,800	9,450

Statement of changes in equity

	Share Capital	Retained Earnings	Total
Balance as at March 31, 20X0	5,000	20,000	25,000
Profit for March 31, 20X1, as restated		9,450	9,450
Balance as at March 31, 20X1	5,000	29,450	34,450
Profit for the year ended March 31, 20X2		16,800	16,800
Balance as at March 31, 20X2	5,000	46,250	51,250

2

The following arithmetical error occurred in preparation of A Limited financial statement of immediately preceding financial year – (a) Depreciation on plant and machinery understated by an amount equal to 0.30% of sales; (b) Warranty provisions understated by an amount equal to 0.15% of sales; (c) Allowance for bad debts understated by an amount of 0.25% of sales.

Comment whether these are material prior period errors

Individually none of these errors may be material but could collectively influence the economic decision of the users of the financial statements. These are material prior period errors.

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AS 7

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- AS 7 Construction contract
  - Recognition of revenue and cost
  - Components of revenue and cost
  - Methods of stage of completion
  - Disclosure

- Recognition of revenue and cost
  - Reliable estimation
    - Meaning
      - Revenue, costs stage of completion
      - Receipt is probable
      - Attributable can be identified
    - Can be made
      - Recognize cost and revenue
      - Proportionately
      - To the stage of construction
    - Cant be made
      - Revenue
        - On recovery
      - Cost
        - Periodic basis

- Components of revenue and cost
  - Revenue
    - Initial amounts
    - Variations
    - Future uncertainty- Make provision
  - Cost
    - Direct
    - Attributable
  - Recognize loss
    - If expected total cost > Expected total revenue

- Methods of stage of completion
  - Surveys of work done
  - Completion of physical proportion of the contract work
- Disclosure
  - Revenue
  - Cost
  - Method for revenue
  - Method for stage

1

PRZ & Sons Ltd. are Heavy Engineering contractors specializing in construction of dams.

From the following data is available pertaining to year ended 31st March, 2014.you are required to:

(i) Compute the amount of profit/loss for the year ended 31st March, 2014.

(ii) Arrive at the contract work in progress as at the end of financial year 2013-14.

(iii) Determine the amount of revenue to be recognized out of the total contract value.

(iv) Work out the amount due from/to customers as at year end.

(v) List down relevant disclosures with figures as per relevant Account Standard

	(Rs. crore)		(Rs. crore)
Total Contract Price	2,400	Estimated further cost to completion	1750
Work Certified	1,250	Stage wise payments received	1100
Work pending certification	250	Progress payments in pipe line	300

Solution

Total revenue of contract			2400
Total cost of contract			
Incurred		1500	
Expected	1750		3250
Expected loss to be recognized		850	

Work in progress at the end of the year = 1250 + 250 = 1500

% of completion = 1500/(1500+1750) = 46.15%

Revenue to be recognized = 2400*46.15% = 1107.7

Due from customer

Work certified + un certified	1500		
Loss recognized		-850	
Progress payment received	-1100		
Progress billings in line		-300	
Balance			-750(Due to customer)

Sl.No	Points of Difference	AS 7	Ind AS 11
1	Contract revenue	measured at the actual consideration received or receivable	measured at fair value
2	Accounting for Service Concession Arrangements	does not deal with accounting for Service Concession Arrangements,	Deal with it as explained above
3	Inclusion of Borrowing costs	includes borrowing costs as per AS 16,	Does not specifically make Reference.

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1

- Mr. ‘X’ as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, ‘X’ will receive an additional Rs 2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. X wants to recognize this revenue since in the past he has been able to meet similar targets very easily.
- Is X correct in his proposal? Discuss.

(i) the contract is not sufficiently advanced

(ii) contractor (Mr. X) should not recognize

2

A Limited has entered into a contract with B Limited for construction of a bridge estimated cost of Rs 15 crores and revenue of Rs 20 crores. At the end of year 1, A Limited has incurred Rs 6 crores. However, B Limited has been invoiced for Rs 7 crores. The payment is due in first quarter of year 2. Determine the cost and revenues to be recognised based on percentage completion method.

Solution

3

- A construction contractor has a fixed price contract for Rs 9,000 lakhs to build a bridge. The initial amount of revenue agreed in the contract is Rs 9,000 lakhs. The contractor's initial estimate of contract costs is Rs 8,000 lakhs. It will take 3 years to build the bridge.
- By the end of year 1, the contractor's estimate of contract costs has increased to Rs 8,050 lakhs.
- In year 2, the customer approves a variation resulting in an increase in contract revenue of Rs 200 lakhs and estimated additional contract costs of Rs 150 lakhs. At the end of year 2, costs incurred include Rs 100 lakhs for standard materials stored at the site to be used in year 3 to complete the project.
- The contractor determines the stage of completion of the contract by calculating the proportion that contract costs incurred for work performed to date bear to the latest estimated total contract costs. Determine profit as per Ind AS
-

Contract costs incurred to date

Year 1 2093

Year 2 6168

Year 3 8200

- Working notes

		Year 1	Year 2	Year 3
Initial amount		9,000	9,000	9,000
Variation		–	200	200
Total contract revenue	(A)	9,000	9,200	9,200
Contract costs incurred to date		2,093	6,068	8,200
Contract costs to complete		5,957	2,032	–
Total estimated contract costs	(B)	8,050	8,200	8,200
Stage of completion		26%	74%	100%

Amounts of revenue, expenses and profit recognised

		Current year
Year 1		
Revenue (9,000 × .26)	2,340	
Expenses	2,093	
Profit		247
Year 2		
Revenue (9,200 × .74-2340		4,468
Expenses 6168-2093-100		3,975
Profit		493
Year 3		
Revenue (9,200 × 1.00)-6808		2,392
Expenses		2,132
Profit		260

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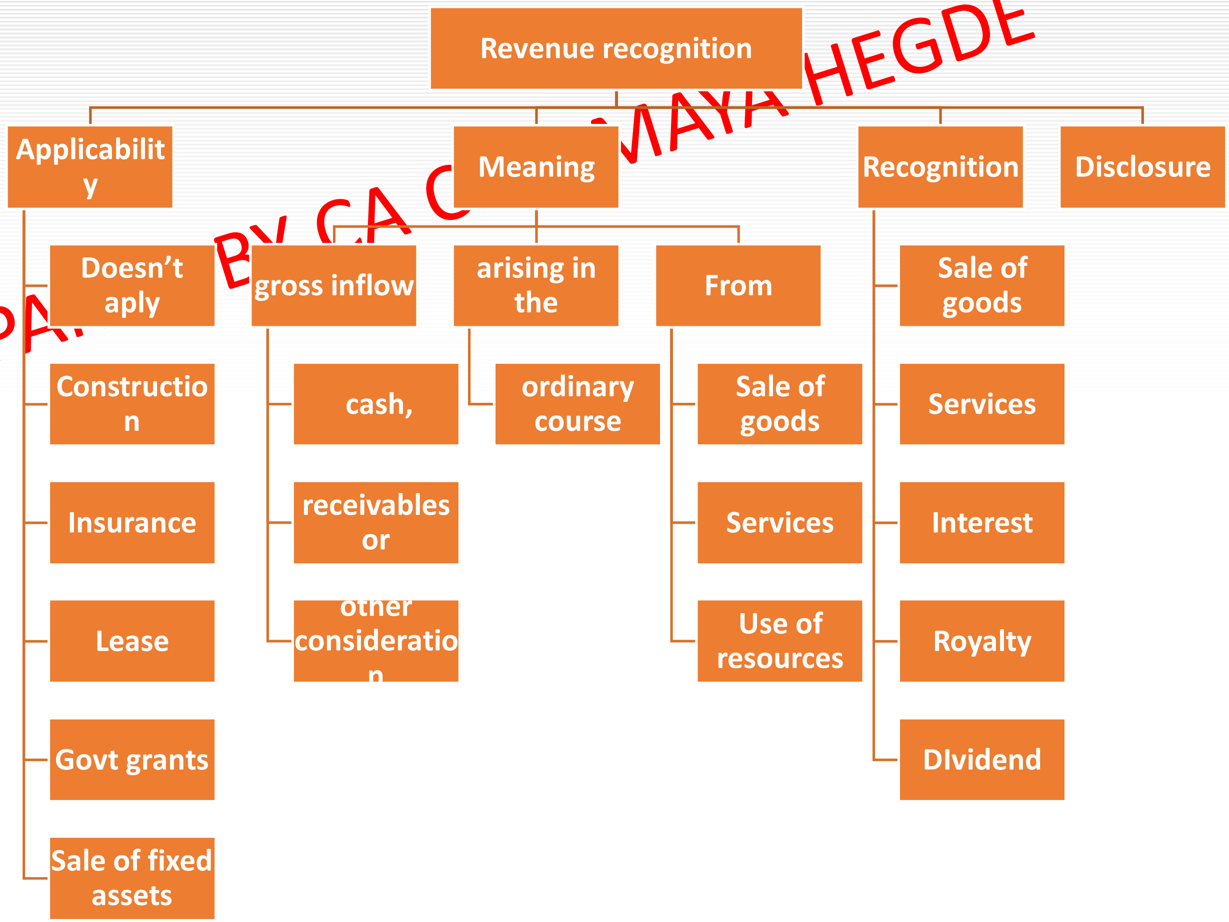
AS 9


Revenue recognition
Applicability
Doesn't aply
Construction
Insurance
Lease
Govt grants
Sale of fixed assets
Meaning
gross inflow
cash,
receivables or
other consideration
arising in the
ordinary course
From
Sale of goods
Services
Use of resources
Recognition
Sale of goods
Services
Interest
Royalty
DIvidend
Disclosure

- Recognition
  - Sale
    - Significant risk and rewards transfer
    - Realisability is certain
    - If subsequent uncertainty-Create provision
  - Service
    - Proportionate completion method
    - Completed service method
  - Interest
    - Time proportion basis
  - Royalties
    - As per agreement
  - Dividends
    - Right to receive is established

Circumstances	Treatment of recognition
Delivery is delayed at buyer's request	Recognised
Delivery subject to installations	Not recognised
Simple installation	Recognised
Sale on approval	Recognised in case of formal acceptance/time for rejection has elapsed
Money back if not completely satisfied	Recognize sales but make suitable provision for returns from experience
Consignment sales	To be recognised on sale to_____
Instalment sales	Sale price excluding interest should be recognised
Special order and shipments	Recognized when the goods are identified and ready for delivery
Seller concurrently agrees to repurchase same goods at a later date	Revenue _______ recognised, as this is a financial arrangement. _____ to be recognised over contract period
Subscriptions received for publications	Deferred and recognised either on a straight-line basis over time
Advertisement commission received	It is recognised when the advertisement appears before public.
Tuition fees received	Should be recognised over the period of instruction
Entrance and membership fees	Entrance fee is generally capitalized or on a systematic and rational basis
Guaranteed sales of agricultural crops	When sale is assured under forward contract or government guarantee, the crops can be recognised at net realizable value although it does not satisfy the criteria of revenue recognition

1

The Board of Directors decided on 31.3.2014 to increase the sale price of certain items retrospectively from 1st January, 2014.In view of this price revision with effect from 1st January, 2014, the company has to receive Rs. 15 lakhs from its customers in respect of sales made from 1st January, 2014 to 31st March, 2014 and the Accountant cannot make up his mind whether to include Rs. 15 lakhs in the sales for 2013-14.

Solution

- If the company is able to assess the ultimate collection with reasonable certainty,
- then additional revenue arising out of the said price revision may be recognised in 2013-2014

2

Bottom 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.

Solution

Substantial Risk and rewards are transferred

Substance over form.

Sale and gain can be recognized.

3

Victory Ltd. purchased goods on credit from Lucky Ltd. for Rs. 250 crores for export. The export order was cancelled. Victory Limited decided to sell the same goods in the local market with a price discount. Lucky Limited was requested to offer a price discount of 15%. The Chief Accountant of Lucky Ltd. wants to adjust the sales figure to the extent of the discount requested by Victory Ltd. Discuss whether this treatment is justified

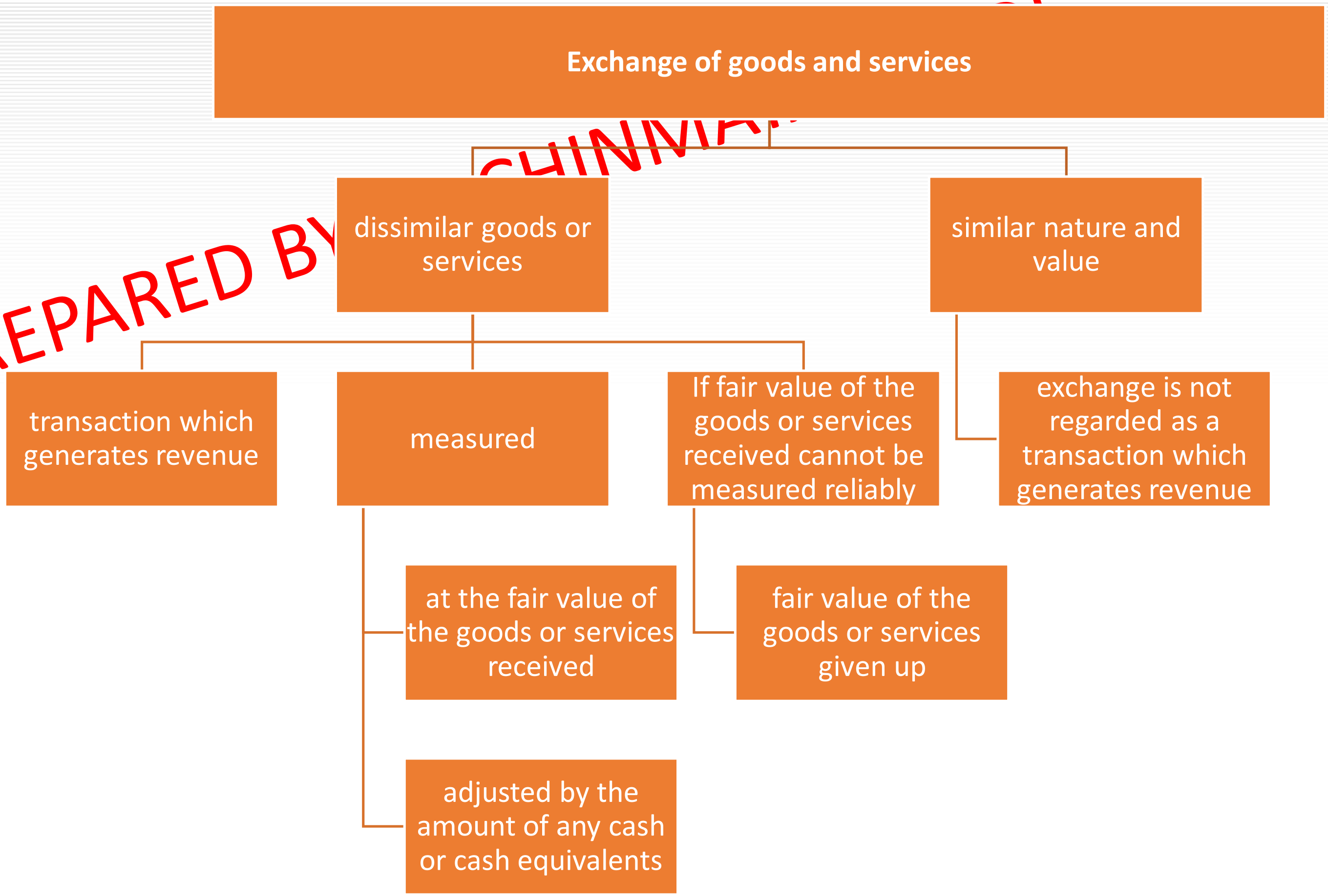
Solution

Discount was not in the nature of a discount given during the ordinary course of trade

Appears to be an uncertainty relating to the collectability of the debt, which has arisen subsequent to the time of sale therefore,

It would be appropriate to make a separate provision

Sl.No	Points of Difference	AS 9	Ind AS 18
1	Interest income	Time Proportionate method	Effective interest rate
2	Revenue Recognition	Risk and return transferred	Control is transferred ‘no continuing managerial involvement’
3	Definition of revenue	Gross inflow of cash	All economic benefits resulting in increase in equity
4	Measurement of revenue	Nominal value	Fair value
5	Exchange of goods and services with other goods and services	Not covered	Covered
6	Method of completion	Percentage or completion	Percentage
7	Loyalty programme – free/discounted goods	Not covered	Covered
8	Barter Transactions	Not covered	Covered
9	Recognition Separately Identifiable Components	Not covered	Covered
10	Dividend	Covered	Not covered under Ind AS 18 (accounting under Ind AS 109)


Exchange of goods and services
dissimilar goods or services
similar nature and value
transaction which generates revenue
measured
If fair value of the goods or services received cannot be measured reliably
exchange is not regarded as a transaction which generates revenue
at the fair value of the goods or services received
fair value of the goods or services given up
adjusted by the amount of any cash or cash equivalents

1

A company is engaged in generation and supply of power to Electricity Boards. As per power supply agreement, it recovers from the Electricity Boards the income tax relating to the power generation activity for supply of power in addition to the normal tariff. It presently adjusts the recovery of income tax from its income tax provision made in the statement of profit and loss. Is the treatment correct?

Solution

it is only a mode of determining the value of consideration

is not a reimbursement

it should form part of revenue

corresponding income tax expense should be recognized

accounting treatment being followed by the company is not correct.

2

X Ltd. is engaged in manufacturing and selling of designer furniture. It sells goods on extended credit. X Ltd. sold furniture for Rs 40,00,000 to a customer, the payment against which was receivable after 12 months with interest at the rate of 3% per annum. The market interest rate on the date of transaction was 8% per annum. How will X Ltd. recognise revenue for the above transaction?

Solution

Total amount receivable	= 40,00,000 x 1.03	41,20,000.
Present Value of receivable (Revenue)=41,20,000/1.08		<u>38,14,815</u>
Interest income		3,05,185

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3

A Ltd., a telecommunication company, entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that A Ltd. will provide 1,00,000 minutes of talk time free to employees of B Ltd. in exchange for getting free power equivalent to 20,000 units. A Ltd. normally charges Re. 0.50 per minute and B Ltd. Charges Rs 3 per unit. How to measure revenue in this case?

Solution

when goods are sold or services are rendered in exchange for dissimilar goods or services,

For A

the exchange is regarded as a transaction which generates revenue

Revenue =Fair value of power units received = 20,000*3 = 60,000

For B

Recognised at fair value of talk time received=

(1,00,000 minutes x Re. 0.50). 50,000

4

X Pvt. Ltd. is a dealer of water purifiers. It sells each purifier for Rs 10,000 and promises to service it twice in a year. The value of each service is Rs 500 which is included in the sale price. How the above sale transaction will be dealt by X Pvt. Ltd?

Solution

two components	Revenue
sale of water purifiers	9000
maintenance service.	1000(Deferred)

recognised separately

5

A leading laptop manufacturer X launches a scheme during a festival whereby a new laptop is available for Rs 35,000 with free servicing for 2 years. The manufacturer would ordinarily charge Rs 2,500 on an annual basis for servicing the laptop. How should X account for the revenue?

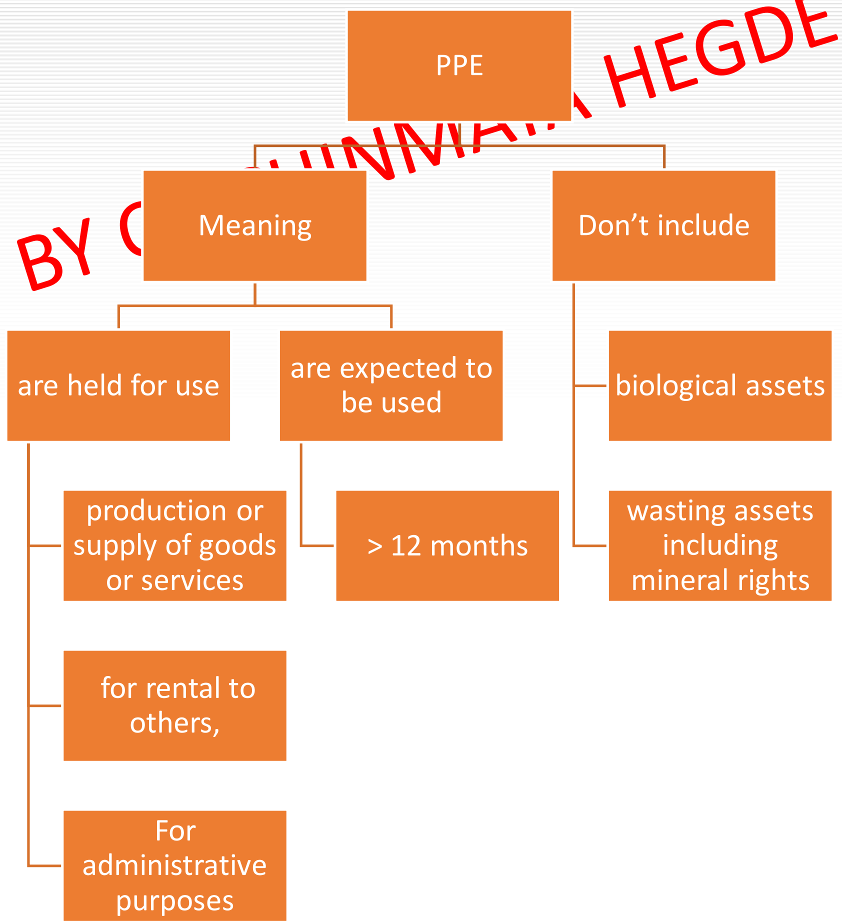
sale of the laptop should be recognised as 30,000

revenue from rendering services 2,500 and

Balance 2,500 be shown as advance

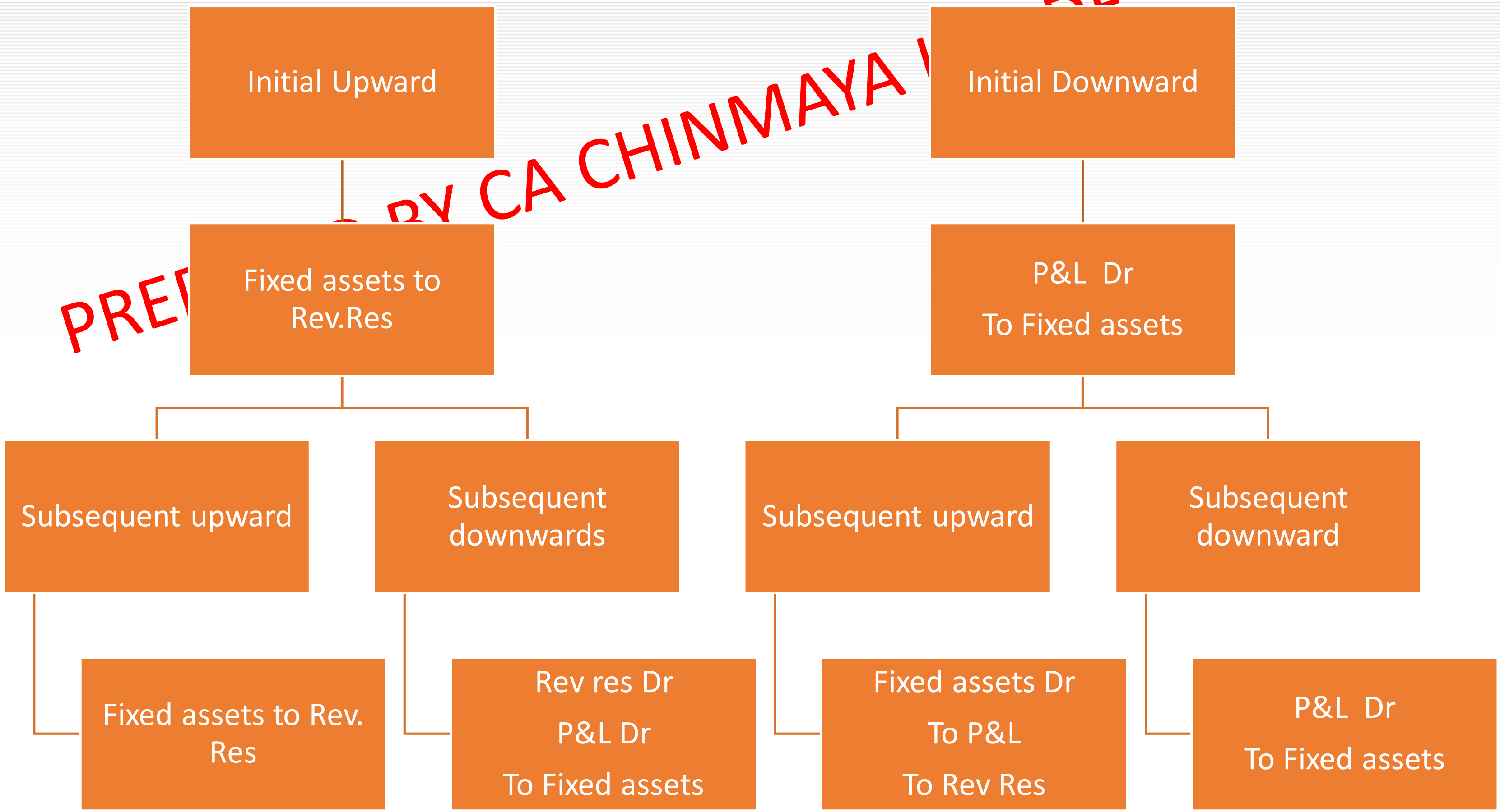
AS 10

AS 10 Plant, Property and Equipment


PPE
Meaning
Don't include
are held for use
are expected to be used
biological assets
production or supply of goods or services
> 12 months
wasting assets including mineral rights
for rental to others,
For administrative purposes

- Capitalizing conditions
  - future economic benefits
  - Reliable measurement of cost
  - Doesn't prescribe units of measurement
- **Measurement at recognition**
  - Initial Costs
    - Purchase price
    - Cost to bring into condition
  - Repairs and maint to be expensed
  - Replacement to be capitalised
  - Self constructed assets
    - Material,labour,OH
  - Defferred credit beyond normal-Segregate
- Measurement after recognition
  - Cost Model
  - Revaluation model
  - No Adhoc Revlaluation
- Depreciation
  - Part accounting-Separate depreciation
  - Depreciable amount allocated systematically
  - Should reflect pattern of FEB
  - Separate land and building
  - Systematic Review of residual value and life
- Retirement and Derecognition
  - On disposal or no FEB
  - Lower of CA and NRV after active use

Revaluation



Disposal

- Eliminate
  - On disposal OR
  - on NO further benefit
- If revaluation reserve doesn't exists
  - Gain or Loss
    - Transfer to P&L
- If revaluation reserve exists
  - On Loss
    - Adjust loss with reserve
    - Excess take it to P&L
  - On Profit
    - Transfer to General Reserve

1

Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for in store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodelling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers. State whether the remodeling cost will be capitalized or not.

Solution

The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales)

and

the cost of remodelling can be measured reliably, therefore, it should be capitalised.

2

- Entity A exchanges car X with a book value of Rs 13,00,000 and a fair value of Rs 13,25,000 for cash of Rs 15,000 and car Y which has a fair value of Rs 13,10,000. The transaction lacks commercial substance as the company's cash flows are not expected to change as a result of the exchange. It is in the same position as it was before the transaction. What will be the measurement cost of the assets received?
- Solution

- The entity recognises the assets received at the book value of car X. Therefore, it recognises cash of ` 15,000
- and
- car Y as PPE with a carrying value of ` 12,85,000

3

An entity revalued its PPE having gross 1000 and accumulated depreciation 400 is to Rs 1,500.Give treatment in books under both methods as per AS 10

Solution

Particulars	**Gross**	**Acc depreciation**	**Net**	
PPE before revaluation	1,000	400	600	
Fair Value			1,500	
Revaluation Gain				900
(a)				
Gain allocated proportionately to cost and depreciation	1,500	600	900	
PPE after revaluation	2,500	1,000	1,500	
(b)				
Revaluation gain	**500**	**400**	**900**	
PPE after revaluation	1500	0	0	

- In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for Rs 70,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	Rs 20,00,000
Roof	25	Rs 10,00,000
Lifts	20	Rs 5,00,000
Fixtures	10	Rs 5,00,000
Remainder of building	50	Rs 30,00,000
		Rs 70,00,000

- Calculate depreciation for the year 2016-17

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AS 11

The Effects Of Changes In Foreign Exchange Rates

- Applicability
- Basic Terms
- Accounting treatment
- Change in classification
- 2011 Revision
- Forward Exchange contract
- Disclosure

- Applicability
  - Transactions in foreign currencies
  - Foreign operations
  - Forward exchange contract
- Standard don't specify
  - Particular currency
  - Presentation in cash flow statement
  - Borrowings to the extent considered in AS 16

Basic Terms

Foreign currency transaction
- Denominated/ settlement in foreign currency
- Includes
  - Purchase
  - Sales
  - Borrowings
  - Lending

Monetary items
- Money Held
  - Cash
  - Bank,FD
- Assets/Liabilities
  - To be paid or received
  - In fixed or determinable amounts
- Examples
  - Debtors
  - Creditors
  - Loans

Non-Monetary items
- Assets and liabilities other than monetary items
- Examples
  - Investments
  - Inventories

Integral Foreign operation
- Integral part of reporting enterprise
- As if an extension of reporting enterprise

Non Integral operation
- Not an integral operation
- Change in exchange rates
  - Affects Net investment
  - Rather than assets/liabilities

Forward exchange contract
- Agreement to exchange currencies at a future date

Accounting treatment

- Foreign transactions
  - Initial Recognition
    - Exchange rate as on date
  - Balance sheet date
    - Year end rate
  - Settlement date
    - In same accounting period
      - Rate on payment
    - In different accounting period
      - Rate on payment
- Foreign operations
  - Balance sheet date
    - Monetary items
      - Integral
        - Closing rate
      - Non Integral
        - Closing rate
    - Non-Monetary items
      - Integral
        - Historical rate
      - Non-Integral
        - Closing rate
    - Expenses and income
      - Average rates
    - Exchange difference
      - Integral
        - Transfer to P&L
      - Non-Integral
        - FCTR
- Forward exchange
  - Hedging purpose
    - Discount/premium
      - Amortize over contract term
  - Speculation purpose
    - No discount or premium
      - MTM method

Change in Classification

From Integral to Non-integral

- Exchange rate on Non-monetary assets
- Accumulate in FCTR

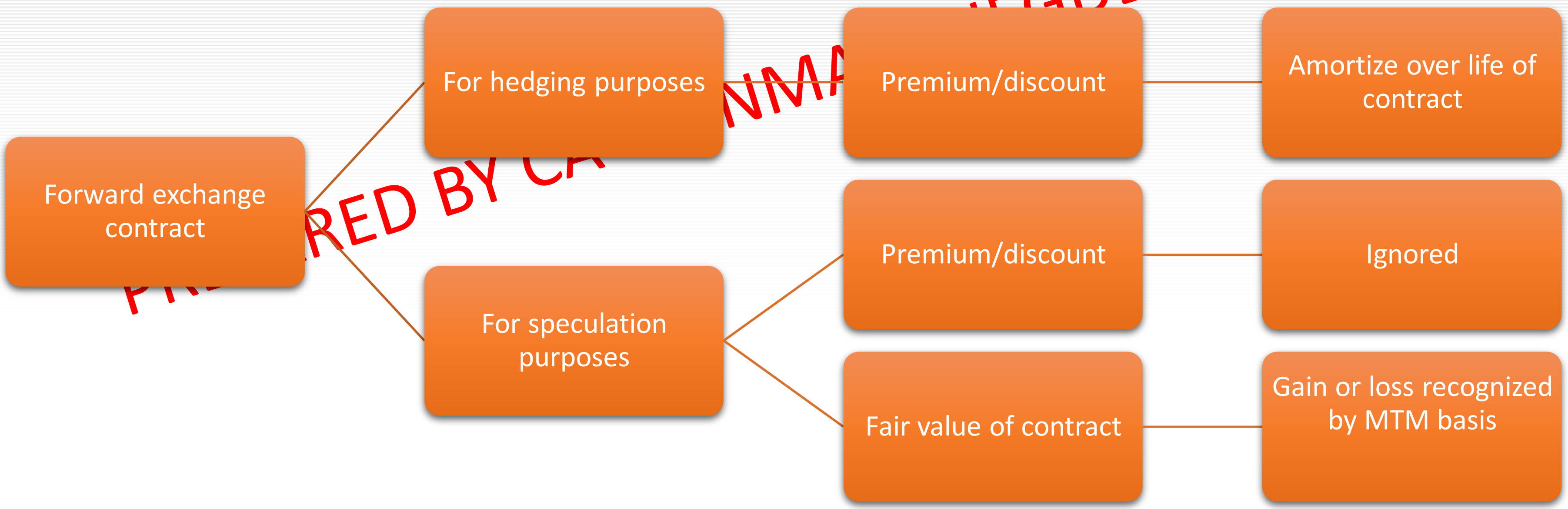
From Non-Integral to Integral

- FCTR Continued till disposal

2011 Revision by MCA - Op

- Long term foreign currency monetary items
  - Acquisition of a depreciable capital asset
    - Adjust in cost of fixed asset
    - Depreciated over remaining useful life
  - Acquisition of other assets
    - Accumulate in FCMITD
    - Amortize over contract period of loan
    - Not beyond 31.3.2020

Forward Exchange Contract



1

- Explain briefly the accounting treatment needed in the following cases as per AS 11:
- (i) Sundry Debtors include amount receivable from Ted of U.S., Rs. 5,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at $1 = Rs. 38.70.
- (ii) Long term loan taken from a U.S. Company, amounting to Rs. 60,00,000. It was recorded at $1 = Rs. 35.60, taking exchange rate prevailing at the date of transactions.
- Exchange rates at the end of the year were as $1 Receivable = Rs. 45.80,$ 1 Payable = Rs. 45.90

Solution

Debtors

Exchange difference (45.8 – 38.7) *500,000 = 91,731
38.7

Gain to be transferred to P&L

Long term loan

Exchange difference (45.9-35.6)*60,00,000 = 17,35,955
35.6

Loss can be transferred to P&L

OR

If related to depreciable assets add to cost of fixed assets

Otherwise, transfer to FCMITD A/c

2 Sterling Ltd. purchased a plant for US $ 20,000 on 31st December, 2011 payable after 4 months. The company entered into a forward contract for 4 months @ Rs 48.85 per dollar. On 31st December, 2011, the exchange rate was Rs 47.50 per dollar. How will you recognize the profit or loss on forward contract in the books of Sterling Limited for the year ended 31st March, 2012.

Solution

Purpose of contract, hedging

Spot rate 47.50

Forward rate 48.85

Premium 1.35

Foreign exchange loss = 1.35*20,000 = 27000Rs

Recognised over a period of contract of 4 months.

For the financial year 2011-12,

Loss to be transferred to P&L 27000*3/4 = 20250

For the financial year 2012-13,

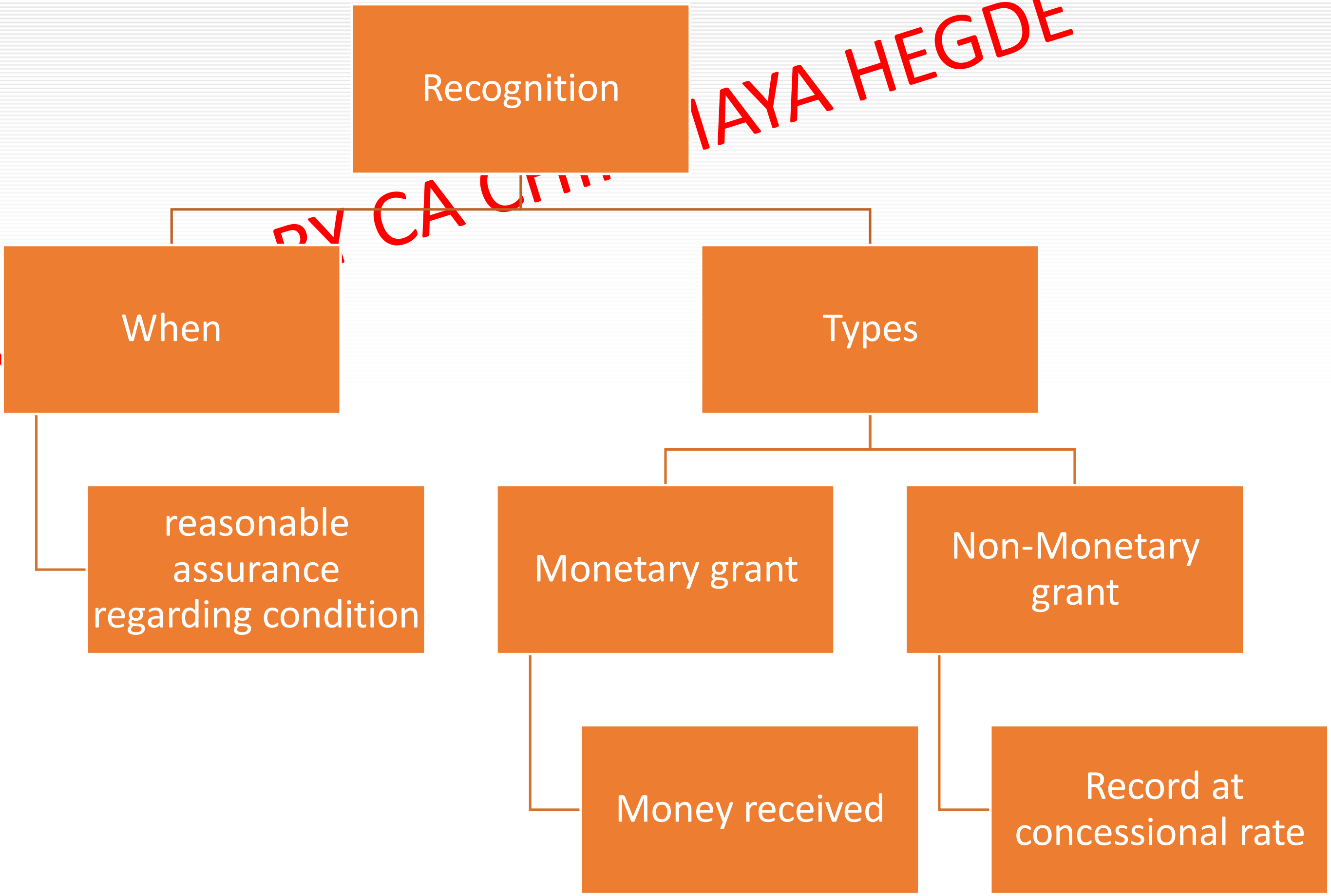
Loss to be transferred to P&L 27000*1/4 = 6750

Sl.No	Points of Difference	AS 11	Ind AS 21
1	Forward Exchange Contracts	Covered	Not covered
2	FCMITDA	Covered. Shown in balance sheet	Transfer to P&L
3	Currency Type	1. Reporting Currency	1. Functional Currency
		2. Foreign Currency	2. Presentation Currency
			3. Foreign Currency
4	Forward Exchange Contracts and other similar Financial Instruments	Excludes accounting for such contracts.	Excludes from its scope, which are treated in accordance with Ind AS 109.
5	Exchange Differences arising on Translation of Certain Long-term Monetary Items From Foreign Currency to Functional Currency:	AS 11, gives an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity, to be transferred to profit or loss	Apply Ind AS 101, such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items as per the previous GAAP.
6	Approach	integral foreign operations and non- integral foreign operations approach	functional currency approach factors to be considered are similar
7	Presentation currency	No mention	May be different from local currency



AS 12

- Meaning and forms
  - Meaning
    - assistance by government in cash or kind
    - for past or future compliance with certain conditions
  - Forms
    - Grants related to acquisition of fixed assets
    - Grants related to revenue
    - Grants related to promoter's contribution
    - Grants related to compensation for expenses
- Recognition
- Accounting treatment
- Refund of grant
- Disclosure


Recognition
When
Types
reasonable assurance regarding condition
Monetary grant
Non-Monetary grant
Money received
Record at concessional rate

Accounting treatment -Grant

- Depreciable assets
  - Reduced from cost
    - Grant A/c Dr
      To Fixed asset
  - OR
  - Treated as deferred income
    - Grant A/c Dr
      To deferred income
      - Proportionate recognition in P&L Over useful life
- Non Depreciable asset
  - Treated as deferred income
    - Grant A/c Dr
      To deferred income
- Related to revenue
  - over periods to match with the related costs
- Promoters contribution
  - Capital reserve

Accounting treatment – Refund of grant

- Meaning
  - Refundable not satisfying conditions
  - Treat as AS 5 Extra ordinary item
- Accounting
  - Depreciable assets
    - Reduced from cost
      - Fixed asset Dr
        To Bank
    - Treated as deferred income
      - Deferred income Dr
        P&L Dr
        To Bank
  - Non Depreciable asset
    - Deferred income Dr
      P&L Dr
      To Bank
  - Related to revenue
    - P&L A/c Dr
      To Bank
  - Promoters contribution
    - Capital reserve
      To Bank

1

- Yogya Ltd. received a specific grant of Rs. 300 lakhs for acquiring the plant of Rs. 1,500 lakhs during 2009-10 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2012-13, due to noncompliance of conditions laid down for the grant of Rs. 300 lakhs, the company had to refund the grant to the Government. Balance in the deferred income on that date was Rs. 210 lakhs and written down value of plant was Rs. 1,050 lakhs.(Assume SLM Method). what should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2012-13 in the Statement of Profit and Loss?
- What should be the treatment of the refund if grant was deducted from cost of the plant during 2009-10?

(i) Adjust 210 lakhs in deferred income. Balance 90 lakhs transfer to P&L. Depreciation = 1050/7 = 150

(ii) WDV increase by 300 Lakhs.

cost			1500
less subsidy		300	
			1200
Depn 09-10, 10-11, 11-12	1200*3/10	360	
WDV 31.3.2012			840
Add : Refund			300
WDV			1140
Depreciation	1140/7		162.86

2

Grant Medicare Ltd. acquired 5 units of Brain Scan Equipment for US$ 5,00,000 in April 2010 incurring Rs 20,00,000 on sea freight and US$ 12,000 per unit towards transit Insurance, bank charges etc. The purchase was partly funded out of the company's internal accruals and from Government Grant of Rs 94 Lakhs. The prevailing exchange rate to the US$ was 50. The company estimated the useful life of the equipment at 4 years with an estimated salvage value of 13% (approx). The grant was considered as Deferred Income up to 2012-13 and in April 2013 the company had to return the entire grant received due to non fulfillment of certain conditions. You are required to show the deprecation and the grant that is to be recognized in the Profit & Loss accounts for the period commencing, 2010-11 onwards and also draw up the entry that is passed in April 2013 for the return of the Grant. The Company follows the written down value method for depreciating its assets.

Particulars	(Rs in lakhs)	
Acquisition of 5 units of brain scan units [US $ 5,00,000 x `Rs50]	250	
Add: Sea Freight on the above units		20
Add: Transit insurance, Bank charges etc. paid ($ 12,000 x Rs 50 x 5)	30	
Total landed cost as on 1st April, 2010		300

$F = P(1-i)^n$

F = Scrap value , P = Original Cost, i = rate of depreciation, n = useful life

F = 300*13% = 39, P = 300, i = ?, n = 4 Years

$39 = 300 (1 – i)^4$

$39/300 = (1 – i)^4$

1- i = 0.6

i = 0.4 or rate of depreciation = 40%

	Year1	Year2	Year3	Year3
Depreciation	120	72	43.2	25.92
Grant of 94 in above ratio	43.2	25.92	15.55	9.33

Balance in deferred income in April 2013(At the time of refund) =9.33

Refund 94

Amount to be transferred to P&l 94-9.33 = 84.67

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Solution

Calculation of Revised Book Value of Machine as on 1st April, 2010

Particulars		(Rs in lakhs)
Acquisition of 5 units of brain scan units [US $ 5,00,000 x `Rs50]	250	
Add: Sea Freight on the above units	20	
Add: Transit insurance, Bank charges etc. paid ($ 12,000 x Rs 50 x 5)	30	
Total landed cost as on 1st April, 2010	300	

Rate of depreciation (Wdv Method)

$F = P(1 - i)^n$: F = Scrap value , P = Original Cost, I = rate of depreciation, n = useful life

F = 300*13% = 39, P = 300, i = ?, n = 4 Years

$39 = 300\,(1 - i)^4$

$0.13 = (1 - i)^4$

1- i = 0.6, or i = 0.4 or rate of depreciation = 40%

Year	Op bal	Depr.@40%	Closing Value	Deferred grant to be recognized	
2010-11	300.00	120.00	180.00	120/(261.12) * 94 =	43.20
2011-12	180.00	72.00	108.00	72/(261.12) * 94 =	25.92
2012-13	108.00	43.20	64.80	43.2/(261.12) * 94 =	15.55
2013-14	64.80	25.92	38.88	25.92/261.12*94 =	9.33
Total		261.12			94.00

Entry for the return of the Grant

Deferred Grant Account Dr.	9.33	
Profit & Loss Account(43.20+25.92+15.55) Dr.	84.67	
To Bank		94.00

Sl.No	Points of Difference	AS 12	Ind AS 20
1	Government Assistance	Not Covered	Covered
2	Non Depreciable asset received at concessional price	Nominal Value	Fair Value
3	Promoters contribution	Covered	Not covered. by implication, requiring recognition as income
4	Deferment of Govt. Grant related to non depreciable asset	Recognise as capital reserve	Transfer to P&L in proportion to cost incurred to meet conditions
5	Loans at concessional rate	Recognized at full amount	Recognized at discounted amount
6	Depreciable assets	Option either deduct or deferred income	Only deferred income

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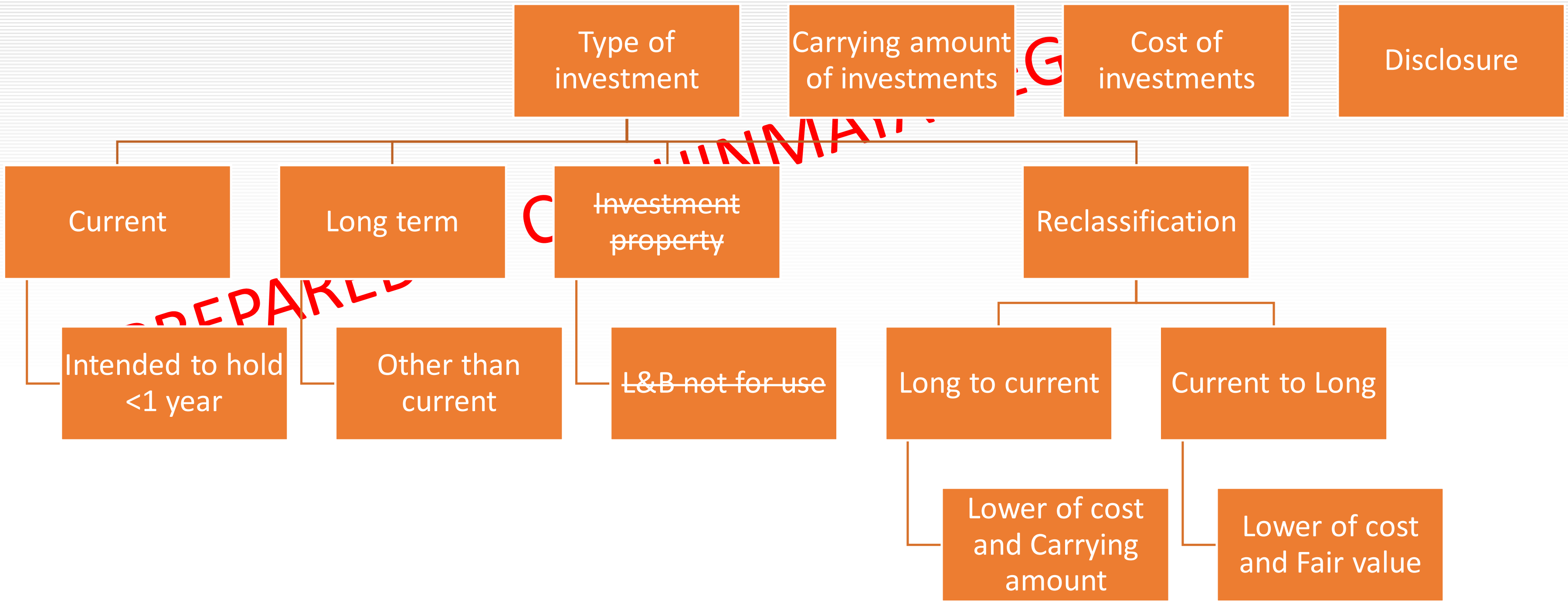
AS 13

Accounting for investments



Carrying amount and cost of investments

- Carrying amount
  - Current investment
    - Lower of cost and fair value
    - Prudent to do it on item by item
    - Category wise comparison can be made
  - Long term investment
    - Carried at cost
    - Permanent decline – Recognize loss
    - Only on individual basis
- Cost of investments
  - Acquired by payment
    - Purchase price
    - Brokerage, fees , duties
  - Acquired by Issue of securities
    - Fair value of security issued
  - Acquired by exchange of another asset
    - Fair value of asset given up
    - or
    - Fair value of asset acquired
    - Whichever is clearly evident

Sl.No	Points of Difference	AS 13	Ind AS 40
1	Coverage	All type of Investments	Only properties

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AS 15

Accounting for Employee benefits

- Applicability
  - to all types of employees
    - Full time
    - And
    - Partime
- Type of Employee benefits
  - Short-term employee benefits
    - Wages, salaries,
  - Long-term employee benefits
    - Bonuses payable twelve months
  - Post-Employment Benefits
    - **Defined contribution plans**
    - **Defined benefit plans**
  - Termination Benefits
    - VRS

Short-term employee benefits

- Meaning
  - Service already rendered
  - Payable within 12 months
  - Examples
    - Wages, salaries,leave,bonus
- Recognition
  - As expense at undiscounted amount
  - Expense – payment = Liability
- Compensated absence
  - Accumulating
    - Recognize to the extent expected to utilized in next years
  - Non-Accumulating
    - Recognize only to extent utilized in current year

Long-term employee benefits

- Meaning
  - Service already rendered
  - Payable After12 months
  - Examples
    - Long leave
    - Bonus after 12 months
- Recognition
  - As expense at discounted amount

Post-Employment Benefits

- **Defined contribution plans**
  - Fixed contributions into a separate fund
  - Employer-no obligation to pay further amounts
  - Employee -Bears actuarial and investment risk
  - Contribution is charged to income statement
- **Defined benefit plans**
  - Actuarial calculation is performed
  - Actuarial and investment risk fall on the employer
  - Profit and Loss
    - Current service cost
    - interest cost
    - expected return
    - **actuarial gains and losses**
    - Past service cost
    - effect of curtailments & Settlements
  - Balance sheet — Liability= — PV of obligations — - — Fair value of planned assets

Termination Benefits

- Meaning
  - enterprise's decision to terminate an employee's
  - OR
  - an employee's decision to accept
- recognised when
  - detailed formal plan for the termination
  - a reliable estimate can be made
- Accounting treatment
  - IF < 12 months — Undiscounted
  - If > 12 months — Discounted

1

- The fair value of plan assets of Anupam Ltd. was Rs. 2,00,000 in respect of employee benefit pension plan as on 1st April, 2009. On 30th September, 2009 the plan paid out benefits of Rs. 25,000 and received inward contributions of Rs. 55,000. On 31st March, 2010 the fair value of plan assets was Rs. 3,00,000. On 1st April, 2009 the company made the following estimates, based on its market studies and prevailing prices.
- Interest and dividend income (after tax) payable by fund 10.25 %
- Realized gains on plan assets (after tax) 3.00 %
- Fund administrative costs (3.00)%
- Expected rate of return 10.25%
- Calculate the expected and actual returns on plan assets as on 31st March, 2010, as per AS 15. [May 2011]

Solution

Fair value of planned assets 31st March 2010	300,000	
Less : Fair value of planned assets 1st April 2009	(200,000)	
Less : Contribution received 30th September		(55,000)
Add : Benefits paid on 30th September	25,000	
Actual return on planned assets		70,000
Expected return		
On Opening balance 200,000*10.25%	20,500	
on Additional amount (55,000-25,000)		
30,000* 5%		1,500
Expected return on planned assets		22,000

Fair value of plan assets as on 31st March, 2010		3,75,000	
Less: Fair value of plan assets as on 1st April, 2009	2,50,000		
Contributions received		1,22,500	(3,72,500)
Add: Benefits paid		47,500	
Actual return on plan assets		50,000	
Return on Rs 2,50,000 held for 12 months at 10.25%			25,625
Return on Rs 75,000 (1,22,500-47,500) held for six months at 5% (equivalent to 10.25% annually, compounded every six months)		3,750	
Expected return on plan assets for 2009-10			29,375

- Rock Star Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. In this, if the benefits are determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid. Rock Star Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at Rs 18 (10% of Rs 180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Rock Star Ltd. on the basis of given information:
- (a) Immediately before the curtailment, gross obligation is estimated at Rs 6,000 based on current actuarial assumption. (b) The fair value of plan assets on the date is estimated at Rs 5,100.(c) The unamortized past service cost is Rs 180. (d) Curtailment reduces the obligation by Rs 600, which is 10% of the gross obligation
-

Solution

- Gross obligation 6000
  - Curtailment 10% = 600
  - Remaining 5400
- Unamortize past service cost 180
  - Curtailment 18
  - Balance 162
- Impact
  - Curtailment profit 600-18 = 582
  - Balance Sheet impact
    - Reduced obligation — 5400
    - - Unamortized past service cost — 162
    - -Fair value of planned assets — 5100
    - Balance — 138

Sl.No	Points of Difference	AS 15	Ind AS 19
1	Constructive (Assumed) Obligation	Not Covered	Covered
2	Directors in Definition	Only whole time	All
3	Short term employee benefit	Due within 12 months from date of rendering service	Due within 12 months from date of reporting date
4	Surplus funds accounting in Multi employer plan	Not covered	Covered
5	Contribution to multi employer fund	Not related party	Related party transaction
6	Actuary valuation	Over regular interval	Ones in every three years
7	Actuarial gains/ losses	Recognized In P&L	Recognized In OCI
8	Financial Assumptions	Not covered	Ind AS 19 makes it clear that financial assumptions shall be based on market expectations,
9	Discounting of Post-employment Benefit Obligations	Use market yields at the balance sheet date on government bond.	Use the rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds.
10	Guidance on Interaction of Ceiling of Asset Recognition and Minimum Funding Requirement	Not covered	Ind AS 19 gives guidance on

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AS 16

Borrowing Costs

- Meaning
  - Includes
    - Interest and commitment charges
    - Amortization and discounts
    - Foreign Exchange difference to the extent related to interest
- Accounting treatment
- Cut off dates for capitalization
- Exchange difference r/w AS 11
- Disclosure

Accounting treatment

- Capitalize
  - Attributable to
    - Acquisition, construction
  - And
  - Qualifying asset
    - Substantial period to get ready for use
    - Substantial period : Normally 12 months
- Charge off
  - Any other cases
    - Related to working capital
    - Asset not being a capital asset
    - After machinery put to use

Type of borrowings

- Borrowings
  - Specific borrowing
    - Specific rate of interest
  - General Borrowing
    - Weighted average interest (Excluding specific borrowing rate)
  - Steps to apply
    - 1.Calculate expenditure on Qualifying asset
      - 2. Identify specific borrowing
        - Apply specific borrowing rate
      - 3. Remaining
        - Apply weighted interest cost
  - At any stage
    - Interest capitalized < Interest Paid

Capitalisation Process

- Commencement
  - Expenditure on QA is incurred
  - Borrowing cost is incurred
  - Activities are in progress
- Suspension
  - Active development is interrupted
  - Not to be suspended for temporary delay
- Cessation
  - Activities are complete to make assets ready for use
  - Construction in parts
    - Completed part ready for use — Cease capitalization
    - Other Parts — Continue capitalisation

1

- XYZ Limited acquired a bank loan of Rs 40 lacs on interest rate of 20% per annum on
- 1st July 2013. The said loan was utilized by the company for three transactions as under:
- (i) Construction of factory shed Rs 10,00,000
- (ii) Purchase of Plant and Machinery Rs 25,00,000
- (iii) Balance loan was unallocated and used generally for the purpose of business
- The accountant of the company has charged the total interest to the Profit and Loss account. Comment in view of provisions of AS 16.

Solution

Purpose	Nature	Amt to capitalise	Amt to P&L
Construction	Qualifying asset*	10L*20%*9/12 = 1.5L	
Purchase	not Qualifying asset*		25L*20%*9/12 = 3.75L
General	Not qualifying asset		

5L*20%*9/12=0.75

2

- X Ltd. began construction of a new building on 1st January, 2007. It obtained Rs.1 lakh special loan to finance the construction of the building on 1st January, 2007 at an interest rate of 10%. The company's other outstanding two non-specific loans were:
- Amount Rs.5,00,000 Rs.9,00,000
- Rate of Interest 11% 13%
- January 2007 Rs 2,00,000,April 2007 Rs 2,50,000,July 2007 Rs 4,50,000,December 2007 Rs 1,20,000
- Building was completed by 31st December, 2007.Calculate the amount of interest to be capitalized and pass one Journal Entry for capitalizing the cost and borrowing cost in respect of the building. (10 Marks) (May, 2008)

Solution

Interest on Specific borrowings 10%

Interest on genera borrowings $\frac{500,000*11\% + 900,000*13\%}{14,00,000} = 12.285\%$

Assuming expenditure incurred on first day of each month

Month	Expenditure	Nature of loan		rate of interest	Amt of interest
Jan	200,000	Specific	100,000	10%	10,000
		General	100,000	12.285%	12,285
April	250,000	General		12.285%	23,034
July	450,000	General		12.285%	27,641
Dec	120,000	General		12.285%	1,229
	10,20,000				74,189

Foreign exchange difference

- Difference in Principal liability
  - AS 16
    - Interest on Indian currency loan(Notional)
    - -
    - Actual interest
  - AS 11
    - Remaining
  - If AS 16 > AS 11
    - AS 11 = 0

- Sun Co-operative Society Ltd. has borrowed a sum of US$12.50 million at the commencement of the financial year 2011-12 for its solar energy project at LIBOR (London Interbank Offered Rate) of 1% + 4% . The interest is payable at the end of the respective financial year. The loan was availed at the then rate of Rs. 45 to the US dollar while the rate as on 31st March, 2012 is Rs. 48 to the US dollar. Had Sun Co-operative Society Ltd. borrowed the Rupee equivalent in India, the interest would have been 11%. You are required to compute 'Borrowing Cost'. Also show the amount of exchange difference as per prevailing Accounting Standards
-

Solution

			Rs Mn
Foreign exchange difference on principal portion of liability			
(48 – 45) * $12.5			37.5
Interest on Rupee equivalent loan $12.5*45 * 11%		61.875	
Interest on $ loan in rupees 12.5$* 5% *48		30	
Foreign exchange loss treated as borrowing cost		31.875	
Foreign exchange loss as exchange loss		5.625	

Disclosure summary

Foreign exchange loss		5.625	
Borrowing cost			
Exchange loss in nature of interest	31.875		
Interest paid		30	61.875
Total			**67.5**

Disclosure if this concept not applied

Foreign exchange loss	37.5	
Interest paid		30
Total		**67.5**

If rate of interest was 15% instead of 11%

			Rs Mn
Foreign exchange difference on principal portion of liability			
	(48 – 45) * $12.5		37.5
Interest on Rupee equivalent loan	$12.5*45 * 15%	84.375	
~~Interest on $ loan in rupees~~	~~12.5$* 5% *48~~	~~30~~	
~~Foreign exchange loss treated as borrowing cost~~			~~54.375~~
Foreign exchange loss as (exchange Gain)		(16.875)	
Foreign exchange loss treated as borrowing cost			37.5
Foreign exchange loss		0	

Sl.No	Points of Difference	AS 16	Ind AS 23
1	Fair Value Assets	Not Excluded	Not covered
2	Repetitive inventory	Covered	Not Covered
3	Interest rate	Weighted Avg. for GL and Specific for SL	Effective interest rate
4	Substantial period of time	Defined	Not Defined
5	Disclosure of Capitalization rate	Not required	Required
6	Attributable to	Directly attributable	Not required
7	Inflation accounting	Not covered	Standard on Financial Reporting in Hyperinflationary Economies is applied, part of the borrowing costs that compensates for inflation should be expensed as required

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AS 17

Type of segments

Business segment

- a distinguishable component
- providing an individual/group of product or service
- Subject to risks and returns different from **other business segments**

A GEOGRAPHICAL SEGMENT

- a distinguishable component
- providing an individual/group of product or service
- Subject to risks and returns different from **other segments in economic environment**

Primary and secondary

- **Depends on which is predominant**
- **If business is predominant**
  - **Primary is business**
  - **Secondary is geographical**
- **Vice- versa**

Type of segments

Terms

Segment revenue	Segment expense	Segment result	Segment assets	Segment liabilities
Attributable	Attributable	Segment revenue	operating assets that are employed	operating liabilities
Allocated	Allocated	-	Attributable	Attributable
Sale to other segments	Expense with other segments	Segment expenses	Allocated	Allocated
Doesn't include interest	Doesn't include AS5, interest		Don't include income tax	Don't include income tax

Type of segments

- Reportable segment
  - >=10% revenue
    - from sales to external customers
  - Or
  - >= 10% Profits/loss
    - Higher of
      - Profit segments
      - Loss segments- Absolute
  - Or
  - >=10%assets
    - Of Total assets
  - Or
  - 75% revenue
    - Segment revenues
    - to reach 75%
  - OR
  - Reportable in previous year
  - OR
  - Decided by management

1

The Chief Accountant of Sports Ltd. gives the following data regarding its six segments:

Rs. In lakhs

Particulars	M	N	O	P	Q	R	Total
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	-190	10	10	-10	30	-100
Segment Revenue	300	620	80	60	80	60	1,200

The Chief accountant is of the opinion that segments “M” and “N” alone should be reported.

Is he justified in his view? Discuss. . (4 marks) May, 2006)

Solution

Revenue filter 1200*10% 120

Segment M and N is reportable

Assets filter 200*10% 20

O,P,Q also reportable

Results filter

Profit segments	100	
Loss segments	-200	200
Higher		200
10% of above		20

R is also reportable

All segments are reportable segments

Sl.No	Points of Difference	AS 17	Ind AS 108
1	Scope	AS 17 is applicable to non- SMCs.	Ind AS 108 is applicable to companies which are covered under Ind AS in accordance with the Companies Act, 2013 and related rules.
2	Identification of Segment	Risk and Return Approach	Management Approach
3	Basis of Measurment	As per accounting policies defined	As defined by Chief Operating Decision Maker
4	Aggregation criteria	Not defined	Defined
5	Single reportable segment	No disclosure	Certain disclosures
6	Interest Expense	Not presented	Presented

AS 18

Related party

- Related party
  - Definition
    - ***at any time during the reporting period***
    - the ability to control -50% power
    - Exercise **significant influence-20% power**
  - Illustrations
    - Directly or indirectly control, or are controlled by
      - Enterprises
      - Individuals
    - Associates and joint ventures
    - Key management personnel
- Not related party
  - common director companies
  - Common customer companies
  - Trade unions
  - Public utilities
  - Subsidies exempted in CFS

1

- Kismis Ltd. is a 100% subsidiary of Kaju Ltd. Which of the followings are related party transactions for the purpose of consolidated financial statements?
- (i) Salary paid to employees of Kismis Ltd.
- (ii) Loans given to employees of Kaju Ltd.
- (iii) Inter-company sales between Kaju Ltd. and Kismis Ltd.
- (iv) Loan given by Kismis Ltd. to managing director of Kaju Ltd.
- (v) Transfer of Asset by Kaju Ltd. to Kismis Ltd.

- (i) No
- (ii) No
- (iii) Yes in standalone. Not required in consolidated
- (iv)Yes
- (v)Yes

Sl.No	Points of Difference	AS 18	Ind AS 24
1	Domestic Partner	Not covered	Covered
2	State Controlled Enterprise	Control of CG/SG	Control or Significant influence of CG/SG
3	KMP of holding in case of subsidiary	Not covered	Covered
4	JV to JV, JV to Associate	Not Covered	Covered
5	Post Employment Plans	Not covered	Ind AS 24 specifically includes post-employment benefit plans for the benefit of employees of an entity or its related entity as related parties.
6	Compensation to KMP	Disclose in aggregate	Disclose each type separately
7	Govt. Related Entities	Exempted	Covered
8	Type of related party	Relatives on an individual	A close member of that persons family
9	Disclosure	an option to disclose the “Volume of the transactions “ as amount or as proportion	the amount of the transactions”

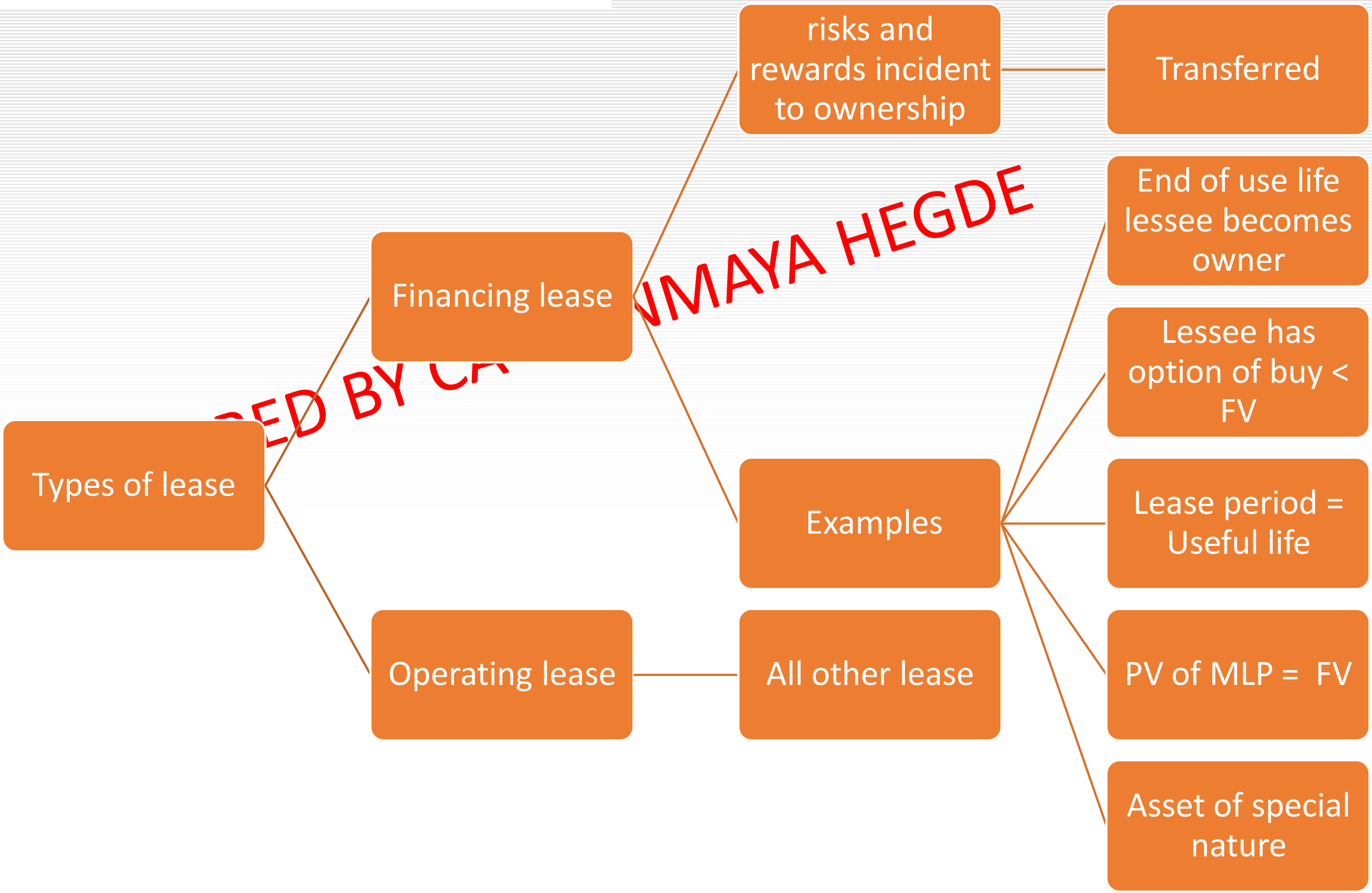



AS 19

Accounting for leases

- Applicability
  - Don’t apply in case of
    - natural resources
    - Plays,patents
    - Land
- Meaning
  - Agreement
  - Payment/series
  - Use of asset
  - Over a period of time
- Types
- Accounting treatment
- Lease and buy back
- Disclosure

Types of lease



1

Finance lease

- Classify the following into either operating or finance leases.
- Ownership of an as Finance lease o the lessee at the end of lease term
- Lessee has option to purchase the asset at lower than fair value, at the end of lease term.

Finance lease

- Economic life of the asset is 5 years, lease term is 4½ years, but asset is not acqu

X approximately same as Y, finance, otherwise operating

- PV of MLP = "X", Fair value of the asset is Y.

Finance lease

- Economic life is 5 years, lease is 2 years, asset is of a special nature & procured only for use of lessee.

Accounting treatment

- Financing lease
  - In books of lessee
  - In books of lessor
- Operating lease
  - In books of lessee
  - In books of lessor

Financing lease

- Books of lessee
  - At inception
    - Both asset and liability
    - Amount = Lower of
      - PV of MLP
        - MLP = Lease rent + GRV
        - Discounting rate
          - Implicit interest rate
          - Incremental borrowing rate
      - Fair value
  - Every year
    - Finance charges

- Books of lessor
  - At inception
    - As receivable
    - Net investment in lease
      - PV of
        - MLP +
        - GRV +
        - Un guaranteed RV
  - Every year
    - Finance income =
    - Disclosure
      - Gross investment in lease and
      - Net investment in lease

Operating lease

- Books of lessee
  - As Expense
  - Basis
    - Straight line
    - Or
    - Other systematic basis
- Books of lessor
  - As fixed assets
  - Basis
    - Straight line
    - OR
    - Other systematic basis

- A Ltd. Leased a machinery to B Ltd. on the following terms: (Rs. in Lakhs)
- Fair value of the machinery 20.00
- Lease term 5 years
- Lease Rental per annum 5.00
- Guaranteed Residual value 1.00
- Expected Residual value 2.00
- Internal Rate of Return 15%
- Depreciation is provided on straight line method @ 10% per annum. Ascertain unearned financial income and necessary entries may be passed in the books of the Lessee in the First year.

Year	MLP	(DF 15%)	Present Value
1	5,00,000	.8696	4,34,800
2	5,00,000	.7561	3,78,050
3	5,00,000	.6575	3,28,750
4	5,00,000	.5718	2,85,900
5	5,00,000	.4972	2,48,600
5	1,00,000GRV	.4972	49,720
5	1,00,000UGRV	.4972	49,720
			17,75,540

Gross investment
500,000*5+100,000,+100,000
= 27,00,000

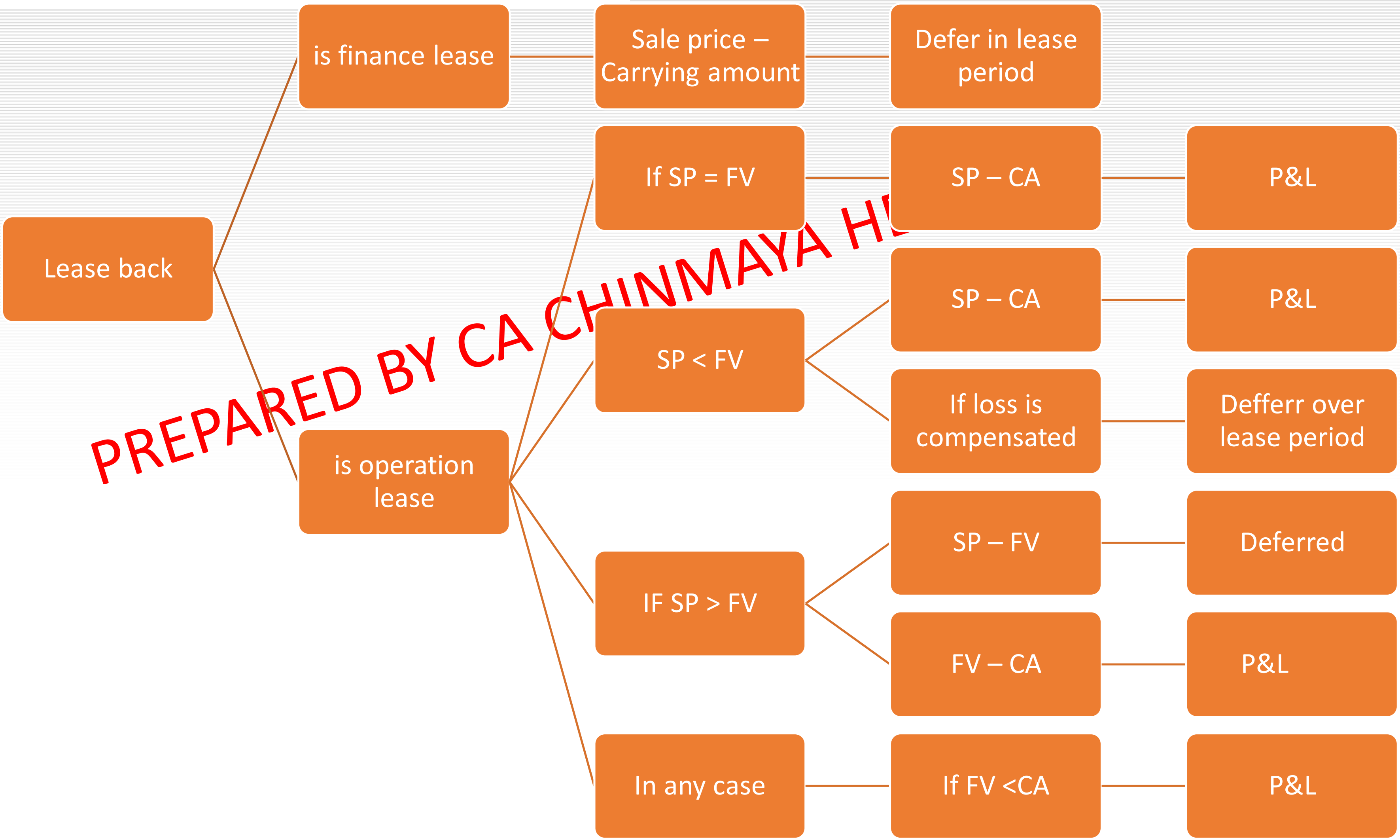
Unearned finance income
GIL – NIL
2700,000 – 17,75,540
924,460

Journal Entries in the books of B Ltd.

Value of assets to be recognised at inception

PV of MLP = 17,75,540- 49720 =	17,25,820		
Fair value		20,00,000	
Lower		17,25,820	
Machinery account Dr.	17,25,820		
To A Ltd.'s account			17,25,820
Finance charges account Dr.	2,58,873		
To A Ltd.'s account			2,58,873
A Ltd.'s account Dr.	5,00,000		
To Bank account			5,00,000
Depreciation account Dr.	1,72,582		
To Machinery account		1,72,582	

Sale and leaseback transactions



3

- A Ltd. sold machinery having WDV of Rs 40 lakhs to B Lt
  and the same machinery was leased back by B Ltd. to A Ltd. The lease back
  is operating lease. Comment if

Profit 10 to P&L

Profit 10 to P&L

- (a) Sale price of Rs50 lakhs is equal to fair value.
- **Loss 2 to P&L unless compensated in lease retntals**
- (c) Fair value is Rs 45 lakhs and sale price is Rs 38 lakhs.

Profit 10 Amortize in lease period

- (d) Fair value is Rs 40 lakhs and sale price is Rs50 lakhs.

- **Profit 6 to P&L. Profit of 4 Amortize in lease period**

- **5Loss Lakhs to P&L, profit 4** Amortize in lease period

Sl.No	Points of Difference	AS 19	Ind AS 17
1	Land Lease	Not Covered	Covered
2	Investment property held for operating lease	Not excluded	Excluded
3	Biological asset other than Agriculture Activity	Not covered	Covered
4	Initial transaction cost for Mfg./ Dealer	P&L	OL- Amortize FL- P&L
5	Initial transaction cost for Others	Option to Amortize or charge to P&L	Amortize
6	Cost incurred between inception and commencement of lease	Not covered	Covered
7	Accounting for incentives	Not defined	Defined
8	Escalation in lease rent under Operating lease	Straight lined	Other than related to inflation straight lined
9	Recognition of assets and liability in lessee books	On inception of lease	On commencement of lease
10	Classification	Not covered	requires current/non- current classification of lease liabilities if such classification is made for other liabilities
11	Sale and lease back	it does not specify any method of amortisation.	term in proportion to depreciation of the leased asset.

1

- Calculate minimum lease payments for A Ltd. who took an asset on a 5 years lease from B Ltd. using the following information:
- Payments over the lease term Rs 1,000 per month
- Contingent rent Rs 20,000
- Cost for services given by B Ltd. Rs 40,000
- Taxes to be reimbursed to B Ltd. Rs 15,000
- Residual value guaranteed by A Ltd. Rs 5,000
- Fair value of asset after 5 years Rs 6,000
-
- Also, A Ltd. has an option to purchase the asset after a period of 5 years at Rs 2,000. It is reasonably certain that A Ltd. will exercise the option.
- Required
- Calculation Minimum Lease Payments.

- Payments over the lease term 60,000
- Contingent rent
- Cost for services given by B Ltd.
- Taxes to be reimbursed to B Ltd.
- Residual value 2000

MLP 62000

2

- On 1 April 2017, Jupiter ltd began to lease a property on a 20-year lease. Jupiter ltd paid a lease premium of Rs 30,00,000 on 1 April 2017. The terms of the lease required Jupiter ltd to make annual payments of Rs 500,000 in arrears, the first of which was made on 31 March 2018.
- On 1 April 2017 the fair values of the leasehold interests in the leased property were as follows:
- – Land Rs 30,00,000.
- – Buildings Rs 45,00,000.
- There is no opportunity to extend the lease term beyond 31 March 2037. On 1 April 2017, the estimated useful economic life of the buildings was 20 years.
- The annual rate of interest implicit in finance leases can be taken to be 9·2%. The present value of 20 payments of Rs 1 in arrears at a discount rate of 9·2% is Rs 9.
- Required:
- Explain the accounting treatment for the above property lease and produce appropriate extracts from the financial statements of Jupiter ltd for the year ended 31 March 2018.

Land lease is an operating lease

Premium for the land element is (` 30,00,000 X 3/7.5) 12,00,000

Annual rentals for the land element

(500,000 X 3/7.5)=200,000* 20 years 40,00,000

total lease payments 52,00,000

Rental expense for the current period is **2,60,000**

Amount paid in the current period for the land element

(12,00,000 + 200,000) **14,00,000**

Prepaid rent 11,40,000

In the next 19 periods, the rental expense **260,000**

rental payment **200,000**

rental prepayment will reverse in each period **60,000**

60,000 of the prepayment will be a current asset, and the balance a non-current asset

buildings element of the lease will be a finance lease

As on 1.4.2017

Liability	300,000 X 9	27,00,000
Asset		27,00,000
Premium		18,00,000
Carrying amount of asset		45,00,000
Depreciation (` 45,00,000 X 1/20)		2,25,000

Finance Charges

Year ended 31 March	Bal b/f	Finance Cost @9.2%	Lease rental payment	Bal c/f
2018	27,00,000	2,48,400	- 3,00,000	26,48,400
2019	26,48,400	2,43,700	- 3,00,000	25,92,100

closing current liability out of 26,48,400 is 56,300

Operating lease rental 2,60,000

Amortisation of asset leased on finance lease 2,25,000

Finance cost relating to finance leases 2,48,400

Statement of Profit and Loss

Balance Sheet

Property, plant and equipment 42,75,000

Prepaid operating lease rentals:

In non-current assets 10,80,000

In current assets 60,000

Lease liability:

In non-current liabilities 25,92,100

In current liabilities 56,300

AS 20

Earnings Per share

- Basic EPS
- Diluted EPS
- Adjusted EPS
- Special Cases
  - Partly paid up
  - Bonus
  - Right shares
  - Options

Earnings Per share

- Basic EPS
- Diluted EPS
- Adjusted EPS
- Special Cases
  - Partly paid up
  - Bonus
  - Right shares
  - Options

Basic EPS

- Profit attributable to ESH/Number of shares
  - Profit attributable
    - PAT – Preference (Before equity dividend)
  - Number of shares
    - Issued for cash
      - Date on receipt
    - Convertible debenture
      - Date of conversion
    - Partly paid up shares
      - Equivalent shares
    - Bonus shares
      - From beginning of year
      - For convertible Deben also calculate bonus shares
        - SEBI Guideline
    - Right shares
      - Conversion factor
        - Fair value before issue/ theoretical Ex-right Fair –value

Diluted EPS

- Meaning
  - Potential shares
    - Convertible debentures
    - Options
- Calculation
  - Adjusted Net Profit/adjusted number of shares
    - Adjusted net profit
      - NP + Post tax Interest + Preference Div
    - Adjusted shares
      - Existing shares+ Potential shares
    - Disclose if Potential EPS< Basic EPS
  - Order of diluted EPS
    - Each class
      - Incremental profit/Incremental shares
    - Rank order from least to highest
    - Calculate EPS in above class
      - IF EPS reduced
        - Continue to next class
      - If EPS Increased
        - Previous EPS would be diluted EPS

Adjusted EPS

- Adjusted EPS
  - Re instatement of previous year EPS
  - Apply in case of
    - Bonus shares
    - Right issue

1

- Net profit for the year 2011 Rs 11,00,000
- Net profit for the year 2012 Rs 15,00,000
- No. of shares outstanding prior to rights issue 5,00,000 shares
- Rights issue price Rs 15.00
- Last date to exercise rights 1st March 2012
- Rights issue is one new share for each five outstanding (i.e. 1,00,000 new shares)
- Fair value of one equity share immediately prior to exercise of rights on 1st March 2012 was Rs 21.00.
- Compute Basic Earnings per Share

Solution

Theoretical Ex-right price = $\frac{500,00*21 + 15 * 100,000}{500,000+100,000} = \frac{120,00,000}{600,000}$ = Rs.20

Adjusting factor = Fair value/ Theoretical ex-right price = 21/20 = 1.05

	2012	2011
Net profit	15,00,000	11,00,000
No of shares		
Upto 1st March 500,000*1.05*2/12 = 87,500		500,000*1.05
From 1st March 600,000 * 10/12 = 500,000		
	587,500	5,25,000
EPS	2.55	2.1

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Theoretical Ex-right price = $\frac{500,00*21 + 15 * 100,000}{500,000+100,000} = \frac{120,00,000}{600,000}$ = Rs.20

Adjusting factor = Fair value/ Theoretical ex-right price = 21/20 = 1.05

	2012	2011
Net profit	15,00,000	11,00,000
No of shares		
Upto 1st March 500,000*1.05*2/12 = 87,500		500,000*1.05
From 1st March 600,000 * 10/12 = 500,000		
	587,500	5,25,000
EPS	2.55	2.1

2

- Determine the order to include dilutive securities in the computation of weighted average number of shares and calculate the diluted earnings per share on the basis of the following pertaining to year ended 31/3/2012

Particulars	
Net profit attributable to equity shareholders	Rs 1,00,00,000
No. of equity shares outstanding	20,00,000
Average fair value of one equity share during the year	Rs 75.00

Details of Potential Equity Shares:

Options	1,00,000 with exercise price of Rs 60
Convertible Preference Shares	8,00,000 shares entitled to a cumulative dividend of Rs 8 per share. Each preference share is convertible into 2 equity shares
Dividend distribution tax	16.22%
12% Convertible Debentures of Rs 100 each	Nominal amount Rs 10,00,00,000. Each debenture is convertible into 4 equity shares.
Tax rate	30%

Type	Incremental profits	Incremental shares	Incremental EPS	Ranking
Options	0	100,000*15/75 20,000	0	I
Preference shares	800,000*8 64,00,000 + 64,00,000*16.22% 74,38,080	800,000*2 16,00,000	$\frac{74,38,080}{16,00,000}$ =4.65	III
Debentures	10,00,00,000*12%(1 – 0.3) 84,00,000	$\frac{10,00,00,000}{100}$ * 4 40,00,000	$\frac{84,00,000}{40,00,000}$ 2.1	II

Basic EPS = $\frac{\text{Profit attributable to Equity shareholders}}{\text{No of equity shares outstanding}}$

Basic EPS = $\frac{1,00,00,000}{20,00,000}$ = Rs.5

Order of dilutive EPS

Type	Computation	Diluted EPS	Effect
Options	$\frac{1,00,00,000 + 0}{20,00,000 + 20,000}$	4.95	Dilutive
Debentures	$\frac{1,00,00,000 + 0 + 84,00,000}{20,00,000+20,000+40,00,000}$	3.056	Dilutive
Preference	$\frac{100,00,000 + 0 +84,00,000+74,38,080}{20,00,000+20,000+40,00,000+16,00,000}$	3.39	Anti-Dilutive

Dilutive EPS to be reported = 3.056

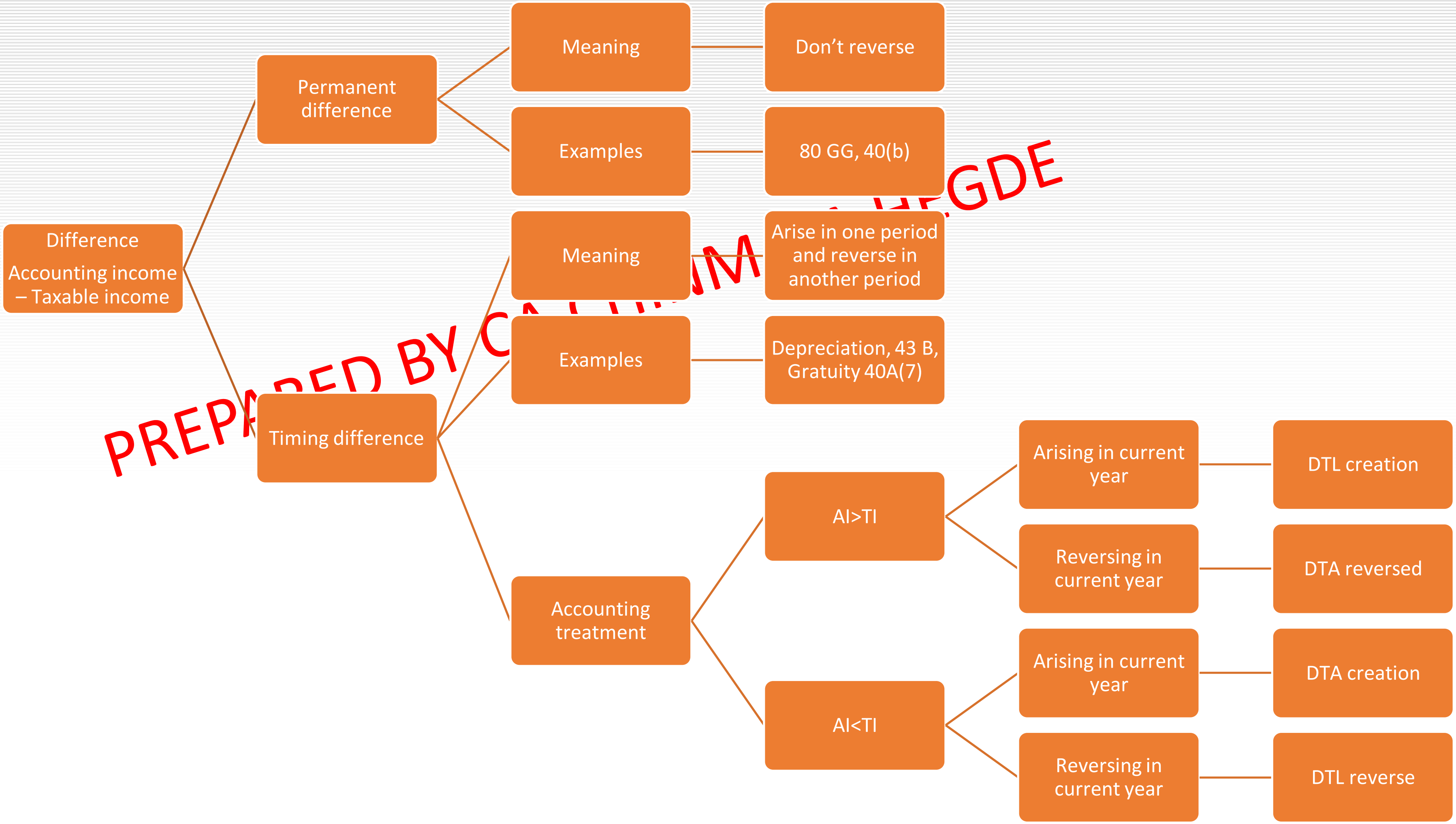
Sl.No	Points of Difference	AS 20	Ind AS 33
1	Options related to own share	Not covered	Covered
2	Basic and Diluted EPs of Continuing and Discontinued Operations	Aggregate	Separately
3	Extra Ordinary Items	Separately	Not covered

AS 22

Accounting for taxes on income

- Accounting for taxes on income
  - Tax expenses
    - Meaning
      - An accrual concept
      - Not tax provision
  - Components
    - Current tax
      - Tax provision
    - Deferred tax
      - Effect of timing difference

Deferred tax



Deferred tax asset- Additional points

- Additional points DTA
  - DTA on loss c/f
    - Only if virtual certainty
      - Future taxable profit
  - Other cases
    - Reasonable certainty
      - DTA will be reversed
  - To be reviewed at each balance sheet date
    - If impairment – Write off
    - Impairment reversal- reinstate
    - re-assesses unrecognized deferred tax assets

Special points in AS 22

- Tax holiday period
  ASI 3&5
  80IA 80IB, 10A 10B
  - Arise in tax holidays
    - Reverse in tax holidays → Don't recognize
    - Reverse in Tax period → Recognize
  - Arise in Tax period
    - Reverse in tax holiday → Don't recognize
    - Reverse in Tax period → Recognize
- ASI 4
  - Loss under head capital gains → DTA
- 115JB MAT
  - Not a Deferred tax
  - Tax expense
    - Deferred tax → (Accounting income – Taxable income)* Tax rate
    - Tax provision → Taxable income * Tax rate
    - Excess payable under MAT
      - Profit for MAT*Mat rate -
      - Taxable income*Tax rate

Disclosure

- In balance sheet
  - Deferred tax asset
    - Non current assets
  - Deferred tax liability
    - Non current liability
  - Set of DTA and DTL
    - 2 conditions
      - Under same statute
      - Entity has right to set off
- In Profit and Loss A/c
  - Tax expense
    - Current tax
    - Deferred Tax Liability/(Deferred tax asset)

1

- From the given information, you are required to compute the deferred tax assets and deferred tax liability for Ramanujam Limited as on 31st March 2014. The tax rate applicable is 35%.
-
- (i) The company has charged depreciation of Rs 7,42,900 in its books of accounts while as per income-tax computation, the depreciation available to the company is Rs 8,65,400.
- (ii) The company has made provision for doubtful debts for Rs 54,300 during the year.
- (iii) The company has debited share issue expenses of Rs 6,23,500 which will be available for deduction under the Income-tax Act from the next year.
- (iv) The expense of Rs 7,84,500 has been charged to profit and loss account which are disallowed under the Income-tax Act.
- (v) The company has made donation of Rs 2,00,000 which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income tax law. [2014 November]

Particulars	Amount of difference	Nature of difference	DTA @ 35%	DTL @ 35%
Depreciation	1,22,500	Timing	-	42,875
Provision for doubtful debts	54,300	Permanent	-	-
Share issue expenses	6,23,500	Timing	2,18,225	-
Disallowed expense	7,84,500	Permanent	-	-
Donation	1,00,000	No difference	-	-
	100,000	Permanent	-	-
			2,18,225	42,875

2

- PQR Ltd.'s accounting year ends on 31st March. The company made a loss of Rs 2,00,000 for the year ending 31.3.2010. For the years ending 31.3.2011 and 31.3.2012, it made profits of Rs 1,00,000 and Rs 1,20,000 respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 40%. By the end of 31.3.2010, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending 2011 and 2012 for tax purposes. Prepare a statement of Profit and Loss for the years ending 2010, 2011 and 2012.
- Solution

Solution

	31.3.2010	31.3.2011	31.3.2012
Set off of carry forward		100,000	100,000
Carry forward of loss	200,000	100,000	0
Tax provision	0	(100,000-100,000)*40%	(120,000-100,000)*40%
		0	8000
Differed tax Asset creation	200,000*40%		
	80,000		
Differed tax asset reversal		100,000*40%	100,000*40%
		40,000	40,000

Statement of profit and loss

	31.3.2010	31.3.2011	31.3.2012
A] Profit/(loss) before tax	(200,000)	100,000	120,000
B] Tax expense			
(i) Current tax	0	0	8000
(ii) Deferred tax	(80,000)	40,000	40,000
Total	(80,000)	40,000	48,000
C]Profit(loss) After tax [A-B]	(120,000)	60,000	72,000

Sl.No	Points of Difference	AS 22	Ind AS 12
1	Approach	Income	Balance Sheet
2	DTA related to losses and unabsorbed Depreciation	Virtual certainty with convincing evidence	Probable benefits in future
3	Disclosure	Separately	Noncurrent asset/ liability as per Ind AS 1
4	Revaluation of Fixed Asset	No DTL/DTA	DTL @ sale of asset rather than through use
5	Guideline on change in tax status of entity	Not covered	Covered
6	Deferred taxes related to tax holiday period	Covered	Not covered
7	Recognition of Current and Deferred Tax	Not covered	included in profit or loss for the period, except to the extent that the tax arises from a transaction which is recognised outside profit or loss
8	Guideline on change MAT115JB	covered	Not Covered

AS 23 Accounting For Investments In Associates in Consolidated Financial Statements

AS 27 Financial Reporting Of Interests In Joint Ventures

Associates and joint ventures

- AS 23
  - Meaning
    - Significant influence
    - 20% or more control over voting power
  - Accounting
    - equity method
    - Recognize goodwill as part of cost
    - Share of income add
    - Dividend received – Subtract
    - Proposed dividend - ignore
- AS 27
  - Meaning
    - contractual arrangement whereby
    - two or more parties
    - economic activity
    - Joint control
  - Forms
    - JCO
      - No separate legal Entity
      - Memorandum P&L to arrive profit
    - JCA
      - No separate legal Entity
      - Joint ownership AS 10
    - JCE
      - Separate entity
      - Proportionate consolidation
        - Share of assets and share of liabilities in financial statements
        - Recognize good will

		Ind AS 28 'Investments in Associates and Joint Ventures'	AS 23 'Accounting for Investments in Associates in Consolidated Financial Statements'
1	Significant Influence	Power to participate in financial and operating policy decisions but not control or joint control over those policies.	Power to participate in financial and/or operating policy decisions but not control over those policies.
2	Potential Voting Rights	Are considered for determining significant influence.	Are not considered for determining significant influence.
3	Exception to equity method	Investment entities are exempted from equity method if they measure all investments at FVPL.	Exceptions to equity method are available
4	Option where a part of the investment in associate is held indirectly through certain specific modes	The part so held could be measured at fair value. Equity method to be applied to the remaining portion.	No such exemption
5	Share of losses in entity	Carrying amount of investment with long term interests shall be considered. Discontinue when such carrying amount becomes Nil.	Only carrying amount of interests shall be considered.
6	Loss of significant influence over an associate	A loss of significant influence results in cessation of equity method. If any gain/ loss is resulted, the same is accounted for in profit or loss. The share of loss of associate recognised in OCI is reclassified to profit / loss if such reclassificatio is required by other standards	No specific guidance
7	Capital reserve/ negative goodwill	Should be recognized directly in equity, on any acquisition	Should be included in carrying amount of associate but disclosed separately.
8	Uniform accounting policies	To be followed unless it is impracticable to do so.	If not practicable, facts to be disclosed with brief description.
9	Reporting date	The difference in reporting dates should not be more than 3 months	No specific guidance
10	Impairment	Objective evidence.	Recognize any decline other than temporary.

	Ind AS 111- Joint Arrangements	AS 27- Financial Reporting of Interests in Joint Ventures
Accounting Method	Joint arrangement Joint operation Joint venture	Prescribes 3 forms of joint venture:
	Can either be joint operation or joint venture, the classification depends on rights and obligations of parties to arrangement.	Jointly controlled operations Jointly controlled assets Jointly controlled entities
Accounting of interest in jointly controlled entity in the separate financialstatements	Accounted for either at cost or as per Ind AS 109. If classified as held for sale, should be accounted for as per Ind AS 105. Equity method should be applied if venturer does not prepare separate financial statements.	As per AS 13 at cost less provision for other than temporary decline.
Explanation on the term 'near future'	It is deleted because it is covered under Ind AS 105	Explanation given in Ind AS 27.
Disclosure of venturer's share in post-acquisition reserves of a jointly controlled entity	No specific guidance	Shown separately under the relevant reserve while applying proportionate consolidation method.

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AS 24

Discontinuing operations

- a component of enterprise
  - Single plan to
    - Substantial disposal(demerger)
    - Piecemeal
    - Abandonment
    - Exceptions
      - May not satisfy these 3
      - still can be considered
        - Gradual phasing out
        - Several products
        - Location shifting
        - Selling shares of subsidiary shares
  - And
  - Major line of business
    - Business OR
    - Geographical
  - And
  - Distinguishable for reporting
    - Attributable revenue
    - Attributable assets , liability
    - Attributable operating expense

Disclosure and presentation

- Initial disclosure
  - Event
    - Earlier of
      - Sale agreement
      - Announcement of formal plan
  - Disclose requirement
    - Description
    - Date
    - Nature
    - Break up of assets, expenses, revenues etc
- Subsequent disclosure
  - Gain or loss on disposal
  - Withdrawal of earlier plan if any

1

- Qu Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years However no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars

Mere gradual phasing is not considered as discontinuing operation

- You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

closure road map and new segment starting road map is missing. Not Discontinuing operation

If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24 ?

the closure of the passenger car segment in a definite time frame and clear road map. Hence, this action will attract AS-24 compliance.

- Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

Sl.No	Points of Difference	AS 24	Ind AS 105
1	Scope	Discontinuing Operations	Discontinued Operations and Asset Held For Sale
2	Cash flow statement	Separate disclosure	No such requirement
3	Time period	Not defined	12 months
4	Initial Disclosure Event	Defined	Not required
5	Measurement of Asset held for disposal	Defined in AS 10	Cost or FV val
6	Abandonment of Asset	Considered as discontinuing	Disclosed Separately
7	Reclassification as continued asset	Not defined	Defined

AS 25

Interim Financial Statements

- Applies
  - Financial statement between year ends
    - Quarterly reports presented to Board
    - Interim Accounts prepared in M & A
    - Interim Accounts for IPO
- Don’t applies
  - ASI 27/ GN(A) 28
    - quarterly financial results-clause 49
- Minimum contents
  - Condensed
    - balance sheet
    - statement of profit /loss
    - cash flow
    - explanatory notes

Disclosure and presentation

- Principles for recognition & measurement
  - Integral View
    - Meaning
      - Each interim period is part of accounting period
      - Year end estimation is needed
      - Proportionately for period
      - Expense occurring evenly
    - Examples
      - Income tax
        - Apply average income tax rate
  - Discrete View
    - Meaning
      - Each interim period is separate
      - Same principles as for normal period
      - Uneven expenses
    - Examples
      - Depreciation
      - Exchange difference
      - RBDD
      - DTA on loss
      - AS 5 extra ordinary

1

- Antarbarti Limited reported a Profit Before Tax (PBT) of Rs. 4 lakhs for the third quarter ending 30-09-2011. On enquiry you observe the following, give the treatment required under AS 25:
- Dividend income of Rs. 4 lakhs received during the quarter. Only 1 lakh has been recognized as income
- 80% of sales promotion expenses Rs. 15 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in the last quarter is high.
- In 3rd quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of Rs. 12 lakhs. The entire amount has been debited in the 3rd quarter, though the share of the third quarter is only Rs. 3 lakhs.
- Rs. 2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.
- Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of Rs. 3 lakhs. Out of this loss Rs. 1 lakh relates to previous quarters.
- Rs. 20 lakhs Gain on Sale of investment in the 1st quarter had apportioned this equally to the four quarters.

Solution Rs in lakhs

Profit as given		4
+Dividend income not recognised (4-1)	3	
- Sales expenses wrongly deferred 15*80%	(12)	
+ Depreciation excess charges (12-3)	9	
+ Extra-ordinary gain wrongly deferred 2*50%	1	
+ Loss on account of change in inventory related to previous quarters		1
- Gain on sale of investments related to previous quarters	(5)	
Corrected profit the quarter	1	

Sl.No	Points of Difference	AS 25	Ind AS 34
1	Compliance	If interim report prepared	Interim report not necessarily as per Ind AS 34
2	Change in Equity	Not Required	Required
3	Reversal of Impairment Loss related to Goodwill	Permitted	Not permitted
4	Parents Separate Financial Statements in case of CFS	Present both	Separate financial statement not required
5	Dividend related to equity and other shares	Aggregate	Separately
6	Contingent Assets	Not disclosed	Disclosed
7	Extraordinary items	Required	Prohibited
8	Comparatives in case of change in policy	Not revised	Revised

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AS 26

Intangible assets

- Not applicable in
  - Financial assets
  - Insurance business
  - Mineral rights, exploration
- Meaning
  - Assets
    - A resource controlled by enterprise
    - Result of past events
    - Future economic benefits
  - Intangible
    - Identifiable
      - Capable of sales
    - Non-monetary asset
      - Not having fixed /determinable amount
    - Without physical substance
      - Non substance on own
      - Can be in pen drive CD etc
    - Held for sale
      - Not for stock
  - Examples
    - Goodwill
    - Patents
    - Copyrights
  - Not Intangible assets
    - P E expenses ,Pre operative
    - Discount on issue

Recognition and measurement

- Recognition
  - Identifiable
  - Controlled by enterprise
  - Future economic benefits
  - Reliable measurement of cost
- Measurement
  - By purchase
    - Purchase Price plus non recoverable taxes
    - Expenses on Valuation, Expenses on Valuation
  - By government
    - at actual concessional price paid
  - Exchange
    - FMV of assets which is clearly evident
  - Self constructed

Recognition and measurement- Self constructed intangible asset

- Self constructed
  - Cost includes
    - Material, Labour, OH, allocated exp
  - Cost Excludes
    - Profit , Selling Admin
  - Goodwill, Brands
    - Cant be measured
  - R &D
    - Research
      - Meaning
        - planned investigation undertaken
        - gaining knowledge
      - Treatment
        - Charge to P&L
    - Development
      - Meaning
        - application of research findings
      - Treatment
        - Capitalize s.t conditions
          - available for use or sale in future
          - intention to complete
          - ability to use or sell
          - demonstrate the existence of a market
          - to measure the expenditure attributable

Impairment and amortization

- Impairment
  - Value of intangible assets
  - should not exceed
  - expected future economic benefits.
  - Difference charge to P&L
- Amortization
  - allocated on a systematic basis over useful life
  - AS 26 a presumption 10 Years
  - If persuasive evidence then > 10 years

1

- NDA Corporation is engaged in research on a new process design for its product. It had incurred an expenditure of Rs 530 lakhs on research upto 31st March, 2010.The development of the process began on 1st April, 2010 and Development phase expenditure was Rs 360 lakhs upto 31st March, 2011 which meets assets recognition criteria.
- From 1st April, 2011, the company will implement the new process design which will result in after tax saving of Rs 80 lakhs per annum for the next five years. The cost of capital of company is 10%.
- Explain: (1) Accounting treatment for research expenses.
- (2) The cost of internally generated intangible asset as per AS 26.
- (3) The amount of amortization of the assets
- Solution

(1) Treatment of research expenses of Rs.530 lakhs- To be transferred to P&L for the year 2009-10

(2) Development expenditure -360 lakhs cost of internally generated asset as on 31.3.2011

(3) Recoverable amount = PV of future cash flows

= 80 * AF[10%,5]

= 80*3.79

= 303

Difference to be charge to P&L for the year 2010-11, 360 – 303		57	
Carrying amount on 31.3.2011			303
Amortization from Year 2011-12 onwards	303/5	60.6	

Sl.No	Points of Difference	AS 26	Ind AS 38
1	Definition	Held for use in admin or production or rental	No such requirement
2	Assumed probable benefit	No such assumption	If IA is purchased
3	Payment on deferred basis	Recorded at purchase price	Purchase price less interest
4	Exchange of assets	No guidelines	FV of asset given
5	Government Grant	Recorded at nominal value	Fair Value
6	Indefinite Life asset	Amortized within 10yrs	Not amortized, tested for impairment
7	Cessation, de-recognition guidelines	Not provided	Provided
8	Fair Value model	Not given	Given
9	Amortization over Useful life vs. legal life	Legal life	Useful life
10	Residual value	Not checked annually	Checked annually, no amortization if value more than CA
11	Business combination	Covers only amalgamation	Other forms are also covered
12	Subsequent expenditure	Not provided	Provided
13	Accounting policy	Cost model	Cost model or revaluation model
14	Change in method	Is accounting estimate	Is accounting policy
15	Revenue Based Amortisation Method	Not specified	Presumed
16	Intangible Assets Retired from Use and Held for Sale	Included	Excluded

1

- Mercury Ltd is preparing its accounts for the year ended 31 March 20X2 and is unsure about how to treat the following items.
- 1. expensed y completed a grand marketing and advertising campaign costing Rs 4.8 Lakh. The finance director had authorised this campaign on the basis that it would create Rs 8 lakh of additional profits over the next three years.
- 2. A new product was developed during the year. The expenditure totalled Rs 3 lakh of which Rs 1.5 lakh was incurred prior to 30 September 20X1, the date on which it became clear that the product was technically viable. The new product will be launched in the next four months and its recoverable amount is estimated at Rs 1.4 l

  Expense 1.5, capitalize 1.5, impair loss 0.1
- 3. Staff participated in a training programme which cost the company Rs 5 lakh. The training organisation had made a presentation to the directors of the company outlining that incremental profits to the business over the next twelve months would be Rs 7 lakh.

  expensed
- What amounts should appear as intangible assets in accordance with Ind AS 38 in Mercury's balance sheet as on 31 March 20X2?

2

-

- On 31st March 20X1, Earth India Ltd paid Rs 50,00,000 for a 100% interest in Sun India Ltd. At that date Sun Ltd's net assets had a fair value of Rs 30,00,000. In addition, Sun Ltd also held the following rights:
- Trade Mark named "GRAND" – valued at Rs 180,000 using a discounted cash flow technique.
- Sole distribution rights to an electronic product. Future cash flows from which are estimated to be Rs150,000 per annum for the next 6 years. 10% is considered an appropriate discount rate. The 6 year, 10% annuity factor is 4.36. Calculate goodwill and other Intangible assets arising on acquisition.

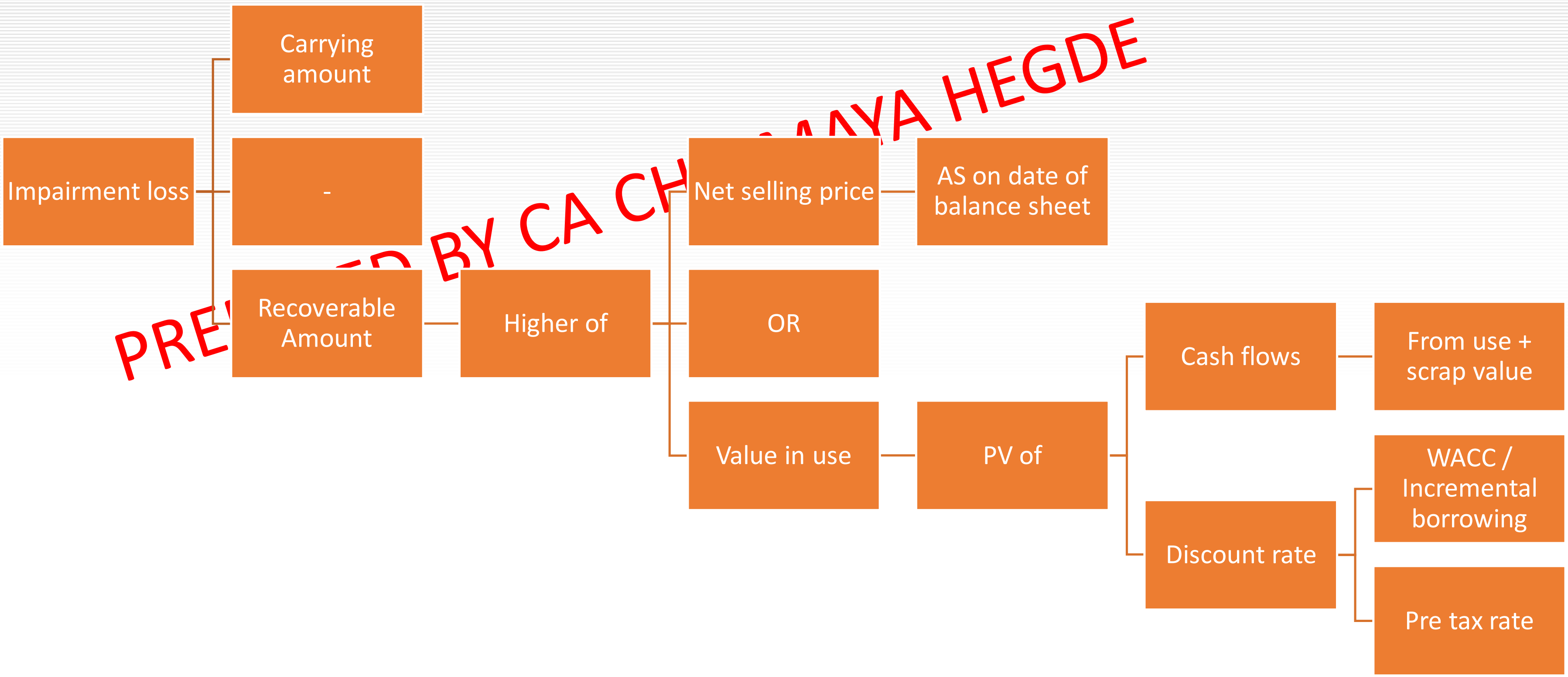



AS 28

Impairment of assets

- Impairment of assets
  - Not apply to
    - AS 2,AS 7, AS 13, AS 22
  - Meaning
    - Weakening in value of asset
    - Assess at each balance sheet date
  - Indication
    - External
      - Market value
      - Technology changes
      - Interest rate
    - Internal
      - Physical damage
      - change in style of use

Measurement



Recognition

- Impairment loss
  - After current year depreciation
  - expense in the statement of Profit or Loss
  - previously revalued asset
    - set off with revaluation reserves first
  - If loss > CA
    - Recognize liability if AS 29 apply

1

- A plant was acquired 15 years ago at a cost of Rs. 5 crores. Its accumulated depreciation as at 31st March, 2009 was Rs. 4.15 crores. Depreciation for the financial year 2009-10 is Rs. 25 lakhs. Estimated Net Selling Price as on 31st March,2009 was Rs. 30 lakhs, which is expected to decline by 20% by the end of the next financial year.
- Its value in use has been computed at Rs. 35 lakhs as on 1st April, 2009, which is expected to decrease by 30 per cent by the end of the financial year.
- Assuming that other conditions for applicability of the impairment Accounting Standard are satisfied, what should be the carrying amount of this plant as at 31st March, 2010?
- How much will be the amount of write off for the financial year ended 31stMarch,2010?
- If the plant had been revalued ten years ago and the current revaluation reserves against this plant were to be Rs. 12 lakhs, how would you answer to questions (i) and (ii) above?
- If the value in use was zero and the enterprise were required to incur a cost of Rs. 2 lakhs to dispose of the plant, what would be your response to questions (i) and (ii) above?

Solution

As on 31.3.2010

Carrying amount 500-415-25			60	
Recoverable amount				
Value is use 35*(1-0.3)	24.5			
Net selling price 30(1-0.2)	24			
Higher				24.5
Impairment loss to be charged to P&L			35.5	
Carrying amount as on 31.3.2010(After impairment)		24.5		

If revaluation reserve of 12 lakhs exists

Impairment loss to be adjusted to against revaluation reserve			12	
Balance to be charged off to P&L 35.5 – 12			23.5	
Carrying amount as on 31.3.2010 continues to be				24.5

If value in use was 0

Carrying amount			60	
Recoverable amount				
Value in use	0			
Net selling price	0-2	-2	0	
Impairment loss			60	

Provide for cost of disposal if required under AS 29

Recognition

- Reversal of impairment
  - Check at each balance sheet date
  - Reverse if sufficient evidence
  - If Recoverable Amount > Normal WDV
    - Excess to Revaluation reserve

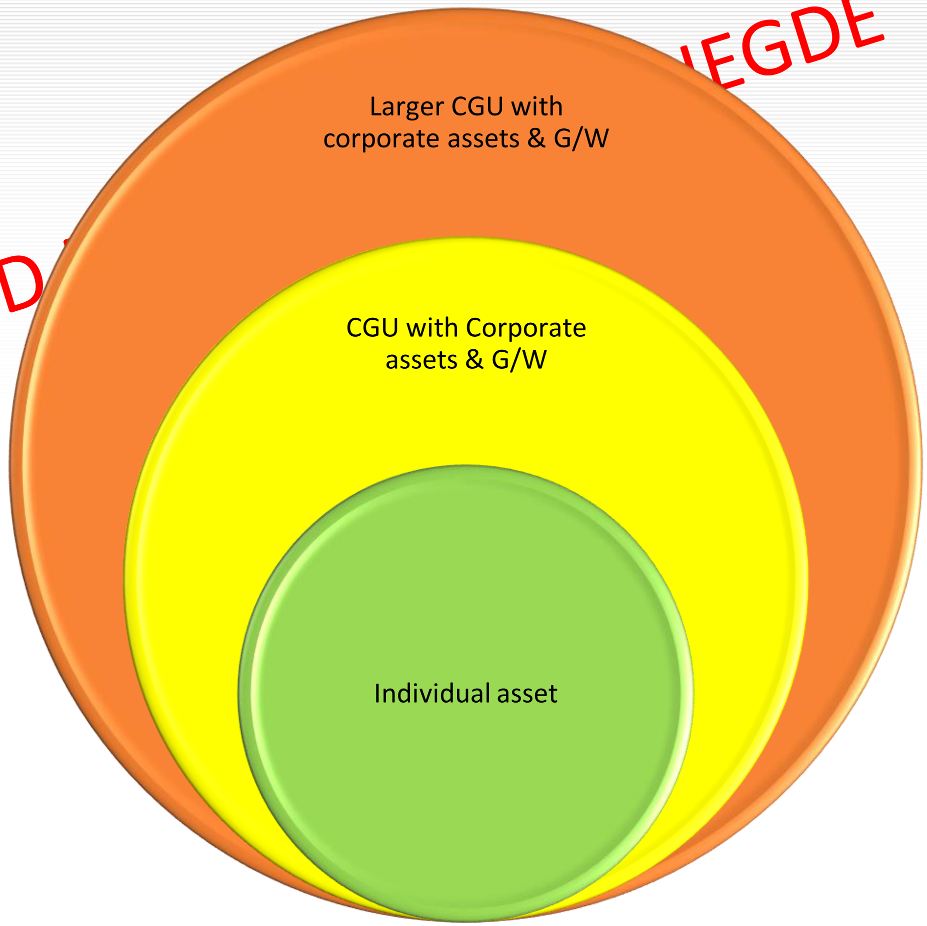
Cash generating Unit

- CGU
  - Applicability
    - If individual asset RA not determinable
    - Asset doesn't generate direct cash flow
  - Meaning
    - group of assets that generates cash inflows
    - Covers captive consumption
      - Availability of external market
  - Impairment loss
    - amount
      - Value Carrying amount of CGU
      - -
      - Recoverable amount of CGU
    - Treatment
      - Pro rata basis for all assets

Goodwill & Corporate Assets – Impairment loss

- If G/W and corporate assets
  - Can be allocated
    - Bottom up test
      - Loss=
        - CA of CGU + Allocated Goodwill
        - -
        - RA of CGU
          - Higher of
            - Selling price
            - Value in use
      - Apportionment of loss
        - Pro rata basis
        - Order
          - Goodwill
          - Corporate assets
          - CGU
  - Cant be allocated
    - 1. Bottom up test without goodwill
    - 2.Top down test
      - Loss =
        - CA of Larger CGU + Allocated g/w
        - -
        - RA of larger CGU
          - Higher of NSP or Value in use
      - Pro rata basis
      - Order
        - G/w
        - Corporate assets
        - Larger CGU
- After impairment
  - RA cant go below
  - Higher of
    - NSP, Value in use, ZERO
- Reversal of impairment
  - IF sufficient evidence
  - Order(LIFO)
    - Individual assets, CGU, G/W

Summary of CGU Impairment



2

•

- At the end of 2010, enterprise M acquired 100% of enterprise Z for Rs. 3,000 lakhs. Z has 3 cash-generating units A, B and C with net fair values of Rs. 1,200 lakhs, Rs. 800 lakhs and Rs. 400 lakhs respectively. M recognizes goodwill of rs. 600 lakhs (Rs. 3,000 lakhs less Rs. 2,400 lakhs) that relates to Z. At the end of 2014, A makes significant losses. Its recoverable amount is estimated to be Rs. 1,350 lakhs.

	A	B	C	Goodwill	Total Rs. lakhs
Net carrying amount (31.3.2014)	1,300	1,200	800	120	3,420

- Discuss the treatment of impairment loss if
- If goodwill can be allocated on reasonable basis
- If goodwill can’t be allocated on reasonable basis(recoverable amount of Unit Z is Rs.3400 Lakhs)

Solution

A) If goodwill can be allocated

Bottom up test (For CGU A)

Carrying amount		1300	
+ Allocated goodwill 120*1200/2400	60		
total carrying amount		1360	1290
Recoverable amount		1350	70
Impairment loss of unit A	10		
To be adjusted with goodwill			

B) If goodwill cant be allocated

Bottom up test(For CGU A)

		1300
Carrying amount	1300	1290
Recoverable amount	1350	10
Impairment loss	0	3410

Top down test(For Enterprise Z)

		3400
Carrying amount	3420	10
Recoverable amount	3400	
Impairment of enterprise Z	20	
To be adjusted with goodwill		

Sl.No	Points of Difference	AS 28	Ind AS 36
1	Financial assets like subsidiary, JV and Associate	Not covered	Covered
2	Biological Assets	Not excluded	Agriculture related not covered
3	Intangible Asset with indefinite Life	Not tested every year	Tested for impairment every year
4	Reversal of Goodwill	Permitted	Not permitted
5	Bottom up and Top down test	Covered	Not covered as goodwill is always allocable and pro rata method

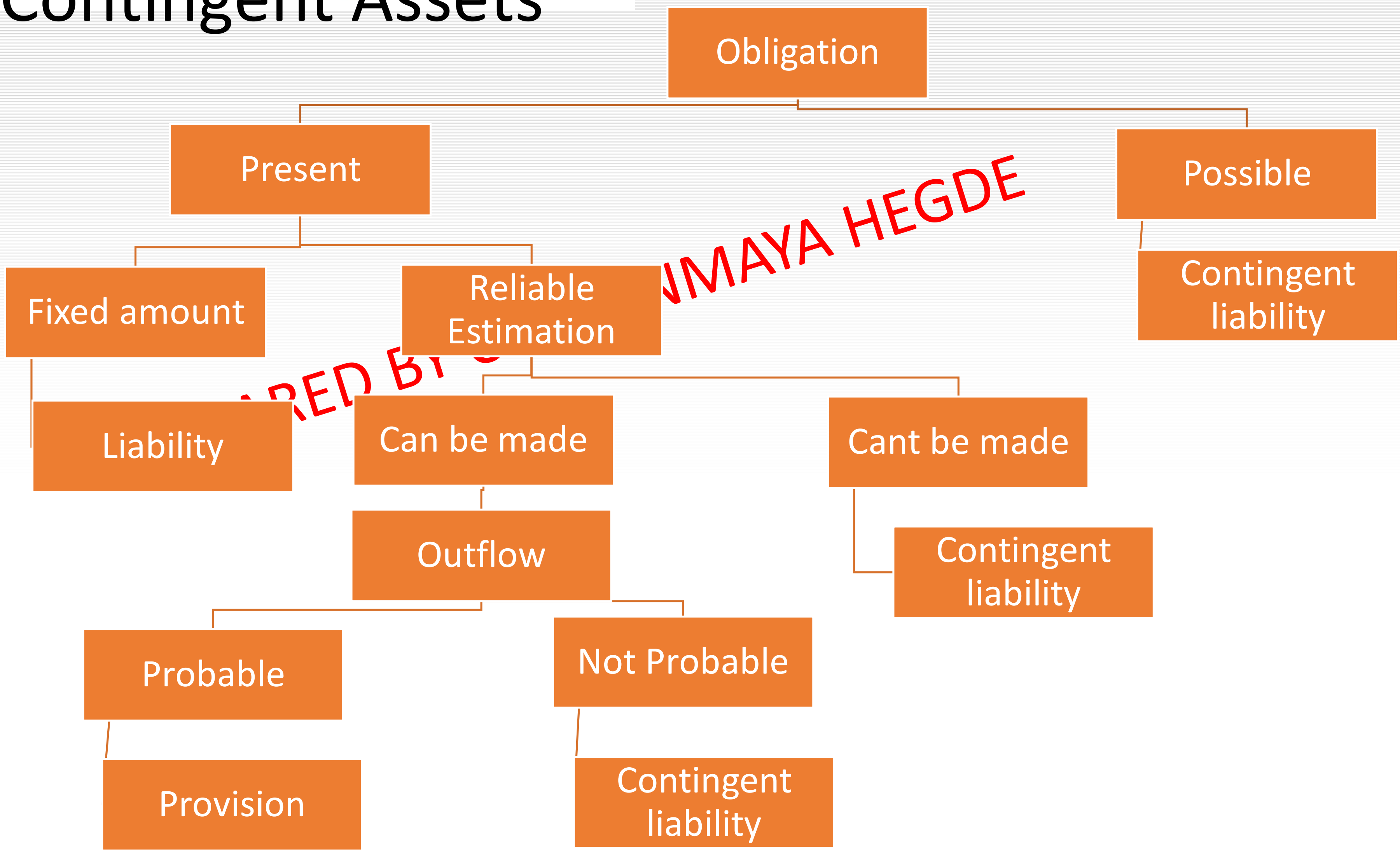



AS 29

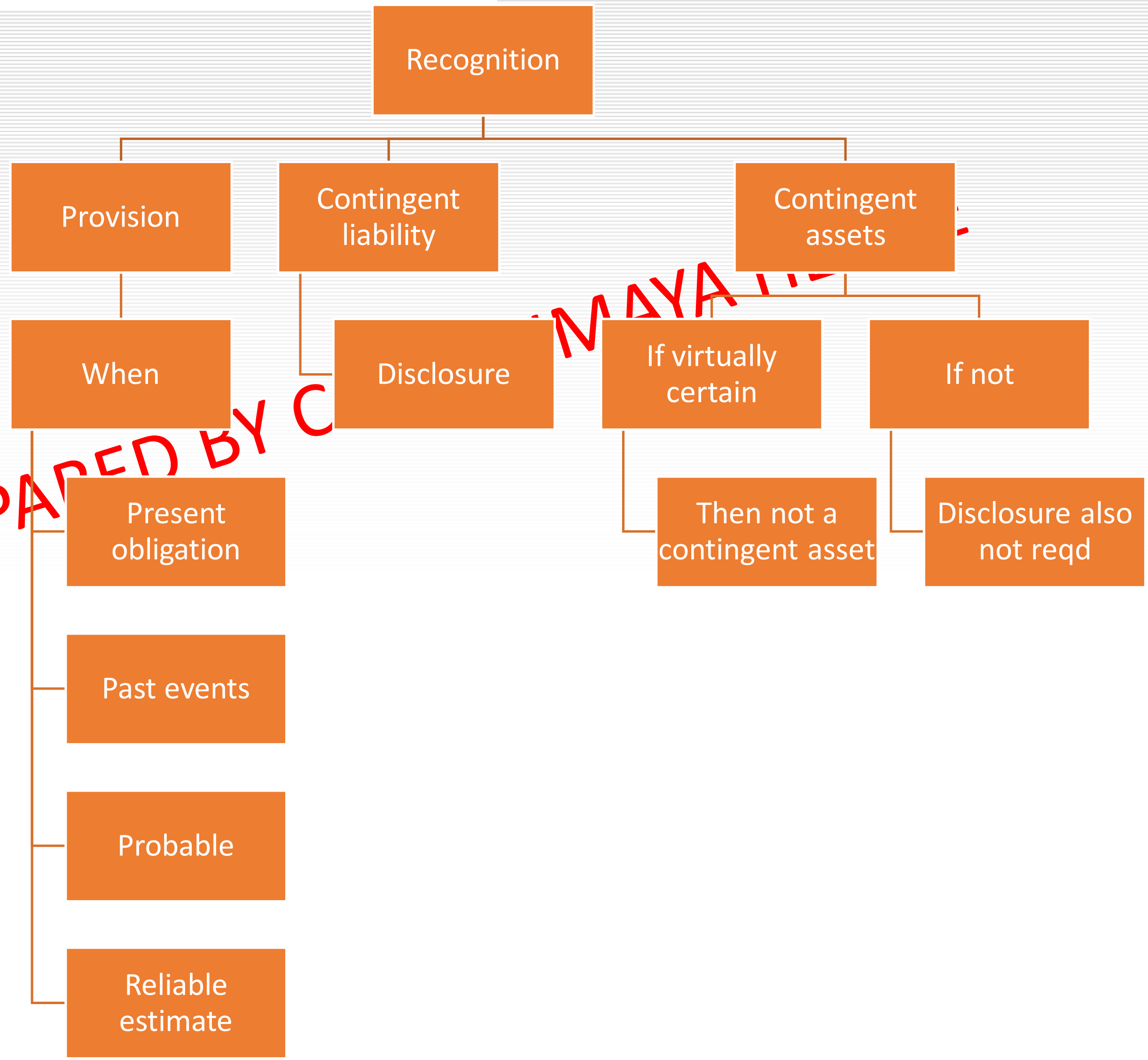
AS29 Provisions, Contingent Liabilities And Contingent Assets

- Not apply to
  - Financial instruments
  - Executory contracts
    - Both not performed obligations
  - Insurance
- Provision
  - Liability with estimation
- Liability
  - Meaning
    - Past events
    - Present obligation
    - Outflow of Future economic Benefit
- Contingent liability
  - Possible obligation
  - Present obligation without estimate

AS29 Provisions, Contingent Liabilities And Contingent Assets



Recognition



1

- Quick Ltd. is a company engaged in the trading of spare parts used in the repair of automobiles. The company has been regular in depositing the tax, as such there is no liability of Income Tax etc. for the Financial Year 2012-13.
- The figures for the year are as under:
- Income chargeable to tax Rs 211.64 lakhs
- Total income after adjustments Rs 228.48 lakhs
- Tax thereon Rs 74.13 lakhs
- TDS deducted during the year Rs 30.45 lakhs
- Tax paid for the year Rs 43.68 lakhs
- The company has prepared its Balance Sheet as per above figures. However, during the assessment proceeding held before the finalization of the Balance Sheet the Income Tax Officer has issued demand of Rs 7.52 lakhs, insisting that this amount of TDS has not been uploaded online and thus is not acceptable as deduction.
- The company has in reply to the same filed a rectification with the Assessing Officer. The company is trying to collect the TDS certificates, but Rs 2.39 lakhs deducted by XY LTD., is not traceable. The rectification is lying pending with the Assessing Officer. Please suggest the treatment of Rs 2.39 lakhs and Rs 7.52 lakhs in Balance Sheet.

Solution

- Since there is a probability of outflow of resources and also the amount can be quantified on account of non-traceability of TDS certificates, a provision may be made for Rs 2.39 lakhs in the books of account.

- Regarding the balance amount of Rs 5.13 lakhs (Rs 7.52 lakhs less RSs 2.39 lakhs), since TDS certificated have been submitted, it is likely that the Income-tax Officer may accept the rectification filed by the assessee. However, since the TDS details have not been uploaded online because of which demand has been issued, there may be a possibility that the rectification may also not be accepted. Therefore, taking a conservative approach, Rs 5.13 lakhs may be disclosed as a contingent liability.

Sl.No	Points of Difference	AS 29	Ind AS 37
1	Constructive Obligation	Not Covered	Covered
2	Discounting	Prohibited	Permitted
3	Contingent Assets	Not disclosed	Disclosed
4	Onerous Contracts	No specific guidelines	Impairment loss to be provided

1

A provision is recognised.

Disclosures are required for the provision.

Discuss the rec… cases

a. There is a present obligation that probably requires an outflow of resources.

No provision is recognised.

Disclosures are required for the contingent liability.

b. The … t obligation that may, but probably will not, require an outflow of resources.

No provision is recognised.

No disclosure is required.

c. There … ligation where the likelihood of an outflow of resources is remote.

2

X Solar Power Ltd., a power company, has a present obligation to dismantle its plant after 35 years of useful life. X Solar Power Ltd. cannot cancel this obligation or transfer to third party. X Solar Power Ltd. has estimated the total cost of dismantling at Rs 50,00,000, the present value of which is Rs 30,00,000. Based on the facts and circumstances, X Solar Power Ltd. considers the risk factor of 5% i.e., the risk that the actual outflows would be more from the expected present value. How should X Solar Power Ltd. account for the obligation?

The obligation should be measured at the present value of outflows i.e., ` 30,00,000. Further a risk adjustment of 5% i.e., ` 1,50,000 (` 30,00,000 x 5%) would be made. So, the liability will be recognised at = ` 30,00,000 + `1,50,000 = ` 31,50,000

3

- X Metals Ltd. had entered into a non-cancellable contract with Y Ltd. to purchase 10,000 units of raw material at Rs 50 per unit at a contract price of Rs 5,00,000. As per the terms of contract, X Metals Ltd. would have to pay Rs 60,000 to exit the said contract. X Metals Ltd. has discontinued manufacturing the product that would use the said raw material. For that X Metals Ltd. has identified a third party to whom it can sell the said raw material at Rs 45 per unit.

- How should X Metals Ltd. account for this transaction in its books of account in respect of the above contract?

- These circumstances indicate an onerous contract. The only benefit to be derived from the purchase contract costing ` 5,00,000 are the proceeds from the sale contact, which are ` 4,50,000. Therefore, a provision should be made for the onerous element of ` 50,000, being the lower of cost of fulfilling the contract and the penal cost of cancellation of ` 60,000.

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IND AS 32,109,107

Ind AS 109 — Financial Instruments: Recognition And Measurement

Ind AS 32 — Financial Instruments: Presentation

Ind AS 107 — Financial instruments: Disclosures

AS 32 Financial Instruments: Presentation- Definitions

Financial instrument

Contract

Financial asset of one

And

Financial liability of another

OR

Equity instrument of another

AS 32 Financial Instruments: Presentation- Definitions

- Financial assets
  - Cash
  - Equity instrument of another
  - Contractual right
    - To receive
      - Cash
      - OR
      - Another financial asset
    - Exchange financial asset
      - Potentially favorable
  - contract
    - Settled on own equity instrument
      - And
        - Non-derivative
          - Variable no.
        - Derivative
          - Fixed no.

AS 32 Financial Instruments: Presentation-Definitions

- Financial liability
  - Obligation
    - Deliver
      - Cash
      - OR
      - Another FA
    - Exchange FA/FL
      - Potentially unfavorable
  - Contract settled
    - In own equity instrument
      - Non-derivative
        - Variable
      - Derivative
        - Fixed No.

AS 32 Financial Instruments: Debt/Equity

- Obligation to settle
  - In cash
    - Yes
      - Debt
  - Or
  - Variable number
    - Yes
      - Debt
    - No
      - Equity
- Compound instrument
  - Debt component
  - And
  - Equity component

Problem 1

Assets	Types
Cash	Financial asset
A deposit of cash with a bank	Financial asset
Trade receivable and payable	Financial asset and liab
bills receivable and payable	Financial asset and liab
Inventories	Not a financial instrument
Prepaid expenses	Not a financial instrument
Convertible Debentures (Variable number)	Debt
Convertible Preference shares(Fixed number of equity)	Equity portion
loans receivable and payable	Financial asset and liab
Gold bullion	Not a financial instrument
Fixed Assets	Not a financial instrument
Provision for tax	Not a financial instrument
Advances from customers	Not a financial instrument
Warranty obligations	Not a financial instrument

2

Mega Ltd. issued Rs. 1,00,00,000 worth of 8% Debentures of face value Rs. 100 each on par value basis on 1st January, 2011. These debentures are redeemable at par at the end of 2014 or exchangeable for ordinary shares of Mega Ltd. on 1:1 basis. The interest rate for similar debentures that do not carry conversion entitlement is 12%. You are required to calculate the value of the debt portion of the above compound financial instrument

Solution

Year	CF	DF@12%	DCF
2011	800,000	0.8929	714320
2012	800,000	0.7972	637760
2013	800,000	0.7118	569440
2014	800,000	0.6355	508400
	100,00,000	0.6355	6355,000
			87,84,920

=Interest*AF(12%,4)+ Redemption*DF(12%,4th year)

Proceeds from issue	100,00,000
Debt portion	87,84,920
Equity portion	12,15,080

Journal entry

Bank A/c Dr	100,00,000	
To Debentures		87,84,920
To Equity		12,15,080

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Amortization schedule

Under Financial instrument

		P&L	Cash flow statement	Balance sheet
Year	Amount Outstanding at the beginning	Finance cost@12%	Coupon paid	Amount Outstanding at the end
2011	87,84,920	10,54,190	800,000	90,39,110
2012	90,39,110	10,84,693	800,000	93,23,803
2013	93,23,803	11,18,856	800,000	96,42,659
2014	96,42,659	11,57,341	800,000	100,00,000
		44,15,080		

Under Present Practice

Year	Amount Outstanding at the beginning	Finance cost@8%	Coupon paid	Amount Outstanding at the end
2011	100,00,000	800,000	800,000	100,00,000
2012	100,00,000	800,000	800,000	100,00,000
2013	100,00,000	800,000	800,000	100,00,000
2014	100,00,000	800,000	800,000	100,00,000
		32,00,000		

Difference= 44,15,080-32,00,000=12,15,080

Derivatives

- Meaning
  - 3 conditions
    - Value changes
      - To change in underlying variable
    - Initial investment
      - ZERO
      - OR
      - Minimal
        - As compared to buy underlying
    - Settled
      - At future date
  - Examples
    - Future contracts
    - Forwards
      - Interest rates
      - Currency rates
    - Options
      - Equity shares
      - Market Indices
    - Swaps
      - Interest rates

3

Entity XYZ enters into a fixed price forward contract to purchase 10,00,000 kilograms of copper in accordance with its expected usage requirements. The contract permits XYZ to take physical delivery of the copper at the end of 12 months or to pay or receive a net settlement in cash, based on the change in fair value of copper. Is the contract covered under Financial Instruments standard?

Solution

If the intension to settle is on net basis- Financial instrument

If the intension to settle is on delivery – Not a financial instrument

Embedded derivatives

- Meaning
  - Embedded in another contract
  - Basic Host Contract
  - Derivative fair value in host contract
- Examples
  - Convertible bonds
    - Call option
  - Operating lease payable in foreign currency
    - Forward contract
- Accounting
  - Separate recognition
    - 3 conditions
      - Different economic characteristics
      - Existing comparable derivate
      - Host contract is not measured at fair value
    - Fair value through P&L

4

- On 1 January 20X1, ABG Pvt. Ltd., a company incorporated in India enters into a contract to buy solar panels from A&A Associates, a firm domiciled in UAE, for which delivery is due after 6 months i.e. on 30 June 20X1
- The purchase price for solar panels is US$ 50 million.
- The functional currency of ABG is Indian Rupees (INR) and of A&A is Dirhams.
- The obligation to settle the contract in US Dollars has been evaluated to be an embedded derivative which is not closely related to the host purchase contract.
- Exchange rates:
- 1. Spot rate on 1 January 20X1: USD 1 = INR 60
- 2. Six-month forward rate on 1 January 20X1: USD 1 = INR 65
- 3. Spot rate on 30 June 20X1: USD 1 = INR 66 Analyse

- This contract comprises of two components:
- • Host contract to purchase solar panels denominated in INR i.e. a notional payment in INR at 6-month forward rate (INR 3,250 million or INR 325 crores)
- • Forward contract to pay US Dollars and receive INR i.e. a notional receipt in INR. In other words, a forward contract to sell US Dollars at INR 65 per US Dollar
- It may be noted that the notional INR payment in respect of host contract and the notional INR receipt in respect of embedded derivative create an offsetting position.
- Subsequently, the host contract is not accounted for until delivery. The embedded derivative is recorded at fair value through profit or loss. This gives rise to a gain or loss on the derivative, and a corresponding derivative asset or liability.
- On delivery ABG records the inventory at the amount of the host contract (INR 325 crores). The embedded derivative is considered to expire. The derivative asset or liability (i.e. the cumulative gain or loss) is settled by becoming part of the financial liability that arises on delivery.
- In this case the carrying value of the currency forward at 30 June 20X1 on maturity is INR 50 million X (66 minus 65) = INR 5 crores (liability/loss). The loss arises because ABG has agreed to sell US Dollars at ` 65 per US Dollar whereas in the open market, US Dollar can be sold at ` 66 per US Dollar.
- No accounting entries are passed on the date of entering into purchase contract. On that date, the forward contract has a fair value of zero (refer section "option and non-option based derivatives" below)

Subsequently, say at 30 June 20X1, the accounting entries are as follows (all in INR crores):

1. Loss on derivative contract 5

To Derivative liability (Being loss on currency forward) 5

2. Inventory 325

To Trade payables (financial liability) 325

(Being inventory recorded at forward exchange rate determined on date of contract)

3. Derivative liability 5

To Trade payables (financial liability) 5

(Being reclassification of derivative liability to trade payables upon settlement)

The effect is that the financial liability at the date of delivery is INR 330 crores (= INR 325 crores + INR 5 crores), equivalent to US$ 50 million at the spot rate on 30 June 20X1.

Going forward, the financial liability is a US$ denominated financial instrument. It is retranslated at the dollar spot rate in the normal way, until it is settled.

NO journal entry on 1.1.2001

On 30.6.2001

Fixed assets(50*65)	3250	
To Creditors		3250
Loss on derivative (66-65)*50	50	
To Derivative liability		50
Derivative liability	50	
To Creditors		50

Loss on forward contract because of short position and rates have increased.

AS 109 Financial Instruments: Recognition&Measurement

- Objective
  - Recognition principles
- Not applicable for
  - Business combinations,
  - Insurance Contracts,
  - Leasing arrangements
- Category of financial instruments
  - Other financial liabilities
- De recognition
- Hedge accounting

Financial assets at fair value through profit or loss

- FA
  - Debt instruments
    - Held to collect contractual cash flows — Amortized cost
    - Collecting CCF and sale of financial asset — Fair value to OCI
    - Others — FV to PL
  - Equity instruments
    - If held for trading — FV to PL
    - If not — FV to OCI
- FL
  - FV to PL
  - Amortized cost

Financial assets at fair value through profit or loss

- BM test for managing FA
  - Basics
    - How CF is managed
    - Determined on a higher level
  - Types
    - Hel to collect contractual cash flows
    - Held to collect CCF and Selling
    - Other
- **Contractual Cash Flow Characteristics**
  - Applies for lending arrangements
  - SPPI test- Solely payments of principal and interest
  - IF CCCF is not satisfied, then FVTPL

1

- An entity's business model is to purchase portfolios of financial assets, such as loans. Those portfolios may or may not include financial assets that are credit impaired.
- If payment on the loans is not made on a timely basis, the entity attempts to realise the contractual cash flows through various means—for example, by contacting the debtor by mail, telephone or other methods. The entity's objective is to collect the contractual cash flows and the entity does not manage any of the loans in this portfolio with an objective of realising cash flows by selling them.
- In some cases, the entity enters into interest rate swaps to change the interest rate on particular financial assets in a portfolio from a floating interest rate to a fixed interest rate. Evaluate the business model.

- The objective of the entity's business model is to hold the financial assets in order to collect the contractual cash flows. The same analysis would apply even if the entity does not expect to receive all of the contractual cash flows (eg some of the financial assets are credit impaired at initial recognition).
- Moreover, the fact that the entity enters into derivatives to modify the cash flows of the portfolio does not in itself change the entity's business model

Measurement

- **Initial**
  - **Transaction Costs for Initial Recognition**
    - FATPL — Charged to PL
    - FCTOCI — Add to Initial recognition
    - At Amortized cost — Add to Initial recognition
- Transaction cost on disposal
  - Transfer to PL
- Subsequent
  - At amortized cost — Use effective rate
  - FVTOCI — FV movements in OCI
  - FVTPL — FV movements to PL

Comforts Ltd. granted Rs. 10,00,000 loan to its employees on January 1, 2011 at a concessional interest rate of 4% per annum. Loan is to be repaid in five equal annual instalments along with interest. Market rate of interest for such loan is 10% per annum. Following the principles of recognition and measurement as laid down in AS 30 Financial Instruments : Recognition and Measurement', record the entries for the year ended 31st December, 2011 for the loan transaction, and also calculate the value of loan initially to be recognised and amortised cost for all the subsequent years.

Fair value of loan to employees using effective interest rate(market rate)

Year	CF	DF@10%	DCF
1	10L/5 =200,000+4% on 10L = 240,000	0.9091	218184
2	10L/5 =200,000+4% on 8L = 232,000	0.8264	191725
3	224,000	0.7513	168291
4	216,000	0.6830	147528
5	208,000	0.6209	129147
		Fair value of loan	854875

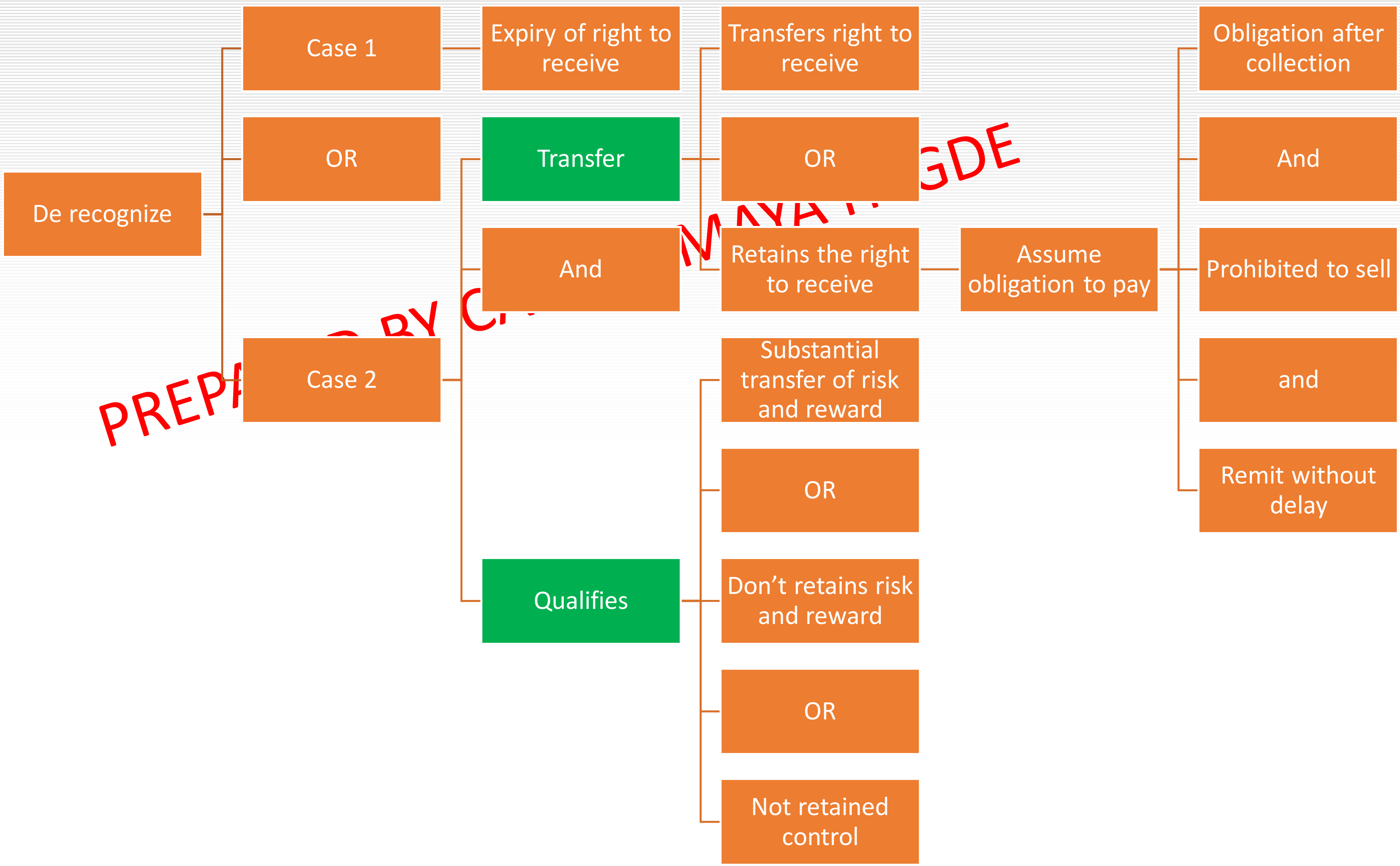
Inception of loan

Loan to employees	8,54,875	
Employees benefit expenses		1,45,125
To bank		10,00,000

Amortization schedule

Year	Finance income@10%	Instalment received	Amortized cost
1	85,488	240,000	700,363
2	70,036	232,000	538,399
3	53,840	224,000	368,239
4	36,824	216,000	189,063
5	18,937	208,000	0

De-recognition of a Financial Asset



3

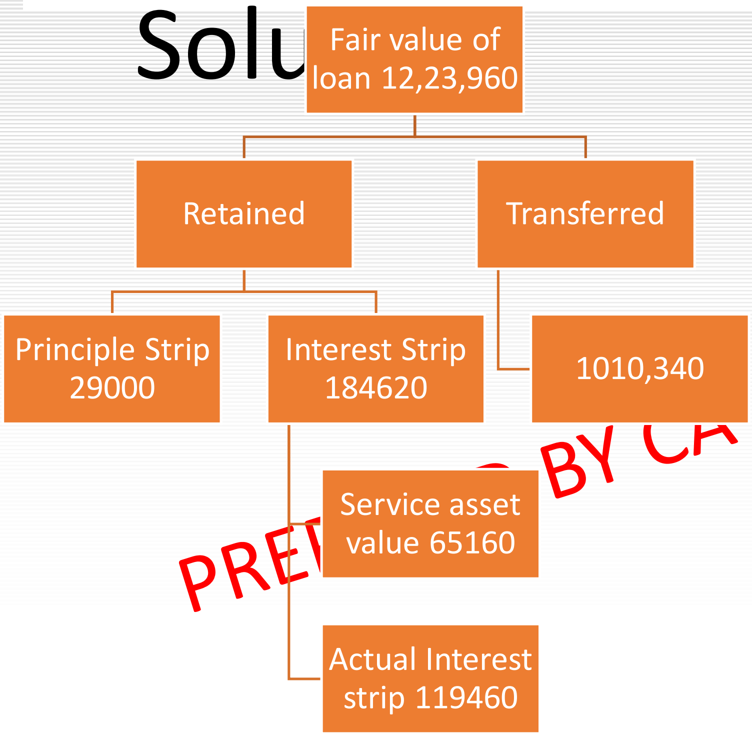
Sea Ltd. has lent a sum of Rs 10 lakhs @ 18% per annum for 10 years. The loan had a Fair Value of Rs 12,23,960 at the effective interest rate of 13%.

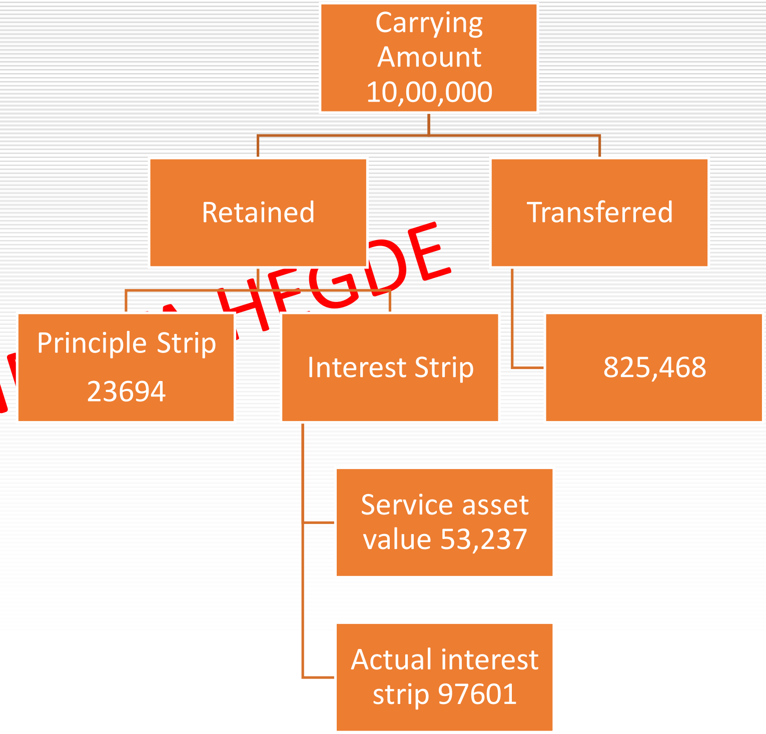
To mitigate prepayment risks but at the same time retaining control over the loan, Sea Ltd. transferred its right to receive the Principal amount of the loan on its maturity with interest, after retaining rights over 10% of principal and 4% interest that carries Fair Value of Rs 29,000 and Rs 1,84,620 respectively.

The consideration for the transaction was Rs 9,90,000. The interest component retained included a 2% fee towards collection of principal and interest that has a Fair Value of Rs 65,160. Defaults, if any, are deductible to a maximum extent of the company's claim on Principal portion.

You are required to show the Journal Entries to record derecognition of the Loan.

Solu





Book value of loan transferred	825,468	
Principal strip A/cDr.	23,694	
Interest strip A/c Dr.	97,601	
Servicing asset A/c Dr.	53,237	
To Loan A/c	10,00,000	
Bank A/c	990,000	
To Book value of loan transferred		825,468
To Profit on loan transfer	164,532	

Hedge accounting

- Meaning of hedging
  - Risk management technique
- Components of hedge relationship
  - Hedging instrument
    - Derivative
  - Hedging Item
    - Asset or liability to be covered
- Types od hedges
  - Fair value hedge
    - exposure to changes in the fair value of an item
    - fixed rate liabilities
  - Cash flow hedge
    - exposure to changes in the cash flows
  - net investment in an overseas operation
    - exposure of an entity to foreign operations
- **Accounting**
  - Conditions
    - Designated hedging item
    - Existence of Hedging instrument
    - Formal documentation
    - Effective hedging-125%,80%

Hedge accounting

- hedging
  - Fair value hedge
    - Hedging Item
      - P&L
    - Hedging instrument
      - P&L
  - Cash flow hedge
    - Hedging Item
      - CF Hedge Reserve
    - Hedging instrument
      - Effective portion
        - OCI(Reserve A/c)
      - Ineffective portion
        - P&L
  - Hedges of a Net Investment
    - Hedging Item
      - OCI
    - Hedging instrument
      - Effective portion
        - OCI
      - Ineffective Portion
        - P&L

4

- Almighty Ltd. is an exporter of goods. In the month of July 2015, it receives the
- order for supply of goods to US customers in the month of January 2016 and as per
- the payment cycle with the customers, it expects to realise USD 100,000 in
- April 2016.
- Almighty Ltd. has decided to fully hedge the sales from foreign currency risk.
- Immediately after getting the order, to hedge the firm commitment in foreign
- currency it enters into a derivative transaction with Wealth Bank, for future sale of
- USD 100,000 in the month of April 2016 @ ` 65 per USD (Spot Rate was ` 64.50
- per USD).
- For this purpose, it is assumed that the company has entered into a cash flow
- hedge, which is generally the case for hedging foreign currency risk.
- Further, it is assumed that:
- • At the time of booking of sale in January 2016, the USD rate was ` 61, and
- forward rate for delivery on April 30, 2016 was ` 61.20.
- • On the reporting date on March 31, 2016, the USD rate was ` 60.50, and
- forward rate for delivery on April 30, 2016 was ` 60.60.
- • At the time of realisation USD rate was ` 60 on April 30, 2016.
- The above transaction should be accounted by ignoring the impact of discounting of
- MTM of the hedging instrument. Pass necessary journal entries.

Hedging item
Receivables

Hedging instrument
Forward contract to sell

Date	Transactions	Spot rates	Impact	Forward rates	Impact
July 2015	Received Order	64.50		65	
Jan 2016	Sold goods	61	Book	61.2	+3.80
March 2016	Year End	60.50	-0.50	60.60	+0.60
April 2016	Receipts	60	-0.50	60	+0.60

July –Order received

No journal Entry

January 2016 – Goods supplied

Recognition of revenue

Sundry debtor 100,000$*61	61,00,000		
To Sales			61,00,000

Forward Contract – MTM

Forward contract receivable 65-61.2	380,000		
To P&L			380,000

March 2016 – Year End

Restatement of Debtors at closing rate

Foreign Exchange loss 61-60.5		50,000	
To Sundry debtors			50,000

Restatement of Forward contract at closing rate(MTM)

Forward contract receivable 61.2-60.6	60,000		
To P&L			60,000

April 2016 – Settlement

Receipt from sundry debtors

Bank 60*100000		60,00,000	
Foreign Exchange loss 60.5-60		50,000	
To Sundry debtors			60,50,000

Forward contract settlement

Bank A/c 65-60*100,000		500,000	
To forward contract receivable			440,000
To foreign exchange gain		60,000	

Corporate restructuring

- Merger
- Inter-company holdings
- Demerger
- Internal reconstruction
- External reconstruction
- Buy back
- Redemption of preference shares

Amalgamation

- Type
  - In nature of merger
    - all the assets and liabilities
    - 90% shareholding
    - business of the transferor company
    - by issue of equity shares and cash for fraction
    - book values
  - In nature of purchase
    - Others
- Accounting method
  - Pooling of Interest Method
    - Merger
    - Book values
    - Adjust in P&L
  - Purchase Method
    - Purchase
    - Taken over values
    - Adjust in GW/CR

Basic entries

- **<u>For purchase consideration due</u>**
  Business purchase a/c Dr.
  To liquidator of vendor company
- **<u>For assets and liabilities taken over</u>**
  Assets taken over Dr.
  Goodwill a/c Dr.
  To liabilities taken over
  To business purchase a/c
  To capital reserve a/c
- **<u>For discharge of purchase consideration</u>**
  Liquidator of vendor company a/c Dr.
  To equity share capital a/c
  To share premium a/c
  To debentures a/c
  To preference share capital a/c
  To cash

Additional Entries

- **Liquidation expenses paid by purchasing com.**
  Goodwill/Capital reserve a/c Dr.
  To cash a/c
- **For cancellation of mutual owings**
  Creditor /Bills payable a/c Dr.
  To Debtors/Bills receivable a/c

For adjustment of unrealised profit
Goodwill/Capital reserve a/c Dr.
To Stock a/c

For carry forward of statutory reserves
Amalgamation adjustment a/c Dr.
To Statutory reserve a/c

Steps in amalgamation

Purchase consideration computation- net payment method

- Computation of PC
- Discharge of PC

Net assets taken over

- NATO = PC under net assets method
- Discharge of PC under net assets method

Goodwill/capital reserve

- under net payment method

Steps in amalgamation

- Net assets method
  - Computation of PC
  - PC = Net assets taken over
  - Discharge of PC
- Net payment method
  - Computation of PC
  - Net assets taken over
  - Goodwill/cap reserve
  - Discharge of PC

Inter company holdings

- Cases
  - Old in New
    - Shares to be issued – Shares already held
      - PC to outsiders
    - Goodwill calculation
      - -
      - NATO(without investments)
  - New in Old
    - Shares to be issued – Shares held
      - PC to outsiders+Investments
    - Goodwill calculation
      - -
      - (NATO)
  - Cross
    - Shares to be issued – Shares held – Shares already held
      - PC to outsiders+Investments
    - Goodwill calculation
      - -
      - (NATO)

Inter company holdings

- Cases
  - Old in New
    - Shares to be issued – Shares already held
    - Goodwill calculation
      - PC to outsiders
      - -
      - NATO(without investments)
  - New in Old
    - Shares to be issued – Shares held
    - Goodwill calculation
      - PC to outsiders+Investments
      - -
      - (NATO)
  - Cross
    - Shares to be issued – Shares held – Shares already held
    - Goodwill calculation
      - PC to outsiders+Investments
      - -
      - (NATO)

1

Enterprise 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, 2012 the division-wise draft Balance Sheet was:

(Rs. 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 Rs. 10 each	25	-	25	
Surplus		175	(100)	75
		200	200	400

- Division Mobiles along with its assets and liabilities was sold for Rs. 25 crores to Turnaround Ltd. a new company, who allotted 1 crore equity shares of Rs. 10 each at a premium of Rs. 15 per share to the members of Enterprise Ltd. in full settlement of the consideration, in proportion to their shareholding in the company.
- You are asked to Prepare the Balance Sheet of Enterprise Ltd. And Balance Sheet of Turnaround Ltd.

Balance sheet as

Particulars	Note	Rs		
Equity and liabilities				
I Shareholders funds				
Share capital	1	25		
Reserves and surplus	2	75+100		175
II Non-Current liabilities				
Long tem borrowings			0	
III Current liabilities				
Trade payables		25		
	225			
Assets				
I Non-Current assets				
Fixed assets				
Tangible	3	25		
II Current Assets		200		
	225			

Turnaround Ltc

- Purchase Consideration 25
- Net Assets taken over
- Non Current Assets 100
- Current Assets 500
- Loan Funds (30(
- Current Liabilities (400)
- Net Assets (10(
- Goodwill 125
- Discharge of PC 25
  - Share capital 10
  - Securities premium 15

Balance sheet as

Particulars	Note	Rs		
Equity and liabilities				
I Shareholders funds				
Share capital	1	10	Reserves and surplus	2
15				
II Non-Current liabilities				
Long tem borrowings			300	
III Current liabilities				
Trade payables		400		
	725			
Assets				
I Non-Current assets				
Fixed assets				
Tangible	3	100		
Intangibles		125		
II Current Assets		500		
	725			

Under Ind AS 103
Turnaround Ltd.

- Purchase Consideration 25

- Net Assets taken over
- Non Current Assets 100
- Current Assets 500
- Loan Funds (30(
- Current Liabilities (400)
- Net Assets (10(

- Loss on reorganisation 110

- Discharge of PC 10
  Share capital 10
  ~~Securities premium 15~~

Balance sheet as

Particulars	Note	Rs		
<u>Equity and liabilities</u>				
I Shareholders funds				
Share capital	1	10	Reserves and surplus	2
(110)				
II Non-Current liabilities				
Long tem borrowings			300	
III Current liabilities				
Trade payables		400		
	600			
<u>Assets</u>				
I Non-Current assets				
Fixed assets				
Tangible	3	100		
Intangibles				
II Current Assets		500		
	600			

The following are the Balance Sheets of X Ltd. and Y Ltd. as on 31st December, 2009

Equity and Liabilities	**X ltd (Rs)**	**Y ltd (Rs)**	**Assets**	**X ltd (Rs)**	**Y ltd (Rs)**
Equity Shares of Rs.10 each	600,000	300,000	Fixed assets	700,000	250,000
10% Preference shares of Rs.10 Each	200,000	100,000	Stock	240,000	320,000
Reserves and surplus	300,000	200,000	Debtors	360,000	190,000
12% debentures	200,000	150,000	B.R	60,000	20,000
		.	Bank balance	110,000	40,000
B.P	30,000	25,000	Investment in		
Sundry Creditors	220,000	125,000	6000 Shares of Y ltd	80,000	
			5000 Shares of X ltd		80,000
Total	1,550,000	900,000	Total	1,550,000	900,000

Fixed assets of both the companies are to be revalued at 15% above book values and stock and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been paid already X Ltd. will absorb Y Ltd. on the following terms:

(i) 8 equity shares of Rs. 10 each will be issued by X Ltd. at par against 6 shares of Y Ltd.(ii) 10% preference shares of Y Ltd. will be paid off at 10% discount by issue of 10% preference shares of Rs. 100 each of X Ltd. at par.

(iii) 12% Debentureholders of Y Ltd. are to be paid off at a 8% premium by 12% debentures in X Ltd. issued at a discount of 10%. (iv) Rs. 30,000 to be paid by X Ltd. to Y Ltd. for liquidation expenses.

(v) Sundry creditors of Y Ltd. include Rs. 10,000 due to X Ltd.

Prepare: Balance Sheet of X Ltd. after its absorption of Y Ltd

Purchase Consideration

To equity shareholders

30,000 shares x8/6 – 40,000

Less: 1/5 already held by X Ltd. (8,000)

Less: Held by y ltd (5000)

No of shares 27,000

Value of shares 27000*10 270,000

To preference shareholders

100,000*90% 90,000

Total PC 360,000

Net Assets taken over from Y Ltd.

Fixed Assets (2,50,000´115%)	2,87,500	
Stock (3,20,000 x 95%)		3,04,000
Debtors (1,90,000 x 95%)		1,80,500
Bills Receivable	20,000	
Cash at Bank 40000+5000-30000		15000
Debentures (1,50,000 x 108%)		(1,62,000)
Sundry Creditors	(1,25,000)	
Bills Payable	(25,000)	
Net Asset taken over	4,95,000	

Goodwill/cap reserve

N.A.T.O. 495,000

- Purchase consideration 360,000
- Investments in Y ltd 80,000 440,000

55,000

- Liquidation expenses 30,000

Capital reserve 25,000

Note 1 Share capital

Equity shares 600000+270000 870,000

Preference share capital 200,000+90000 290,000 11,60,000

Note 2 Reserves and surplus

Capital Reserve 25,000

Revaluation Reserve 700,000*15% 105,000

Other Reserves 300,000+6000-60000 246000

- Discount on issue of debentures

150,000*108%*10/90 (18,000) 358,000

Balance sheet

Particulars	Note	Rs
Equity and liabilities		
I Shareholders funds		
share capital	1	11,60,000
Reserves and surplus	2	358,000
II Non-Current liabilities		
Long tem borrowings		
(200,000+162,000/90%)		380,000
III Current liabilities		
Trade payables 220+125-10+30+25		390,000
Assets		
I Non-Current assets		
Fixed assets		
Tangible		10,92,500
II Current Assets		
Inventories 240+304		544,000
Trade receivables 360+180.5-10+60+20		610,500
Cash and cash equivalent 110-60-30+6+15		41,000

Consolidation of financial statements

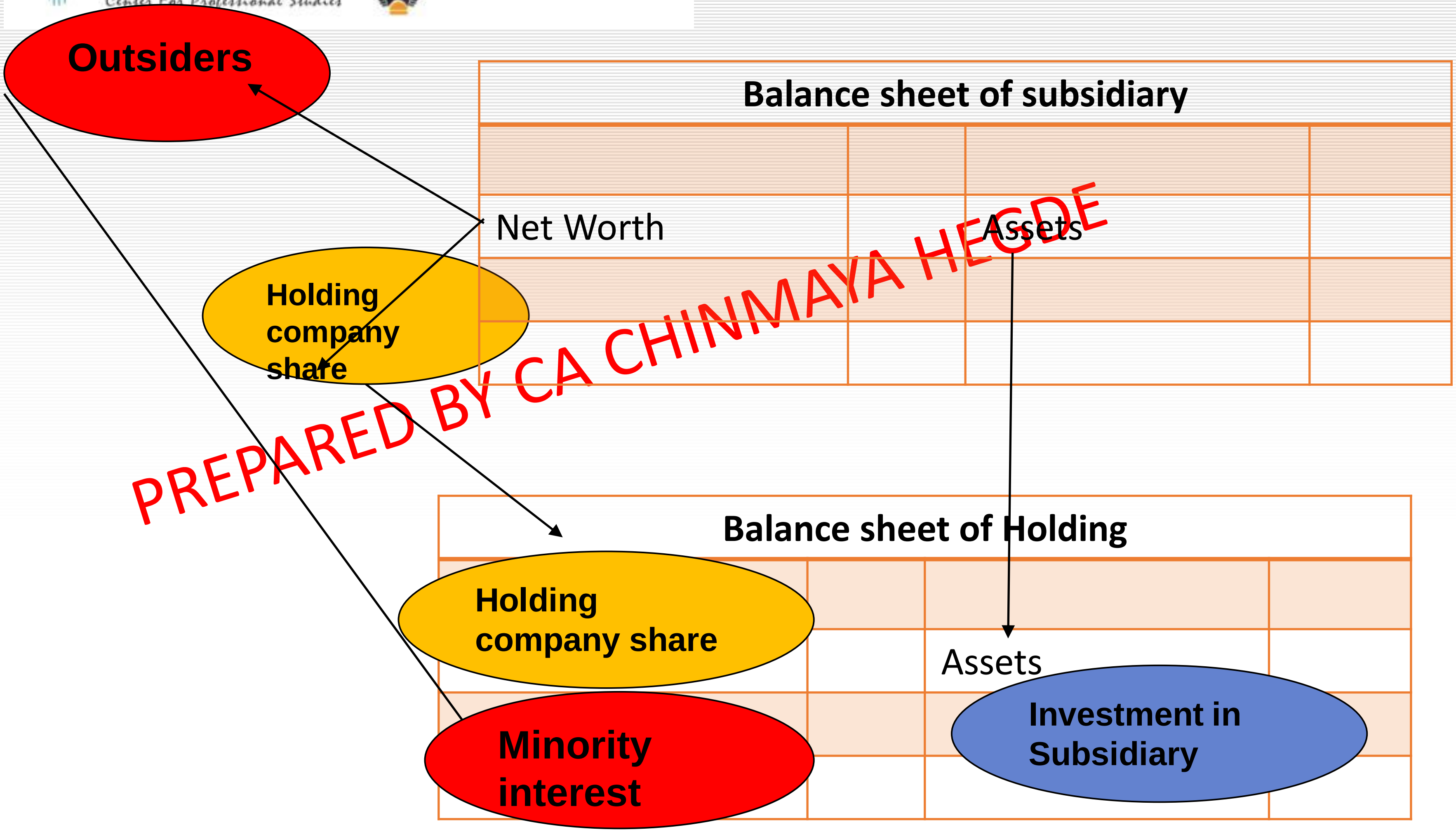
Basics

- Objective
  - To understand group financial position
- Legal Requirements
  - AS 21
  - Clause 32 Listing Agreement
  - Companies Act 2013
    - Sec 129(4)

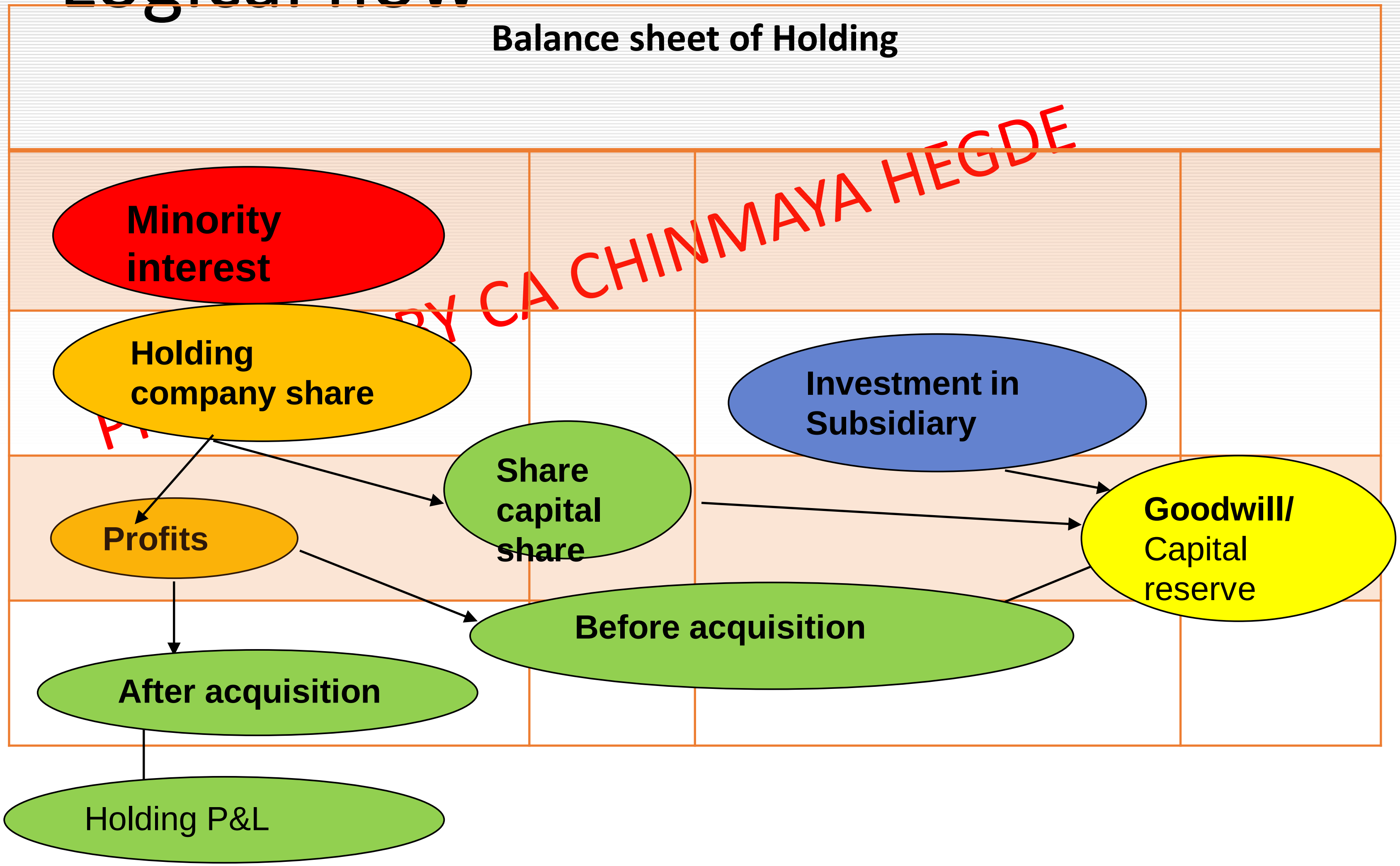
Basics

- Meaning
  - Holding company
    - who controls other company
    - has 51 % shares of other company
    - power to appoint board of directors
  - Subsidiary Company
    - controlled by any other company
    - Company whose shares are bought

Logical flow



Logical flow



Steps

- Subsidiary balance sheet
  - Assets
    - Consolidated Balance sheet
  - Liabilities
    - Consolidated Balance sheet
  - Share capital
    - Minority Interest
    - Goodwill/cap res
  - Profits
    - Pre acquisition Profits
      - Minority interest
      - Goodwill / cap res
    - Post
      - Minority interest
      - Consolidated P&L

Working note for consolidation

Subsidiary

Particulars	Total	Cap res(G/W)	Con PL	Minority interest
Share capital	Amount	Amount		Amount
Pre acq Profit	Amount	Amount		Amount
Post acq Profit	Amount		Amount	Amount
Revaluation profit	Amount	Amount		Amount
Depn on above	(Amount)		(Amount)	(Amount)
URP-Upward	(Amount)		(Amount)	(Amount)
Holding				
Investment in sub	(Amount)	(Amount)		
P&L	Amount		Amount	
Pre acq div		Amount	(Amount)	
URP-Downward	(Amount)		(Amount)	
Total		Cap res/(GW)	Con P&L	Mino.Interest

Types

- Types
  - One subsidiary
  - Multiple subsidiaries
  - Chain Holding
  - Multiple acquisition
  - Mutual holdings
  - Holding + Assoicate+JV

1

- From the following summarized balance sheets of H Ltd. and its subsidiary S Ltd. drawn up at 31st March, 2012, prepare a consolidated balance sheet as at that date, having regard to the following :
- (i) Reserves and Profit and Loss Account of S Ltd. stood at Rs. 25,000 and Rs. 15,000 respectively on the date of acquisition of its 80% shares by H Ltd. on 1st April, 2011.
- (ii) Machinery (Book-value Rs. 1,00,000) and Furniture (Book value Rs. 20,000) of S Ltd. Were revalued at Rs. 1,50,000 and Rs. 15,000 respectively on 1.4.2011 for the purpose of fixing the price of its shares.

Liabilities	H Ltd.	S. Ltd	Assets	H Ltd.	S. Ltd
Share Capital of Rs. 100 each	6,00,000	1,00,000	Machinery	3,00,000	90,000
Reserves	2,00,000	75,000	Furniture	1,50,000	17,000
Profit and Loss Account	1,00,000	25,000	Non-current Investments	4,40,000	1,50,000
Creditors	1,50,000	57,000	800 Shares in S ltd at Rs. 200 each	1,60,000	

Working note for consolidation

Particulars		Amount	Cap Res		Con PL	MI
				80%	80%	20%
S Ltd						
Share capital	100,000	80,000		20,000		
Reserves						
Opening(Pre)	25,000	20,000		5,000		
Current year(Post)	50,000		40,000	10,000		
P&L						
Opening(Pre)	15,000	12,000		3,000		
Current year(Post)	10,000		8,000	2,000		
Revaluation of machinery		50,000	40,000		10,000	
Depn on above@10%	(5,000)		(4,000)	(1,000)		
Revaluation of furniture		(5,000)	(4,000)		(1,000)	
Depn on above@15%	750		600	150		
H Ltd						
Reserves	200,000			200,000		
P&L	100,000		100,000			
Investment in S Ltd	(160,000)		(160,000)		________	_______
				(12,000)	344,600	48,150

Consolidated balance sheet

Particulars	Note	Rs
Equity and liabilities		
I Shareholders funds		
Share capital		6,00,000
Reserves and surplus		344,600
II Minority Interest		48,150
III Non-Current liabilities		
Long term borrowings		
IV Current liabilities		
Trade payables		2,07,000
Assets		11,99,750
I Non-Current assets		
Fixed assets		
Tangible		
Intangible		597,750
Non-Current investments		12,000
II Current Assets		590,000
Inventories		
Trade receivables		
Cash and cash equivalent		
		11,99,750

Note 3 Fixed assets – Tangible

Machinery	300,000+90,000+50,000-5000	435,000
Furniture	150,000+17,000 – 5000 + 750	162,750
		597,750

Working note for consolidation

Particulars	Amount	Cap Res 80%	Con PL 80%	MI 20%
S Ltd				
Share capital	100,000	80,000		20,000
Reserves				
Opening(Pre)	25,000	20,000		5,000
Current year(Post)	50,000		40,000	10,000
P&L				
Opening(Pre)	15,000	12,000		3,000
Current year(Post)	10,000		8,000	2,000
Revaluation of machinery	50,000	40,000		10,000
Depn on above@10%	(5,000)		(4,000)	(1,000)
Revaluation of furniture	(5,000)	(4,000)		(1,000)
Depn on above@15%	750		600	150
H Ltd				
Reserves	200,000		200,000	
P&L	100,000		100,000	
Investment in S Ltd	(160,000)	(160,000)		
		(12,000)	344,600	48,150

Consolidated balance sheet

Particulars	Note	Rs
Equity and liabilities		
I Shareholders funds		
Share capital		6,00,000
Reserves and surplus		344,600
Minority Interest		48,150
II Non-Current liabilities		
Long term borrowings		
III Current liabilities		
Trade payables		2,07,000
		11,99,750
Assets		
I Non-Current assets		
Fixed assets		
Tangible		597,750
Intangible		12,000
Non-Current investments		
II Current Assets		590,000
Inventories		
Trade receivables		
Cash and cash equivalent		
		11,99,750

Note 3 Fixed assets – Tangible

Machinery	300,000+90,000+50,000-5000	435,000
Furniture	150,000+17,000 – 5000 + 750	162,750
		597,750

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2

Equity and Liabilities	H ltd	S ltd	Assets	H ltd	S ltd
Equity Shares of Rs.10 each	4,000	2,400	Plant and machinery	2,541	2,450
General reserve	928	690	Furniture	615	298
P&L	1,305	810	In Equity shares of S ltd	1,500	-
Provision for tax	220	180	Stock	983	786
Other provisions	65	17	Debtors	700	683
B.P	124	80	B.R	120	95
Sundry Creditors	487	427	Bank balance	410	102
			Sundry advances	260	190
Total	7,129	4,604	Total	7,129	4,604

PREPARE

Prepare a consolidated Balance Sheet as on 31st March, 2012 from following Additional Information

(a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2011 at which date the following balances stood in the books of S Ltd. General Reserve Rs. 1,500 thousand; Profit and Loss Account Rs. 633 thousand.

(b) On 14th July, 2011 S Ltd. declared a dividend of 20% out of pre-acquisition profits and paid corporate dividend tax (including surcharge) at 9.91%. H Ltd. credited the dividend received to its Profit and Loss Account.

(c) On 1st November, 2011 S Ltd. issued a 3 fully paid Equity Shares of Rs. 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.

(d) On 31st March, 2012, the Stock of S Ltd. included goods purchased for Rs. 50 thousand from H Ltd., which had made a profit of 25% on Cost.

Impact of bonus

	Before Bonus	Bonus	After Bonus
Ratio	5	3	8
S Ltd share cap(Rs)	2400*5/8 1500	2400*3/8 900	2400
S Ltd share cap(no)	150	90	240
H Ltd Holdings(no)	90	90*3/5 54	144
H Ltd Holdings(Rs)	900	540	1440

H Ltd Holdings % = $\frac{1440*100}{2400}$ = 60%

Analysis of profits of subsidiary

General Reserve 690

Opening 1500
- Bonus (900)
Balance 600
(pre)

Current year 90
(post)

P&L 810

Opening 633
- Dividend 1500*20% (300)
- Dividend tax 300* 9.91 / 100-9.91 (33)
Balance 300
(pre)

Current year 510
(post)

.Working note for consolidation

Particulars		Amount (GW)		CapResCon PL MI	60%		60%	40%
S Ltd								
Share capital	2400	1440		960				
General Reserve		690						
Opening(Pre)		600	360		240			
Current year(Post)		90		54	36			
P&L	810							
Opening(Pre)	300	180		120				
Current year(Post)		510		306	204			
H Ltd								
General Reserve		928		928				
P&L	1305		1305					
URP on stock(Downward)			50*25/125			(10)		
Investments in S ltd		(1500)	(1500)					
Pre acq wrongly cre to P&L 900*20%					180	(180)		
					660		2403	1560
							660	
							3063	

Consolidated balance sheet

Particulars	Note	Rs
Equity and liabilities		
I Shareholders funds		
Share capital		4000
Reserves and surplus		3063
II Minority Interest		1560
III Non-Current liabilities		
Long term borrowings		
IV Current liabilities		
Trade payables		1118
Short term provisions		482
		10223
Assets		
I Non-Current assets		
Fixed assets		
Tangible		5904
Intangible		
Non-Current investments		
II Current Assets		
Short term loans and advances		450
Inventories		1759
Trade receivables		1598
Cash and cash equivalent		512
		10223

3

P Ltd. owns 80% of S and 40% of J and 40% of A. J is jointly controlled entity and A is an associate. Summarised Balance Sheets of four companies as on 31.03.12 are:

(Rs. in lakhs)

	P Ltd.	S	J	A
Investment in S	80	-	-	-
Investment in J	600	-	-	-
Investment in A	600	-	-	-
Fixed assets	1000	800	1400	1000
Current assets	2200	3300	3250	3650
Total	5200	4100	4650	4650
Liabilities:				
Share capital Rs. 1				
Equity share	1000	400	800	800
Retained earnings	4000	3400	3600	3600
Creditors	200	300	250	250
Total	5200	4100	4650	4650

P Ltd. acquired shares in 'S' many years ago when 'S' retained earnings were Rs. 520 lakhs. P Ltd. acquired its shares in 'J' at the beginning of the year when 'J' retained earnings were Rs. 400 lakhs. P Ltd. acquired its shares in 'A' on 01.04.11 when 'A' retained earnings were Rs. 400 lakhs. The balance of goodwill relating to S had been written off three years ago. The value of goodwill in 'J' remains unchanged. Prepare the Consolidated Balance Sheet of P Ltd. as on 31.03.12 as per AS 21, 23, and 27.

Working note for consolidation

Particulars	Amount	(GW)	CapResCon PL MI		
A Ltd(Equity method)					
Share capital	800	320			
Retained earning	3600				
Opening	400	160			
Current year 3200		1280			
Investments in A Ltd	(600)	(600)			
Goodwill		(120)			
J Ltd(Proportionate consolidation)					
Share capital	800	320			
Retained earnings	3600				
Opening	400	160			
Current year	3200		1280		
Investment in J Ltd	(600)	(600)			
Goodwill		(120)			
S Ltd(Full consolidation)					
Share capital	400	320		80	
Retained earnings	3400				
On date of acquisition		520(pre)		416	104
After acquisition	2880(Post)			2304	576
Investment in S Ltd	(800)	(800)			
Goodwill		(64)			
Goodwill written off		64	(64)		
P Ltd					
Retained earnings	4000		4000		
	(120)	8800	760		

AS 21 : Full consolidation
AS 27 : Proportionate consolidation
AS 23 : Equity method

Consolidated balance sheet

Particulars	Note	Rs
Equity and liabilities		
I Shareholders funds		
Share capital		1000
Reserves and surplus		8800
Minority Interest		760
II Non-Current liabilities		
Long term borrowings		
III Current liabilities		
Short term borrowings		
Trade payables	(200+300+40% of 250)	600
		11,160
Assets		
I Non-Current assets		
Fixed assets		
Tangible	(1000+800+40%of1400)	2360
Intangible		120
Non-Current investments		1880
II Current Assets 2	(200+3300+40%of3250)	6800
Inventories		
Trade receivables		
Cash and cash equivalent		
		11,160

Note : Non Current investments

Share of net assets on acq	480
Goodwill	120
Share of post acquisition profit	1280
	1880

S.No.	Topic	Ind AS 110	AS 21
1	Control	Principle based:	Rule based:
		Investor controls investee when it is exposed or has rights to variable returns from involvement with investee and has ability to affect those returns through its power over investee.	Ownership of more than half voting power or Control of composition of board.
2	Potential Voting Rights	Needs to be considered for control assessment.	Are not considered for control assessment.
3	Uniform Accounting Policies	To be followed and no recognition of situation of impracticability.	If not practicable, facts to be disclosed with brief description.
4	Exclusion of subsidiary from consolidation	All subsidiaries are consolidated.	If subsidiary acquired with intention to dispose of within 12 months or it operates under severe long term restrictions which impair its ability to transfer funds to parent, then subsidiaries need not be consolidated.
5	Treatment in case of more than one parent of a subsidiary	Two investors control an investee when they must act together to direct the activities. Each investor would account for its interest in the investee in accordance with relevant Ind AS. Such as Ind AS 111, 28, 109.	When an entity is controlled by two enterprises as per the definition of control, it will be considered as subsidiary of both controlling enterprises, therefore both need to consolidate the financial
6	Reporting Dates	The difference in reporting dates should not be more than 3 months	The difference in reporting dates should not be more than 6 months
7	Presentation of minority interest	Should present within equity, separately from the equity of the owners of the parent	Presented separately from liabilities and equity of the parent's shareholder.
8	Allocation of losses to minority interest	Losses should be attributed to owners of parent & to non- controlling interest separately even if it results in deficit of non- controlling interest. This is because Ind AS 110 is based on entity concept whereas AS 21 is based on proprietary concept.	Excess of loss applicable to minority over the minority interest in the equity of subsidiary and any further losses applicable to minority are adjusted against majority interest except to the extent minority has a binding obligation to, and is able to, make good the losses.
9	Disposals	Change in the parent's ownership interest in a subsidiary without the loss of control are accounted for as equity transaction.	No specific guidance
		If parent loses control over subsidiaries, it shall be accounted as: · Derecognize asset & liabilities. · Recognize any investment retained in the former subsidiary at its fair value (Ind AS 109) · Recognize the gain or loss associated with loss of control.	Any loss on control shall be accounted for in Consolidated statement of profit & loss.

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Valuation

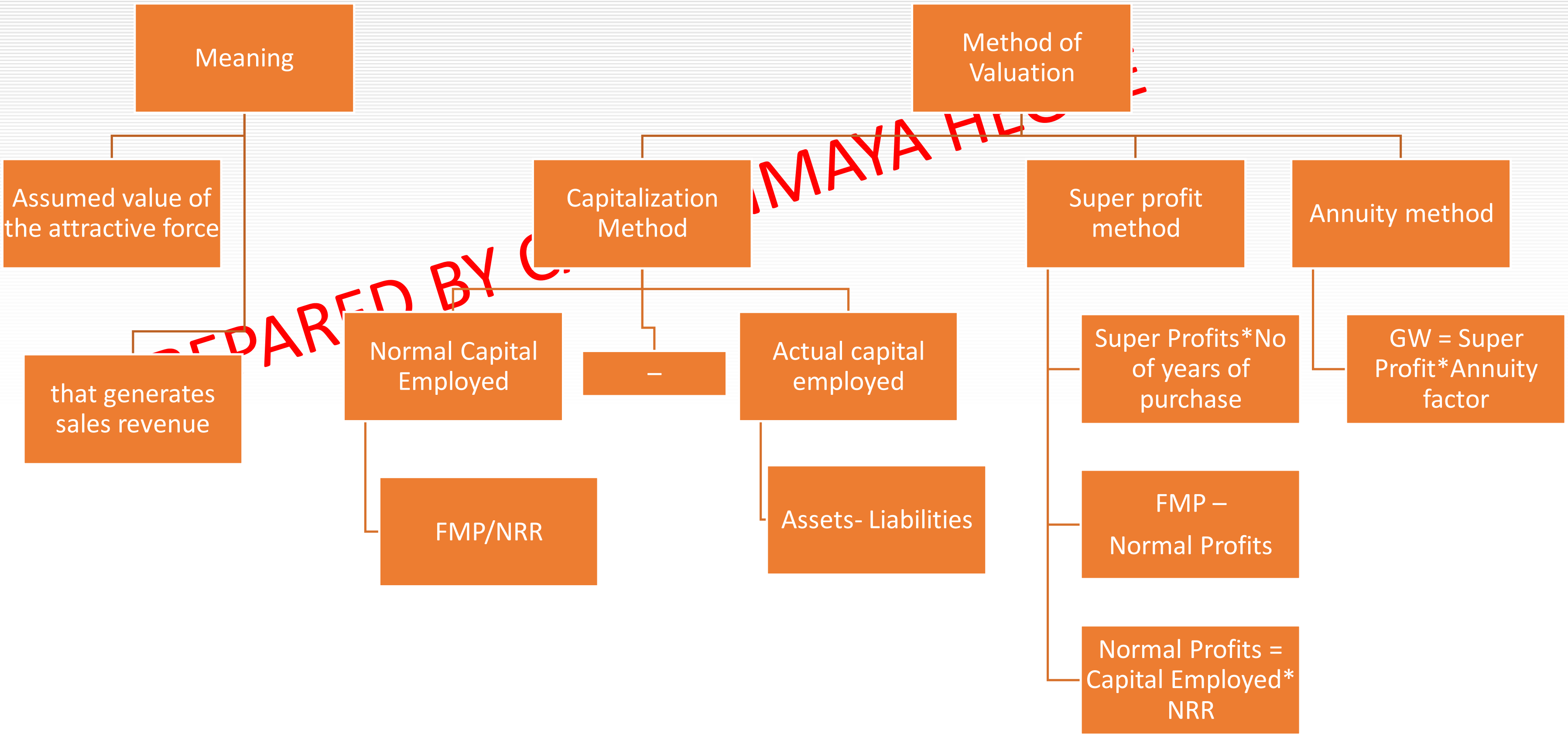
Valuation

- Meaning
  - measurement of an item in monetary term
- Basis
  - Historical cost
  - Current cost.
    - Replacement cost
  - Realizable value
  - Present value
  - Fair value
  - Recoverable value
- Approaches
  - Cost Approach
  - Market Approach
  - Income approach

Different valuations

- Valuations
  - Tangible fixed Assets
    - AS 10
    - AS 28
    - AS 6
    - AS 28
    - AS 11
    - AS 16
    - AS 19
  - Valuation of Intangibles
    - AS 26
    - Valuation of goodwill
  - Valuation of liabilities
    - AS 15
    - AS 19
    - AS 4
    - AS 29
  - Valuation of shares
  - Valuation of business

Valuation of goodwill



Point to be noted

- Actual Capital Employed
  - Approach
    - Shareholder's fund approach
      - Asset Method
        - Total Assets –Investments – Fictitious - LTL- CL
        - Don't subtract proposed dividend
        - Consider only Purchased Goodwill
      - Liabilities Method
        - E.S.C+PSC+R&S – Fictitious
    - Long term fund
      - Calculated as above + Long term liabilities
    - Leverage effect
      - Difference between above approaches
  - Methods
    - Average Capital Employed
      - Opening + closing / 2
      - Opening CE + ½ of current year profit
      - Closing CE - ½ of current year profit
    - Closing Capital Employed

Point to be noted

- FMP
  - SHF approach
    - Average
      - If trend — Weighted
      - If no trend — Simple
    - Remove
      - Non trading income
      - Abnormal items — Write offs-PE,GW
      - Non –recurring
    - Include — Future expected income / exp
  - LTF Approach — AS above — + — Interest after tax

- NRR
  - = Risk free rate + Risk premium
  - = Dividend Yield — =Average Div/ Current market price

Working Process

Step No	Particulars	Calculation	Amount
1	FMP	Average	Amount
2	Average Capital Employed	Assets - Liabilities -1/2 Current profit	
3	**NRR**		
4	**Normal Profit**	**%*CE**	Amount
5	**Super Profit**	**(1)-(4)**	Amount
6	**Goodwill**	X no of years of purchase	Amount

1

- Find out Leverage effect on Goodwill in the following case:
- (i) Current cost of equity capital employed Rs. 10,40,000
- (ii) Profit earned after current cost adjustments Rs. 1,72,000
- (iii) 10% long term loan Rs. 4,50,000
- (iv) Normal rate of return on equity capital employed 15.6%
- (v) Normal rate of return on capital employed 13.5% (6 Marks)
- Solution

	SHF approach		**LTF approach**
FMP	172,000	+45000	217,000
Capital employed	10,40,000	+450,000	14,90,000
NRR	15.6%		13.5%
Normal profit	162,240		201,150
Super profits (FMP-Normal profits)			
	9760		15850
NRR	15.6%		13.5%
Goodwill(capitalisation method)	9760/15.6%		15850/13.5%
	62,564		117,407
	Debt is utilized		**Debt is not utilized**

Leverage impact 117407-62564 = 54843(Negative) comp

2

The Balance Sheets of X Ltd. are as follows:(Rs. in lakhs)

Liabilities			As at 31.3.1996	As at 31.3.1997			
Share Capital			1,000.0			1,000.0	
General Reserve		800.0			850.0		
Profit and Loss Account		120.0			175.0		
Term Loans			370.0			330.0	
Sundry Creditors		70.0			90.0		
Provision for Tax		22.5			25.0		
Proposed Dividend		200.0			250.0		
			2,582.5			2,720.0	
Assets							
Fixed Assets and Investments (Non-trade)	1,600.0			1,800.0			
Stock			550.0			600.0	
Debtors			340.0			220.0	
Cash and Bank			92.5			100.0	
			2,582.5				2,720.0

Other Information:

1. Current cost of fixed assets excluding non-trade investments on 31.3.1996 Rs. 2,200 lakhs and on 31.3.1997 Rs. 2,532.8 lakhs.

2. Current cost of stock on 31.3.1996 Rs. 670 lakhs and on 31.3.1997 Rs. 750 lakhs.

3. Non-trade investments in 10% government securities Rs. 490 lakhs.

4. Debtors include foreign exchange debtors amounting to $ 70,000 recorded at the rate of

$ 1 = Rs. 17.50 but the closing exchange rate was $ 1 = Rs. 21.50.

5. Creditors include foreign exchange creditors amounting to $ 1,20,000 recorded at the rate of $ 1 = Rs. 16.50 but the closing exchange rate was $ 1 = Rs. 21.50.

6. Profit included Rs. 120 lakhs being government subsidy which is not likely to recur.

7. Rs. 247 lakhs being the last instalment of R and D cost were written off the profit and loss account. This expenditure is not likely to recur.

8. Tax rate during 1996-97 was 50% effective future tax rate is estimated at 40%.

9. Normal rate of return is expected at 15%.

Based on the information furnished, Mr. Iral, a director contends that the company does not have any goodwill. Examine his contention. (20 marks)(November, 1997)

(i) FMP

Increase in P&L			55		
Increase in General reserve			50		
Proposed dividend for the year			<u>250</u>		
Profit After tax			355		
Add : Tax @50%			<u>355</u>		
Profit before tax			710		
- Non trading income 490*10%			(49)		
Foreign exchange difference on debtors	(21.5-17.5)*70,000	2.8			
Foreign exchange difference on creditors	(21.5-16.5)*120,000	(6)			
Subsidy non-recurring			(120)		
R&D instalment non-recurring			247		
Increase in opening stock	670-550			(120)	
Increase in closing stock	750-600			<u>150</u>	
FMP before tax				814.8	
- tax@40%					325.92
FMP After tax				488.88	

(ii)Average capital employed

		31.3.1996		31.3.1997
Fixed assets		2200		2532.8
Stock		670		750
Debtors		340	220+2.8	222.8
cash		92.5		100
Loans		(370)		(330)
Creditors		(70)	90+6	(96)
tax provision		<u>(22.5)</u>		<u>(25)</u>
capital employed	2840		3154.6	Average(2840+3154.6)/2 = 2997.3

(iii) NRR		15%
(iv)Normal profits	2997.3*15%	449.60
(v) Super profits		**39.28**

Valuation of shares


Valuation of shares
Net assets Basis
Yield Basis
Fair value basis
Net assets/No of shares
Party paid up shares- apply notional call
Paid up value*Actual return/Normal return
Controlling interest (Large no)
Economic Interest (For Small block)
Simple average of Net assets basis and yield basis
Net assets = Capital employed for goodwill
+Goodwill
+Non trading investments
-Preference share capital
Use earning yield
Use dividend yield

1

- From the following information, calculate the value of a share assuming market expectation of 12% if you want to (i) buy a small lot of shares;(ii) buy a controlling interest in the company.

Year	Profit(Rs.)	Capital Employed(Rs)	Dividend %
2007	55,00,000	3,43,75,000	12
2008	1,60,00,000	8,00,00,000	15
2009	2,20,00,000	10,00,00,000	18
2010	2,50,00,000	10,00,00,000	20

Solution

(i) Buying small lot of share –Dividend yield method

Weighted average return= $\frac{(12*1) + (15*2) + (18*3) + (20*4)}{4+3+2+1}$ = 17.6%

Value per share = Paid up value *Actual return/Normal return = Rs.10(Assumed)*17.6%/12%= **Rs14.67**

(ii)Buying controlling interest (Earnings yield method)

2007	2008	2009	2010
55,00,000/34375,000	160,00,000/800,00,000	220,00,0000/1000,00,000	250,00,000/1000,00,000
16%	20%	22%	25%

Weighted average return(because of trend) = (16*1) + (20*2) + (22*3) + (25*4)/(1+2+3+4) = 22.2%

Value per share = Paid up value *Actual return/Normal return = Rs.10(Assumed)*22.2%/12%= **Rs.18.5**

2

The following is the Balance Sheet (as at 31st December, 2006) of Sun Ltd.:

Liabilities	Rs	Assets	Rs
80,000 Equity shares of Rs.10each fully paid up	8,00,000	Goodwill	1,00,000
50,000 Equity shares of Rs.10 each Rs.8 paid up	4,00,000	Plant and Machinery	8,00,000
36,000 Equity shares of Rs.5 each fully paid up	1,80,000	Land and Building	10,00,000
30,000 Equity shares of Rs.5 each Rs.4 paid-up	1,20,000	Furniture and Fixtures	1,00,000
3,000 10% Preference shares of Rs.100 each fully paid	3,00,000	Vehicles	2,00,000
Reserve and Surplus:		Investments	3,00,000
General reserve	1,40,000	Current Assets:	
Profit and Loss account	2,10,000	Stock	2,10,000
Secured Loan: 12% Debenture	2,00,000	Debtors	1,95,000
Unsecured Loan: 15% Term loan	1,50,000	Prepaid Expenses	40,000
Deposits	1,00,000	Advances	45,000
Current Liabilities:		Cash and Bank balance	2,00,000
Bank Loan	50,000	Preliminary Expenses	10,000
Creditors	1,50,000		
Outstanding expenses	20,000		
Provision for tax	2,00,000		
Proposed Dividend:			
Equity	1,50,000		
Preference	30,000		
	32,00,000		32,00,000

Additional Information:

(1) In 2004 a new machinery costing Rs.50,000 was purchased, but wrongly charged torevenue (no rectification has yet been made for the same).

(2) Stock is overvalued by Rs.10,000 in 2005. Debtors are to be reduced by Rs.5,000. In 2006, some old furniture (Book value Rs.10,000) was disposed of for Rs.6,000.

(3) Fixed assets are worth 5 per cent more than their actual book value. Depreciation on appreciated value of Fixed assets except machinery is not to be considered for valuation of goodwill.

(4) Of the investment 20 per cent is trading and the balance is non-trading. All trade investments are to be valued at 20 per cent below cost. Trade investment were purchased on 1st January, 2006. 50 percent of the non-trade investments were acquired on 1st January, 2005 and the rest on 1st January, 2004. A uniform rate of dividend of 10 percent is earned on all investments.

(5) Expected increase in expenditure without commensurate increase in selling price is Rs.20,000.

(6) Research and Development expenses anticipated in future Rs.30,000 per annum.

(7) In a similar business a normal return on capital employed is 10%.

(8) Profit (after tax) are as follows: In 2004 – Rs.2,10,000, in 2005 – Rs.1,90,000 and in 2006 – Rs.2,00,000.

(9) Current income tax rate is 50%, expected income tax rate will be 40%.

Ascertain the ex-dividend and cum-dividend intrinsic value for different categories of Equity shares. For this purpose goodwill may be taken as 3 years purchase of super profits. Depreciation on machinery is @ 10% on reducing system. (16 Marks) (May, 2007)

- Investments as on date 300,000
  - Trade
    - 20%=60,000
    - Valued at 80% = 48000
    - Part of capital employed
  - Non trade
    - 80% =240,000
    - Purchased
      - 1.1.2005 50%
        - 120,000
      - 1.1.2004 50%
        - 120,000

- Non trading income
  - 2004
    - 120,000*10%
    - 12,000
  - 2005
    - 240,000*10%
    - 24,000
  - 2006
    - 240,000*10%
    - 24,000

(i)FMP			2004	2005	2006			
PAT			210,000	190,000	200,000			
PBT			420,000	380,000	400,000			
+Machinery wrongly charges to revenue		50,000						
-Depreciation on above@10%		(5,000)	(4500)	(4050)				
-Over valuation of closing stock			(10,000)					
+Over valuation of opening stock				10,000				
- Provision for debtors				(5,000)				
+Loss on sale of furniture				4,000				
-Non trading income		(12,000)	(24,000)	(24,000)				
Adjusted PBT			453,000	341,500	380,950			
Average PBT	(453,000+341,500+380,950)/3					391,817		
- Depreciation on appreciation [800,000+(50,000-5000-4500-4050)=36450]*5%*10%				(4182)				
-Expected increase R&D						(30,000)		
-Future expected expenses						(20,000)		
		FMP(Before tax)				3,37,635		
	- tax@40%						1,35,054	
		FMP(After tax)						202,581
(ii) CE	Fixed assets [836450+10,00,000+100,000+200,000]*105%			22,43,273				
	Trade Investments 300,000*20%*80%				48,000			
	Stock					210,000		
	Debtors 195000-5000				190,000			
	Prepaid expenses				40,000			
	Advances					45,000		
	Cash					200,000		
	- Debentures					(200,000)		
	-Term loan					(150,000)		
	-Deposits					(100,000)		
	-Bank Loan					(50,000)		
	-Creditors					(150,000)		
	-Outstanding expenses				(20,000)			
	-Provision for tax				(200,000)	21,06,273		
	- ½ of current year profits [380,950*(1-0.5)]* ½				(95,238)			
		Average capital employed					20,11,035	

(i)	FMP		202,581
(ii)	Average capital employed	20,11,035	
(iii)	NRR	10%	
(iv)	Normal profits	2011035*10%	201,104
(v)	Super profits		1477
(vi)	Goodwill	1477*3	4431

Valuation of shares

				Cum-Div	Ex-Div
	Capital employed(As computed)		21,06,273		
+	Goodwill		4431		
+	Non-trade investments 300,000*80%		240,000		
-	Preference share capital		(300,000)		18,70,704
-	Preference share dividend		(30,000)		
Net assets available to equity share holders			20,20,704		

[(i) IF FV is different , Value per share should be in same ratio as that of FV

(ii) IF FV is same and party paid up, Value per share should differential to the extent not paid up]

To convert partly paid up into fully paid up – notional call

			Cum-Div	Ex-Div
				130,000
				20,00,704
				16,30,000
				1.227426
Notional call	2*50,000+1*30,000		130,000	
Net assets(After notional call)			21,50,704	
Equity share capital [80,000+50,000]*10+[36000+30000]*5			16,30,000	
Value per rupee			1.31945	

			Cum-Div	Ex-Div
Value per 10 fully paid up	1.31945*10		13.1945	12.27426
Value per 10 8 paid up	13.1945-2		11.1945	10.27426
Value per share 5 fully paid	1.31945*5	6.59725		6.13713
Value per share 5, 4 paid up	6.59725-1	5.59725		5.13713




Share based payment

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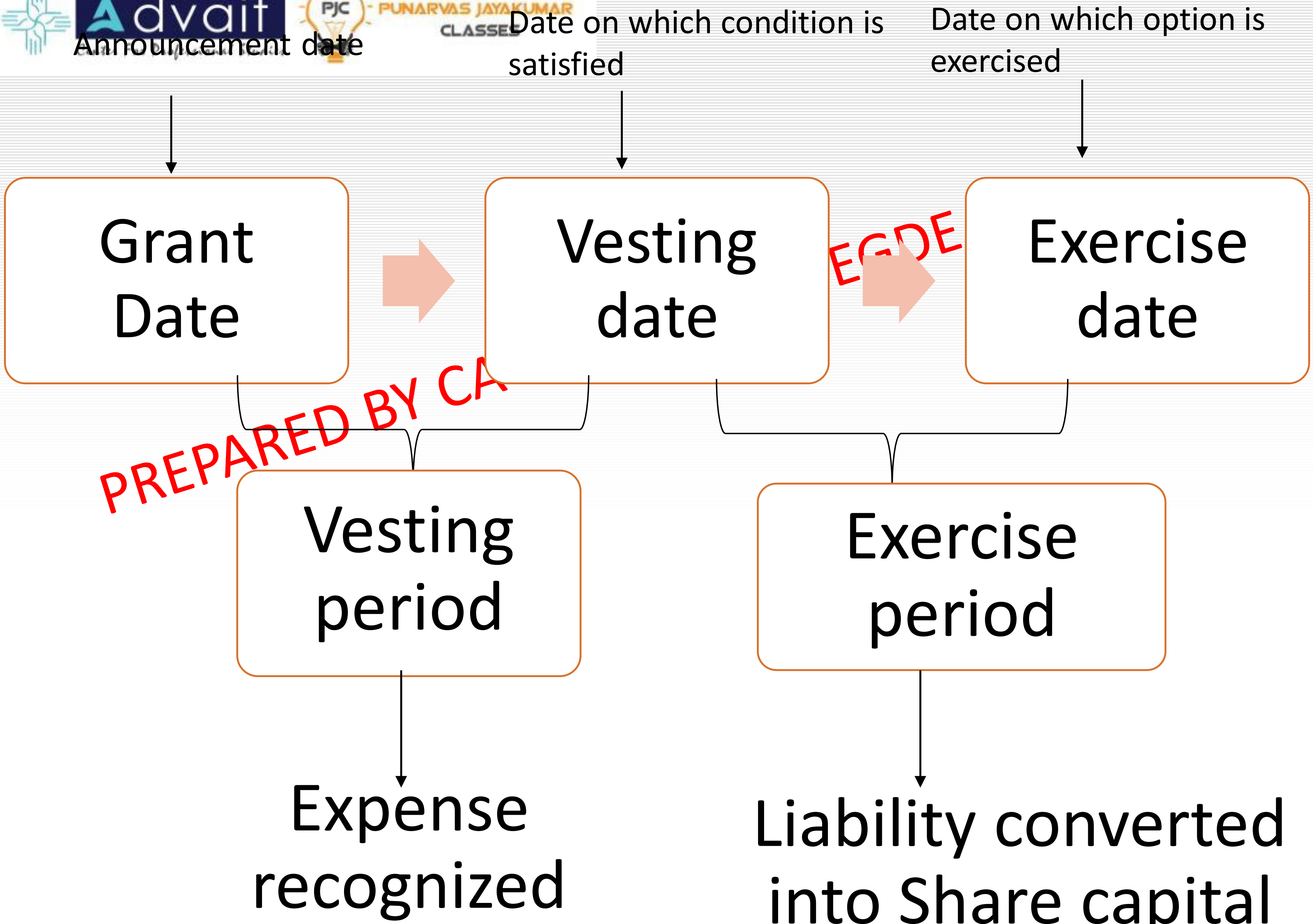
Share based payment

Employees Stock Option Plan

- An employee stock ownership plan (ESOP) is an employee-owner scheme that provides a company's workforce with an ownership interest in the company.

- Grant: giving an option to the employees
- Vesting: It is the process by which the employee is given the
- Vesting Period: vesting of the option takes place
- Exercise Period: Period within which employee should exercise right

- **Accounting Treatment**
- Expense to be recognised during granting Period
- Liability to be converted to share capital during exercise period


Announcement date
Date on which condition is satisfied
Date on which option is exercised
Grant Date
Vesting date
Exercise date
Vesting period
Exercise period
Expense recognized
Liability converted into Share capital

Example

Identify vesting period

Case	Condition	Vesting period
1	Employee work for 5 years	5 years
2	Employee should complete 10,000 Units	
	Initial expectation 3 years	3 years
	At the end of year1 Revised to 4 years	4 years
3	1 year, if average profit of company is 12% 2 year if average profit of company is 10% 3 Year if average profit of company is 7%	

End of	Actual Profits	
Year1	10%	2 years
Year2	9%	3 years
Year3	13%	3 years

Example

Grant date 1.4.2010 105 Employees, Vesting period 4 years, Options 10 options each, Option value Rs.20

1.4.2010	31.3.2011	31.3.2012	31.3.2013	31.3.2014

105 3 left 102

Expected to leave 2

Expected 100

Expected 99

100*10*20

= 20,000
4

= 5,000

1 employee

1*10*20/4 = -50

99*10*20

= 19800
4

= 4950

Net exp 4900

Closing balance

99 *10*20*2/4

=9900

9900 – 5000

= 4900 Exp for the year

Computation of ESOP expense every year

No of employees expected to satisfy vesting condition

X No of options per employee

X Option value

= Total Expense to be recognised in vesting period

X <u>No of years lapsed</u>

Total vesting period

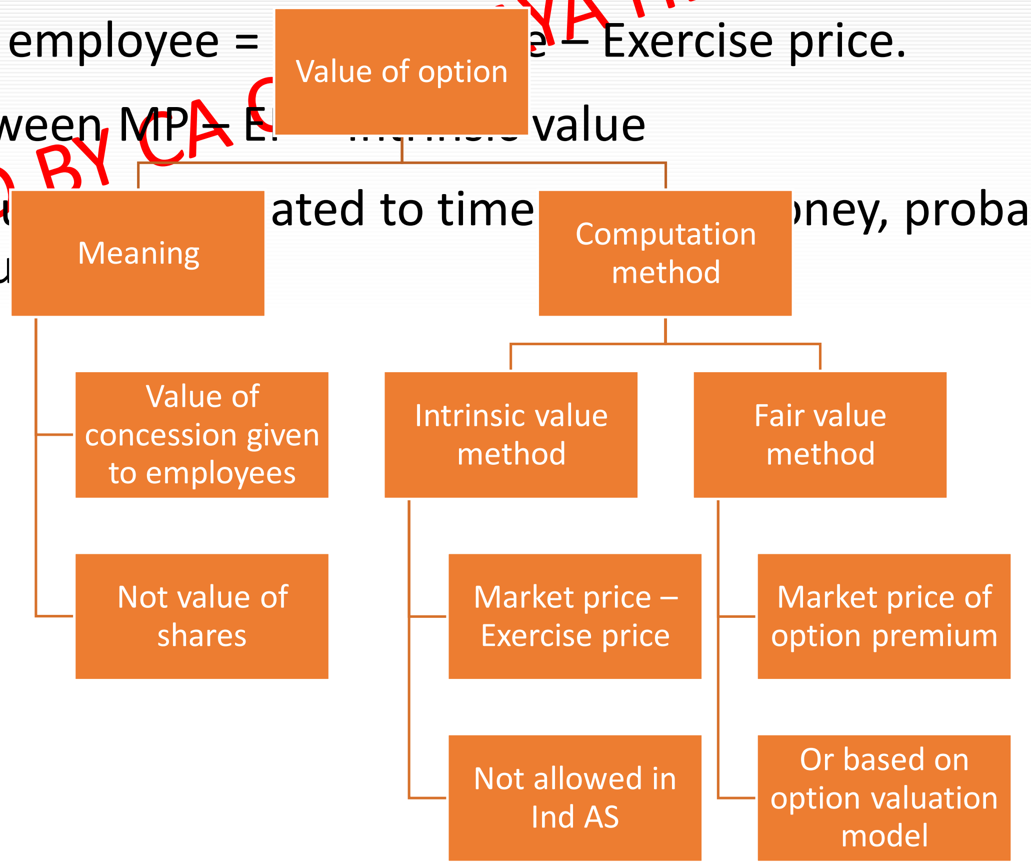
= Closing balance of ESOP

- opening balance of ESOP

= ESOP for the year

Option value

- It is essentially call option on shares of company.
- Concession for employee = … e – Exercise price.
- Difference between MP – E… value
- After doing adju… ated to time … ney, probability etc we get Fair valu…



- Share based payment
  - Employee Stock Purchase Plan
    - Immediately recognized
  - Employee Stock Option Plan
    - Issue of shares at exercise price
    - Proportionate expense in vesting period
    - Equity in balance sheet
  - Stock Appreciation rights
    - Pay cash equivalent to fair value of opton
    - Proportionate expense in vesting period
    - Debt in balance sheet
  - ESOP with cash alternative
    - Initially
      - Debt component
      - Equity component
    - During vesting period
      - Debt component
        - Proportionate
          - based on debt year end
      - Equity component
        - Proportionate of
          - initial equity

1

- The following particulars in respect of stock options granted by a company are available:
- Grant date April 1, 2008
- Number of employees covered 525
- Number of options granted per employee 100
- Vesting condition: Continuous employment for 3 years
- Nominal value per share Rs100, Exercise price per share Rs125, Market price per share on grant date Rs 149
- Vesting date March 31, 2011, Exercise Date March 31, 2012
- Fair value of option on grant date (Rs) 30
- Position on 31/03/09 (a) Estimated annual rate of departure 2% (b) Number of employees left = 15
- Position on 31/03/10 (a) Estimated annual rate of departure 3% (b) Number of employees left = 10
- Position on 31/03/11 (a) Number of employees left = 8 (b) Number of employees entitled to exercise = 492
- Position on 31/03/12 (a) Number of employees exercising = 480 (b) Number of employees not exercising = 12
- Compute expenses to recognise in each year by (i) fair value method (ii) intrinsic value method and show Ledgers

Solution

	31.3.2009	31.3.2010	31.3.2011
Number of employees expected to satisfy condition	(525-15)*0.98*.98 490	(525-15-10)*0.97 485	(525-15-10-8) 492
Options per employee	100	100	100
Fair value per option	30	30	30
Total Expense in vesting period	490*100*30 1470,000	485*100*30 14,55,000	492*100*30 14,76,000
Expected Vesting period	3	3	3
Closing balance of ESOP	14,70,000/3 =490,000	14,55,000*2/3 970,000	14,76,000*3/3 1476,000
Opening balance of ESOP	0	490,000	970,000
Current year ESOP expense	490,000	480,000	506,000

Employee benefit expenses

31.3.2009 To ESOP Outstanding	490,000	31.3.2009 By P&L	490,000
31.3.2010 To ESOP Outstanding	480,000	31.3.2010 By P&L	480,000
31.3.2011 To ESOP Outstanding	506,000	31.3.2011 By P&L	506,000

ESOP outstanding

31.3.2009 To Bal c/d	490,000	31.3.2009 By Employee benefit expense	490,000
		1.4.2009 By Bal b/d	490,000
31.3.2010 To Bal c/d	970,000	31.3.2010 By Employee benefit expense	480,000
		1.4.2010 By Bal b/d	970,000
31.3.2011 To Bal c/d	1476,000	31.3.2011 By Employee benefit expense	506,000
31.3.2012 To General reserve (12*100*30)	36,000	1.4.2011 By Bal b/d	1476,000
31.3.2012 To Equity share capital 480*100*100	48,00,000	31.3.2012 By Bank (480*100*125)	60,00,000
31.3.2012 To Securities Premium 480*100*(25+30)	26,40,000		

Intrinsic value method

	31.3.2009	31.3.2010	31.3.2011
Number of employees expected to satisfy condition	(525-15)*0.98*.98 490	(525-15-10)*0.97 485	(525-15-10-8) 492
Options per employee	100	100	100
Intrinsic value per share	149-125 = 24	149-125 = 24	149-125 = 24
Total Expense in vesting period	490*100*24 =11,76,000	485*100*24 =11,64,000	492*100*24 =11,80,800
Expected Vesting period	3 Years	3 Years	3 Years
Closing balance of ESOP	11,76,000*1/3 =392000	11,64,000*2/3 =776,000	11,80,800*3/3 =11,80,800
Opening balance of ESOP	0	392,000	776,000
Current year ESOP expense	392000	384000	404,800

Closing balance of ESOP =

$$\text{Total Expense in vesting period} \times \frac{\text{No of years completed till date}}{\text{Total expected vesting period}}$$

ESOP outstanding A/c

31.3.2009	To Bal c/d	**392,000**	31.3.2009	By Employee compensation exp	**392,000**
			1.4.2009	By Bal b/d	**392,000**
31.3.2010	To Bal c/d	**776,000**	31.3.2010	By Employee compensation exp	**384,000**
			1.4.2010	By Bal b/d	**776,000**
31.3.2011	To Bal c/d	**11,80,800**	31.3.2011	By Employee compensation exp	**404,800**
31.3.2012	To General res (12*100*24)	28,800	1.4.2011	By Bal b/d	**11,80,00**
31.3.2012	To ESC (480*100*100)	**48,00,000**	31.3.2012	By Bank (480*100*125)	**60,00,000**
31.3.2012	To Sec Pre (480*100*49)	**23,52,000**			

Employee compensation expense

31.3.2009	To ESOP O/s	**392,000**	31.3.2009	By P&L	**392,000**
31.3.2010	To ESOP O/s	**384,000**	31.3.2010	By P&L	**384,000**
31.3.2011	To ESOP O/s	**404,800**	31.3.2011	By P&L	**404,800**

2

- A company announced a Stock Appreciation Right on 01/04/08 for each of its 525 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price Rs 125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31/03/11 but before 30/06/11. The fair value of SAR was Rs 21 in 2008-09, Rs 23 in 2009-10 and Rs 24 in 2010-11. In 2008-09 the company estimates that 2% of the employees shall leave the company annually. This was revised to 3% in 2009-10. Actually, 15 employees left the company in 2008-09, 10 left in 2009-10 and 8 left in 2010-11. The SAR therefore actually vested to 492 employees. On 30/06/11, when the SAR was exercised, the intrinsic value was Rs 25 per share. Show Provision for SAR A/c by fair value method.
-

Provision for SAR Computation

	2008-09	2009-10	2010-11
Number of employees expected to satisfy condition	(525-15)*0.98*.98 490	(525-15-10)*0.97 485	(525-15-10-8) 492
SARs' per employee	100	100	100
Fair value per right(SAR)	21	23	24
Total Expense in vesting period	490*100*21 10,29,000	485*100*23 11,15,500	492*100*24 1180,800
Expected Vesting period	3	3	3
Closing balance of SAR	10,29,000*1/3 343,000	11,15,500*2/3 743,667	1180,800*3/3 11,80,800
Opening balance of SAR	0	343,000	743,667
Current year expense	343,000	400,667	437,133

Provision for SAR A/c

31.3.2009	To Bal c/d	343,000	31.3.2009	By Employee compensation exp	343,000
			1.4.2009	By bal b/d 343,000	
31.3.2010	To Bal c/d	743,667	31.3.2010	By Employee compensation exp	400,667
			1.4.2010	By bal b/d 743,667	
31.3.2011	To Bal c/d	11,80,800		By Employee compensation exp	437,133
			1.4.2011	By bal b/d 1180,800	
30.6.2011	To Bank	12,30,000	30.6.2011	By Employee compensation exp	49,200
	(492*100*25)				

3

- An enterprise grants to an employee the right to choose either a cash payment equal to the value of 1,000 shares, or 1,200 shares. The grant is conditional upon the completion of three years' service. If the employee chooses the equity alternative, the shares must be held for three years after vesting date. The face value of shares is Rs 10 per share.
- At grant date, the fair value of the shares of the enterprise (without considering post-vesting restrictions) is Rs 50 per share. At the end of years 1, 2 and 3, the said fair value is Rs 52, Rs 55 and Rs 60 per share respectively. The enterprise does not expect to pay dividends in the next three years. After taking into account the effects of the post-vesting transfer restrictions, the enterprise estimates that the grant date fair value of the equity alternative is Rs 48 per share.
- At the end of year 3, the employee chooses:
- Scenario 1: The cash alternative Scenario 2: The equity alternative

- Calculate the amount of expenses for each year and pass necessary journal entries for each year & for settlement under above two scenarios.

	Year1	Year2	Year3
Number of employees expected to satisfy condition	1000	1000	1000
SARs' per employee			
Fair value per right(SAR)	52	55	60
Total Expense in vesting period	52*1000 52,000	55*1000 55,000	60*1000 60,000
Expected Vesting period	3 Years	3 Years	3 Years
Closing balance of SAR	52,000*1/3 17333	55,000*2/3 36667	60,000*3/3 60000
Opening balance of SAR	0	17333	36667
Current year SAR expense	17333	19334	23333

Journal Entries

Particulars	Dr.	Cr.
Employee compensation expense A/c Dr.	17,333	
To Provision for liability component		17,333
Employee compensation expense A/c Dr.	2,533	
To Stock Options Outstanding A/c		2,533
Employee compensation expense A/c Dr.	19,334	
To Provision for liability component		19,334
Employee compensation expense A/c Dr.	2,533	
To Stock Options Outstanding A/c		2,533
Employee compensation expense A/c Dr.	23,333	
To Provision for liability component		23,333
Employee compensation expense A/c Dr.	2,534	
To Stock Options Outstanding A/c		2,534
On settlement year ***Scenario 1*****:** The cash alternative		
Provision for liability component Dr.	60,000	
To Bank A/c		60,000
Stock Options Outstanding A/c Dr.	7,600	
To General Reserve		7,600
On settlement year ***Scenario 2*****:** The equity alternative		
Stock Options Outstanding A/c Dr.	7,600	
Provision for liability component of employee s Dr.	60,000	
To Share Capital A/c (1,200 shares x ` 10)		12,000
To Securities Premium A/c		55,600

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PJC PUNARVAS JAYAKUMAR CLASSES

FINANCIAL REPORTING FOR FINANCIAL INSTITUTIONS

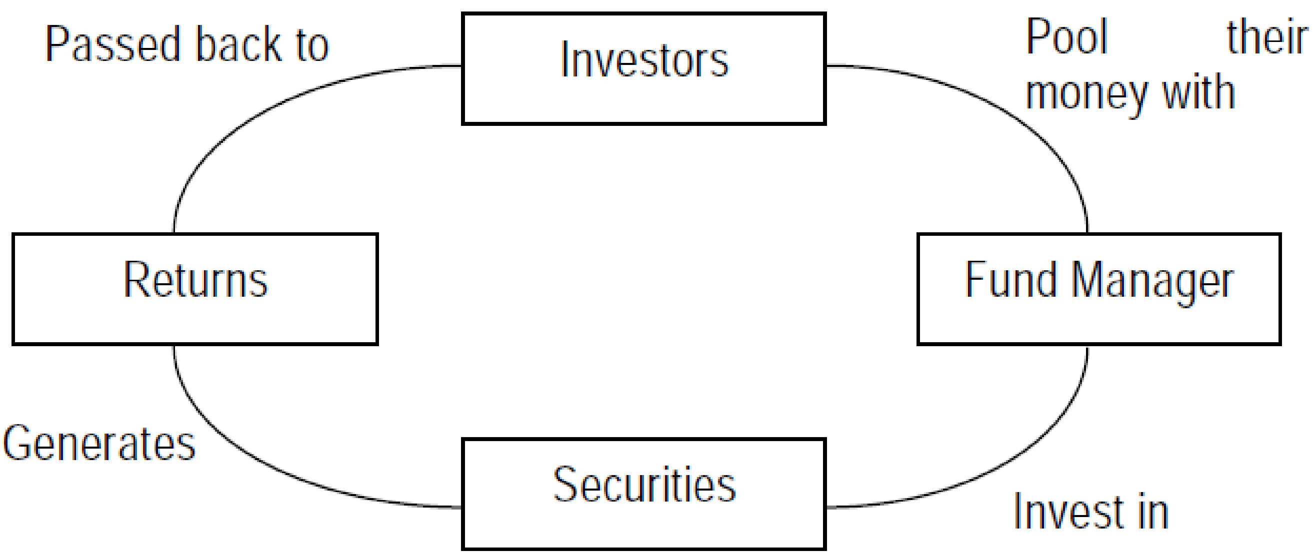
FINANCIAL INSTITUTIONS

- **Mutual funds**
- Non Banking financial company
- Merchant Bankers
- Stock and commodity Intermediaries

Mutual funds

Basics

- Regulated by SEBI (Mutual Funds) Regulations, 1996
- A 'mutual fund' means a fund established in the form of a trust to raise monies through the sale of units to the public under one or more schemes for investing in securities including money market instruments
- A mutual fund invests the money received from investors in instruments which are in line with the objectives of the respective schemes.



NON-TRANSFERABLE

Chinmaya Hegde

NO 64 2ND FLOOR TAVAREKERE
BANGALORE - 560081
Karnataka, India
Email : hegde87@gmail.com
Mobile : XXXXXXX78357 Phone Res : N.A

Mode of Holding	:	Single
Status	:	Individual
Nominee 1	:	N/A
Nominee 2	:	N/A
Nominee 3	:	N/A
Second Holder	:	N/A
Third Holder	:	N/A
Guardian Name	:	N/A
Your Branch	:	CAMS ISC - Bangalore

Folio Number : 1017718494

Statement Date : 12-Jul-2016

	PAN	KYC	FATCA	UBO	Supplementary KYC
1st Holder		C Registered	Available	Not applicable	Available
2nd Holder			Not available	Not applicable	Not available
3rd Holder			Not available	Not applicable	Not available
Guardian	Not available		Not available	Not applicable	Not available

B321G Birla Sun Life Dynamic Bond Fund - Retail - Growth-Regular Plan - INF209K01793 **NAV as on 11/07/2016 : 27.3031**

Value Date	Transaction Type	Amount ₹	Price ₹	NAV ₹	Number of Units	Balance Units
	Opening Balance as on 11/07/2016					**931.765**
11/07/2016	*Purchase*	50,000.00	27.3031	27.3031	1,831.294	2,763.059

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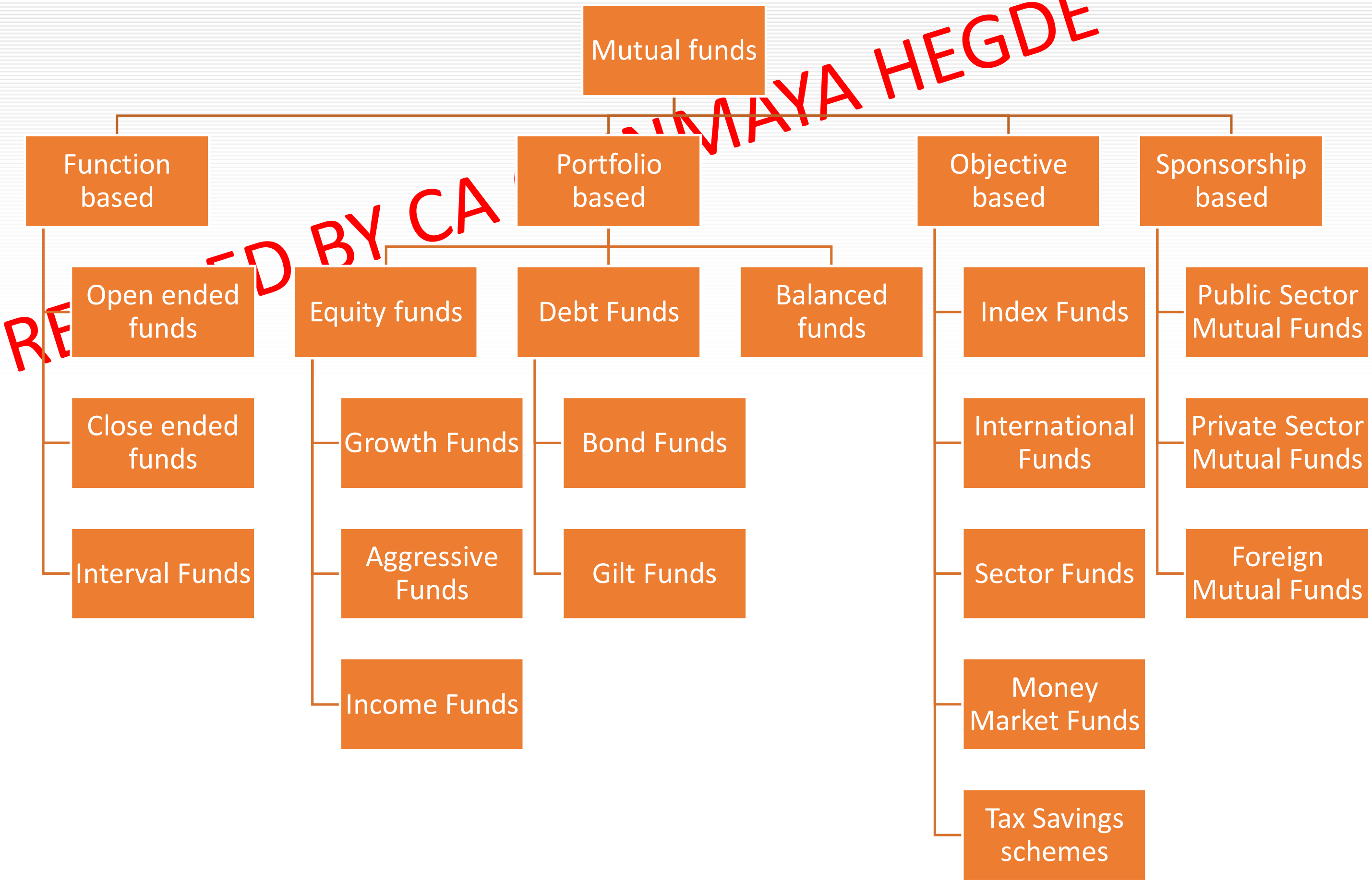
PJC PUNARVAS JAYAKUMAR CLASSES

Classification of Mutual Funds



Advantages of Mutual Fund

- Professional Management
- Diversification
- Convenient Administration
- Low Cost of Management:
- Liquidity
- Highly Regulated

Disadvantages of Mutual Fund

No guarantee of Return
Selection of Proper Fund
Cost Factor
Transfer Difficulties

Exchange Traded Funds

- These funds are listed on the stock exchanges and their prices are linked to the underlying index.
- ETFs can be bought and sold like any other stock on an exchange
- An ETF combines the valuation feature of a mutual fund or unit investment trust, which can be bought or sold at the end of each trading day for its net asset value, with the tradability feature of a closed-end fund

- Index ETFs - Most ETFs are index funds that hold securities and attempt to replicate the performance of a stock market index
- Commodity ETFs - Commodity ETFs invest in commodities, such as precious metals and futures
- Bond ETFs - Exchange-traded funds that invest in bonds are known as bond ETFs

Evaluating Performance of Mutual Funds

- Current Net Assets Value (NAV) =

  $$\frac{\text{Total market value of all MF holdings+ Cash+other assets - All MF liabilities}}{\text{Unit size}}$$

- Valuation norms

Cash	As per books.
All listed and traded securities	Closing Market Price
Listed Debentures and Bonds Closing	traded price
Fixed Income Securities	Current Yield

- Expense Ratio = Expense / Average value of Portfolio

- Investors returns = $\frac{\text{Dividends + Realized gains + P1 – P0}}{\text{P0}}$

- Sharpe Ratio = $\frac{\text{Return portfolio - Return of Risk free investment}}{\text{Standard Deviation of Portfolio}}$

- Treynor Ratio: = $\frac{\text{Return portfolio - Return of Risk free investment}}{\text{Beta of Portfolio}}$

On April 1, 2012 a mutual fund scheme had 9 lakh units of face value Rs. 10 outstanding. The scheme earned Rs. Rs. 81 lakh in 2012-13, out of which Rs. 45 lakh was earned in first half. 1 lakh units were sold on 30.09.12 at NAV Rs. 60. Show accounting entries for sale of units and distribution of dividend at the end of 2012-13

1

On April 1, 2012 a mutual fund scheme had 9 lakh units of face value Rs. 10 outstanding. The scheme earned Rs. Rs. 81 lakh in 2012-13, out of which Rs. 45 lakh was earned in first half. 1 lakh units were sold on 30.09.12 at NAV Rs. 60. Show accounting entries for sale of units and distribution of dividend at the end of 2012-13

	Up to 30.9.12	After 30.9.12	2012-13 Total
	45	36	81
	Existing 9 units	36/10	81/10
	Div 45/9 = 5	3.6	8.1

30.9.2012

Bank	65	
To Unit capital 1*10		10
To Reserves 1* 50		50
To Dividend equalisation 1*5		5

31.3.2013

Dividend equalisation	5	
Dividend	81	
To Bank		86

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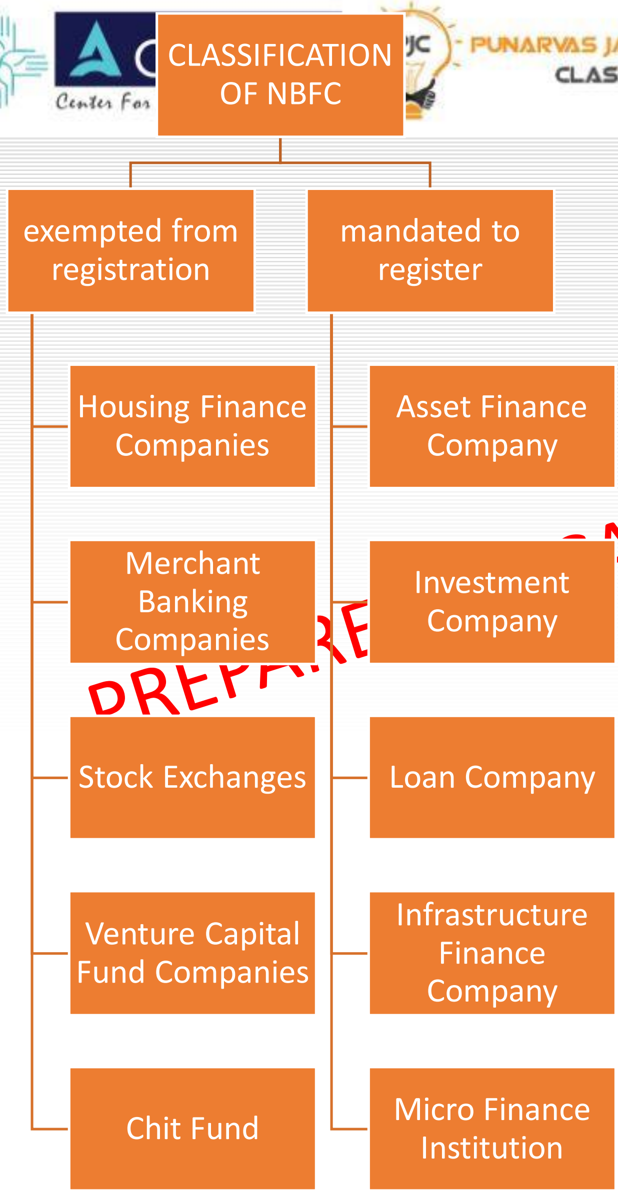
Non Banking Financial companies

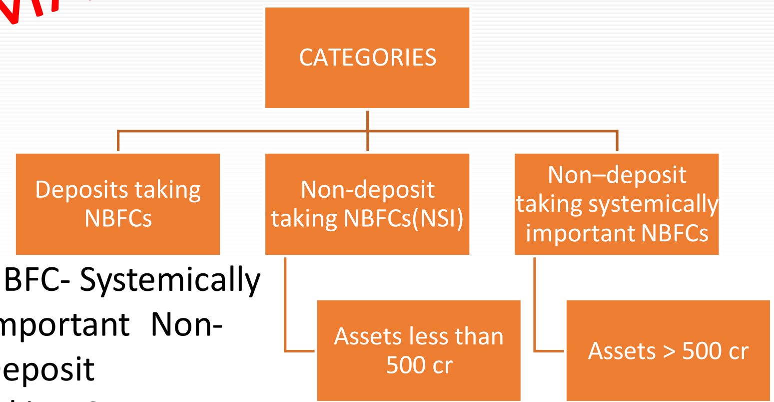
- **Definition**

- Section 45 I(f) of Reserve Bank of India (Amendment) Act, 1997 defines a non-banking financial company as:

- (i) A financial institution which is a company;
- (ii) A non banking institution which is a company with principal business of receiving of deposits,under any scheme or arrangement or in any other manner, or lending in any manner;
- (iii) Such other non-banking institution or class of such institutions, as the Reserve Bank with the previous approval of the Central Government may specify by notification in the Official Gazette.
- [It may be a –¨Loan company,¨Investment company, Hire purchase finance company, Equipment leasing company and Mutual benefit financial company”.]
-

CATEGORIES OF NBFCS
the purpose of administering prudential regulations:





NBFC- Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

NBFC–Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

NBFC- Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

ACCOUNTING FOR INVESTMENTS

- Classification
  - Current
    - Quoted
      - equity shares
      - preference shares
      - Debentures
      - MF
      - Others
    - Unquoted
  - long term
- Valuation
  - at book value or market value
  - whichever is lower
  - cost and market value aggregated category wise
- The depreciation in one scrip
  - shall not be set off against appreciation in another scrip

- Classification of assets
  - Standard asset
  - Sub-standard asset
    - NBFC SI ND,D
      - Upto 31.3.2015
        - NPA for <18 months
      - 31.3.2016
        - NPA for <16 months
      - Till 31.3.2017
        - NPA for <14 months
      - From 31.3.2018
        - NPA for <12 months
    - NBFC NSI ND
      - NPA < 18 months
  - Doubtful asset
    - Crossing period in substandard

- **NPA**
  - For other than lease and hire purchase
    - NBFC NSI ND
      - Over due for 6 months
    - NBFC SI ND,D
      - Upto 31.3.2015 — Over due > 6 months
      - For 31.3.2016 — Over due >5 months
      - for 31.3.2017 — Over due for 4 months
      - From 31.3.2018 — Over due for 3 months
  - For lease and hire purchase
    - NBFC NSI ND
      - Over due for 12 months
    - NBFC SI ND,D
      - Uptp 31.3.2015 — Over due > 12 months
      - For 31.3.2016 — Over due for 9 months
      - on 31.3.2017 — Over due for 6 months
      - From 31.3.2018 — Over due for 3 months

PROVISIONING REQUIREMENTS other than lease,hire purchase

- Standard asset
  - NBFC SI ND,D
    - Upto 31.3.2015 — 0.25%
    - AS on 31.30216 — 0.30%
    - As on 31.3.2017 — 0.35%
    - From 31.3.2018 — 0.40%
  - NBFC NSI ND — 0.25%
- Sub standard — 10%
- Doubtful
  - Unsecured — 100%
  - Secured<1 year — 20%
  - Secured1-3 year — 30%
  - Secured>3 year — 50%

- **<u>Minimum Net Owned Fund</u>**
- Owned Fund = Aggregate of the paid-up equity capital + Free reserves as disclosed in the latest balance sheet of the company – Accumulated balance of loss – Deferred revenue expenditure – Other intangible assets.
- Net Owned Fund = Owned Fund – Investments in shares of subsidiaries/ companies in same group/Other NBFC. – Book value of debentures, bonds, outstanding loans and advances made to and deposits with subsidiaries and companies in the same group (to the extent such sum exceeds 10% of owned fund
- The minimum net owned fund of a registered NBFC is Rs 200 lakhs
-
- **<u>Liquid Asset Requirements</u>**
- Minimum level of liquid asset to be maintained by NBFCs is 15 per cent of public deposits outstanding as on the last working day of the second preceding quarter.
-

- **Prudential Accounting Norms**
- **Income Recognition**
- Income on non-performing assets (NPA) shall be recognised only when it is actually realised.
- Income from dividend on shares and units of mutual funds shall be taken into account on cash basis
- Income from bonds and debentures and from Government securities/bonds may be taken into account on accrual basis:

- **Asset Classification**
- (a) Standard assets; no default in repayment of principal orpayment of interest
- (b) Sub-standard assets; classified as non-performing asset for a period not exceeding 18 months
- (c) Doubtful assets; remains a sub-standard asset for a period exceeding 18 months
- (d) Loss assets.

- **Non-Performing Asset (NPA)**
- (a) an asset, in respect of which, interest has remained overdue for a period of six months or more;
- (b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;
- (c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
- (d) a bill which remains overdue for a period of six months or more;
- (e) the interest in respect of a debt or the income on receivables under the head other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;
- (f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;
- (g) lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;
- (h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset:

(d) Provision for doubtful debts

Loss assets- 100%

Doubtful assets

If amount not covered by the realisable value of the security 100%

Others

Period for which the advance has been considered as doubtful

Upto 1 year - 20%

More than 1 year and upto 3 years – 30%

More than three years – 50%

Sub-standard assets - 10%

Standard assets 0.25%

Lease and hire purchase assets

Amt to be provided: The total dues (overdue and future instalments taken together) as reduced by finance charges not credited to the P&L (unmatured finance charges) and depreciated value of the underlying asset,(20% SLM)

Provision for hire purchase and leased assets

(a) Where hire charges or lease rentals are overdue < 12 months	Nil
(b) where hire charges or lease rentals are overdue for 12 to 24 Months	10% of the net book value
(c) where hire charges or lease rentals are overdue for 24 to 36 Months	40 %of the net book value
(d) where hire charges or lease rentals are overdue for 36 to 48 months	70 % of the net book value
(e) where hire charges or lease rentals are overdue for > 48 months	100 % of the net book value

- Samvedan Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31-03-2011. Few machines were sold on hire purchase basis. The hire purchase price was set as Rs. 100 lakhs as against the cash price of Rs. 80 lakhs. The amount was payable as Rs. 20 lakhs down payment and balance in 5 equal instalments. The hire vendor collected first instalment as on 31-03-2012, but could not collect the second instalment which was due on 31-03-2013. The company was finalising accounts for the year ending 31-03-2013. Till 15-05-2013, the date 'on which the' Board of Directors signed the accounts, the second instalment was not collected. Presume IRR to be 10.42%. Required:-
- (i) What should be the principal outstanding on 1-4-2012? Should the company recognize finance charge for the year 2012-13 as income?
- (ii) What should be the net book value of assets as on 31-03-13 so far Samvedan Ltd. is concerned as per NBFC prudential norms requirement for provisioning?

Cash price = 80

Down payment = 20

Loan = 80 – 20 = 60

Repaid over instalments at 10.42% interest

$$\text{Instalment} = \frac{\text{Loan}}{\text{Annuity factor}}$$

$$= \frac{60}{AF(10.42\%, 5 \text{ years})}$$

$$= \frac{60}{3.7505}$$

$$= 16$$

Loan repayment Schedule

Amount O/s at the beginning	Finance charges	Instalment	Amount O/s at the end
60.00	6.25	16	50.25
50.25	5.24	16	39.49
39.49	4.11	16	27.60
27.60	2.88	16	14.48
14.48	1.52	16	0.00

(i)

31.3.2011	Cash price	80	
	- Down payment		(20)
31.3.2011	Receivable	60	
	Income for the year 2011-12@10.42%		6.25
	- Instalment collected [100-20/5]		(16)
31.3.2012	Receivable	50.25	
	Income for the year 2012-13@10.42%		5.24
31.3.2013	Receivable	55.49	

For the year 2012-13 asset is still standard asset and don't require additional Provisions and income is recognised on accrual basis

Make provision based on prudential norms applicable to lease companies

Cash price of the asset		80
- Depreciation@20% for 2011-12&2012-13		
80*20%*2		(32)
WDV as on 31.3.2013	48	

(ii) Provision to be made as per prudential norms 55.49 – 48 = 7.49

After the provision is made, book value will be 55.49-7.49 = 48

3

- While closing its books of account on 31st March, 2005 a NBFC has its advances classified as follows:

Rs.in lakhs

- Standard assets 16,800
- Sub-standard assets 1,340
- Secured positions of doubtful debts:
- upto one year 320
- one year to three years 90
- more than three years 30
- Unsecured portions of doubtful debts 97
- Loss assets 48
- Calculate the amount of provision, which must be made against the Advances. (8 Marks)(Nov. 2005)

Solution

- Standard assets 16,800*0.25% = 42
- Sub-standard assets 1,340*10% = 134
- Secured positions of doubtful debts:
- upto one year 320*20% = 64
- one year to three years 90*30%= 27
- more than three years 30* 50%= 15
- Unsecured portions of doubtful debts 97 * 100% 97
- Loss assets 48*100% 48

Total Provisions 427

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Recent developments in Accounting

- Recent developments
  - **Value added statement**
  - Economic Value added
  - Human resource Accounting

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Value added statement

Value added statement

- Value Added is the wealth a reporting entity has been able to create through the collective effort of capital, management and employees.
-
- The VA statement is a financial statement which shows how much value (wealth) has been created by an enterprise through utilization of its capacity, capital, manpower and other resources and allocated to the following stakeholders:
- The workforce – for wages, salaries and related expenses;
- The financiers – for interest on loans and for dividends on share capital.
- The government – for corporation tax.
- The business – for retained profits
-
- **Gross Value Added** :
- GVA = Sales+Other incomes – Bought in cost of materials and services
- GVA = Retained profit + Depreciation + Employee cost + Interest payable + Taxes + Dividend
- **Net Value Added = GAV – Depreciation**

VALUE ADDED STATEMENT			
Source Value added			
Sales		XXX	
Less : Cost of bought in material and services			
Operating cost	XXX		
Excise duty	XXX		
Interest on bank overdraft	XXX	(XXX)	
Value added by manufacturing and trading		xxxx	
Add: Other income		xxxx	
Total value added		xxxx	100%
Application of Value added			
To pay employees:		XXX	X%
To Pay DIrectors		XXX	X%
To pay government		XXX	X%
To pay providers of capital		XXX	X%
To provide for the maintenance and			
Depreciation	XXX		
Fixed Assets Replacement Reserve	XXX		
Deferred Tax Account	XXX		
Retained profit	XXX	XXX	X%
Total value added		xxxx	100%

1

1. Prepare a Gross Value Added Statement from the following summarised Profit and Loss Account of Strong Ltd. Show also the reconciliation between Gross Value Added and Profit before Taxation:

Profit & Loss Account for the year ended 31st March, 2013

Income	Notes		Amount
		(Rs. in lakhs)	(Rs. in lakhs)
Sales		610	
Other Income		25	
			635
Expenditure			
Production & Operational Expenses	1	465	
Administration Expenses	2	19	
Interest and Other Charges	3	27	
Depreciation		14	525
Profit before Taxes			110
Provision for Taxes			(16)
			94
Balance as per Last Balance Sheet			7
			101
Transferred to:			
General Reserve		60	
Proposed Dividend		11	71
Surplus Carried to Balance Sheet			30
			101

Notes :

1. Production & Operational Expenses	(Rs. in lakhs)
Increase in Stock	112
Consumption of Raw Materials	185
Consumption of Stores	22
Salaries, Wages, Bonus & Other Benefits	41
Cess and Local Taxes	11
Other Manufacturing Expenses	94
	465

2. Administration expenses include inter-alia audit fees of Rs.b4.80 lakhs, salaries & commission to directors Rs.5 lakhs and provision for doubtful debts Rs. 5.20 lakhs.

3. Interest and Other Charges: (Rs. in lakhs)

On Working Capital Loans from Bank	8
On Fixed Loans from IDBI	12
Debentures	7

VALUE ADDED STATEMENT

Source Value added			
Sales		610	
Less : Cost of bought in material and services		(435)	
Value added by manufacturing and trading		175	
Add: Other income		25	
Total value added		200	100%
Application of Value added			
To pay employees:		41	20.5%
To Pay Directors		5	2.5%
To pay government	16+11	27	13.5%
To pay providers of capital	12+7+11	30	15%
To provide for the maintenance and			
Depreciation	14		
Reserve	60		
Retained profit	23	97	48.5%
Total value added		200	100%

Cost of bought in material and services

Increase in stock	112	
Consumption of raw materials		185
Consumption of stores		22
Other manufacturing expenses		94
Interest on working capital		8
Admin expenses (19-5)		14
	435	

Reconciliation between GVA and PBT

PBT	110		
+ Salaries		41	
+ Directors salary		5	
+ Cess and local taxes			11
+ Interest 12+7		19	
+ Depreciation		14	
GVA	200		

Economic value added

Measure of a company's financial performance based on the residual wealth calculated by deducting cost of capital from its operating profit (adjusted for taxes on a cash basis). (Also referred to as "economic profit".)

- EVA = NOPAT – (WACC*CE)
- NOPAT = After cash taxes but before financing costs

  = PBIT(1-t) or PAT + Interest(1-t)

Capital employed = Debt + Share capital + Reserves and surplus

Market value

- Market Value Added (MVA) is the difference between the current market value of a firm and the capital contributed by investors (both bondholders and shareholders).
- MVA = Market value of the firm (equity and debt) - Amount invested in the firm

Human resource accounting

Human resource reporting is an attempt to identify, quantify and report investments made in human resources of an organisation that are not presently accounted for under conventional accounting practice. However "human resources" are not yet recognised as 'assets' in the balance sheet

1

- The following information (as of 31-03-2012) is supplied to you by M/s Fox Ltd.: (Rs in crores)
- (i) Profit after tax (PAT) 205.90
- (ii) Interest 4.85
- (iii) Equity Share Capital 40.00
- Accumulated surplus 700.00
- Shareholders fund 740.00
- Loans (Long term) 37.00
- Total long term funds 777.00
- (iv) Market capitalization 2,892.00
- Additional information:
- (a) Risk free rate 12.00 percent
- (b) Long Term Market Rate (Based on BSE Sensex) 15.50 percent
- (c) Effective tax rate for the company 25.00 percent
- (d) Beta (β) for last few years

Year	
1	0.48
2	0.52
3	0.60
4	1.10
5	0.99

- Using the above data you are requested to calculate the Economic Value Added of Fox Ltd. as on 31st March, 2012 by considering maximum possible risk adjusted rates

Solution

NOPAT

= PAT + I*(1-t) = 205.90 + 4.85 x (1-0.25) =			209.54

Capital employed

Equity	740.00		
Debt	<u>37.00</u>	777.00	

WACC

Ke = 12% + 1.10 *(15.50% - 12%)= 15.85%

Kd = 4.85(1-0.25/37 = 9.83%

WACC = 15.85*740/777 + 9.83*37/777 15.56%

120.90

Economic Value added **88.64**

1

- From the following details, compute according to Lev and Schwartz (1971) model, the total value of human resources of the employee groups skilled and unskilled.

	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement age	Rs. 50,000	Rs. 30,000
(ii) Age of retirement	65 years	62 years
(iii) Discount rate	15%	15%
(iv) No. of employees in the group	20	25
(v) Average age	62 years	60 years

Solution

Value of employees = Value of skilled group + Value of unskilled group

= 50,000*AF [15%,3] * 20 + 30000*AF[15%,2]*25

= 22,83,225 + 12,19,282

= 35,02,507

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CORPORATE SOCIAL RESPONSIBILITY

CSR

- Meaning
  - evolves its relationships
  - with stakeholders
  - for the common good
- Definition
  - activities specified in Schedule VII
  - As per recommendations of the CSR
- Applicability
  - net worth of Rs 500 crore or more,
  - or
  - turnover of Rs 1,000 crore or more
  - or
  - a net profit of Rs 5 crore or more
- Requirements
  - Formation of CSR committee
  - Spend 2% of 3 year avg profits
  - disclosed by way of a note
- Activities in normal course
  - Is not CSR

1

- ABC Ltd. is a company which has a net worth of INR 200 crores, it manufactures rubber parts for automobiles. The sales of the company are affected due to low demand of its products.
- The previous year's financials state: (INR in Crores)

	March 31, 20X4 (Current year)	March 31, 20X3	March 31, 20X2	March 31, 20X1
Net Profit	3	8.5	4	3
Sales	850	950	900	800

- Required
- Does the Company have an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year?

- As per the criteria to constitute CSR committee -
- 1) Net worth greater than or equal to INR 500 Crores: This criterion is not satisfied.
- 2) Sales greater than or equal to INR 1000 Crores: This criterion is not satisfied.
- 3) Net Profit greater than or equal to INR 5 Crores: This criterion is satisfied in financial
- year ended March 31, 20X3.
- Hence, the Company will be required to form a CSR committee.

Feedback

- Communication?
- Syllabus Covered?
- Knowledge level of faculty?
- Method of teaching?
- Helped your exam preparations?
- Points to retain
- Points to improve