

C. A. FINAL - FINANCIAL REPORTING

NOV. 2015 EXAMINATION SUGGESTED
ANSWER BY ADHISH SIR

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These are few solutions of CA Final (FR) NOV. 2015. Solutions are step by step and showing detailed working notes for future preparation. Answers given below may not exactly match with the institute's solution. However, these are based on Adhish Bhansali^{MS} Sir's judgement. Remaining solutions uploaded soon.

NOTES ARE AVAILABLE FROM DEC. 2015 FOR
CA FINAL, MAY 2016

- Notes of Accounting Standards with 700 solved and 500 unsolved with answers.
- Notes of various chapters with lots of ~~practice~~ questions.
- Notes of SFM
- Notes of Costing



(SOLUTIONS BY ADHISH SIR)

Q.4

$$(a) \quad BEPS = \frac{\text{Earnings available for Eq. Sh. holder}}{\text{No. of equity shares}}$$

$$BEPS (13-14) = \frac{1100000}{500000} = 2.20$$

$$BEPS (14-15) = \frac{15,00,000}{5,87,500} = 2.55$$

$$\text{Adjusted BEPS (13-14)} = \frac{11,00,000}{5,25,000} = 2.10$$

Working Note:

Calculation of Bonus Part and Paid Part in right issue

Step 1: Calculation of theoretical ex-right price

$$\left(\frac{\text{No. of Sh. before right issue} \times \text{F.V. per Sh.}}{\text{Total No. of Sh.}} \right) + \left(\frac{\text{Right Sh.} \times \text{Right issue Price}}{\text{Total No. of Sh.}} \right)$$

Total No. of Sh.

$$= \frac{(500000 \times 21) + (100000 \times 15)}{600000}$$

$$= \frac{1,05,00,000 + 15,00,000}{6,00,000} = ₹ 20$$

Step 2 Calculate No. of shares for Paid Part

$$\frac{1500000}{20} = 75000 \text{ Sh.}$$

Step 3 Calculate No. of bonus shares

$$100000 - 75000 = 25000$$



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(ii) weighted avg. no. of sh. for 14-15

$$\text{Opening Balance : } 500000 \times \frac{12}{12} = 500000$$

$$\text{Paid Part of right sh : } 75000 \times \frac{10}{12} = 62500$$

$$\text{Bonus Part of right sh : } 25000 \times \frac{12}{12} = 25000$$

$$\text{weighted avg. no. of sh.} \quad \underline{5,87,500}$$

(iii) weighted avg. no. of sh. for Re-stated BEPS for 13-14

$$\text{Opening Balance : } 500000 \times \frac{12}{12} = 500000$$

$$\text{Bonus Shares : } 25000 \times \frac{12}{12} = 25000$$

$$\text{weighted avg. no. of sh.} \quad \underline{5,25,000}$$

(iv) AS per AS-20 Bonus share are out of profits i.e. without ~~res~~ taking resource, so time proportion is irrelevant for bonus shares.

(b) Cost of asset as on 1.4.09 14,00,00,000

Less: Accumulated Dep. up to 31.3.13

$$\left(\frac{14,00,00,000}{7} \times 4 \right) \quad 8,00,00,000$$

Book Value before revaluation 6,00,00,000

Add: Creation of revaluation reserve due to upward revaluation

4,20,00,000

Book Value after revaluation

10,20,00,000

Less: Accumulated Dep. up to 31.3.15

6,80,00,000



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$$\left(\frac{10,20,00,000}{3} \times 2 \right)$$

Book value as on 31.3.15

3,40,00,000

Calculation of Balance in Revaluation Reserve:

Revaluation reserve created

4,20,00,000

Less: additional Depreciation due to
revaluation

$$\left(\frac{4,20,00,000}{3} \times 2 \right)$$

2,80,00,000Balance in Revaluation Reserve as
on 31.3.151,40,00,000

Calculation of Impairment loss:

$$I.L = CA - RA$$

$$= 3,40,00,000 - 1,40,00,000$$

$$= 2,00,00,000$$

Journal Entry:

Revaluation Reserve A/c

Dr. 1,40,00,000

Profit and Loss A/c

Dr. 60,00,000

To Prov. for I.L.

2,00,00,000

- (c) (i) Since Investments are valued on aggregated basis by taking all the scrips in that Category. Hence, Depreciation of a Particular item can be adjusted within the same Category of investment.



BY ADARSH SIR

(ii) Calculation of value of investment as on 31.3.15

A: Equity shares : These should be valued at lower of cost or market price. For this purpose we should consider all scrips together.

Cost Price : 406.50 lakhs

Market Price : 442.20 lakhs

So, value of investment = ₹ 406.50 lakhs

B: mutual fund : These should be valued at NAV of the fund. In the absence of NAV consider market value as NAV.

So, value of investment = ₹ 54.00 lakhs

C: Government securities : These should be valued at cost

So, value of investment = ₹ 135 lakhs

(iii) Inter Category adjustment of appreciation and depreciation in values of investments cannot be done. Hence, it is not possible to offset depreciation in investment in mutual fund against appreciation of the value of investment in equity shares and government securities.

(d)

Plan asset A/c

1.4.14

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	30.9.14	
To Bank	49000	By Bank (Sale of	19,000
(Plan asset Purchase)		Plan asset for benefits paid)	
To Expected return	11,750		
To Actual gain	8,250	By Bal. c/d	150000
	<u>169000</u>		<u>169000</u>



BY ADHESH SIR

Calculation of rate of return on Plan asset as per actuarial assumption:

$$\begin{aligned}
 \text{Rate of Return} &= \sqrt[1 + \text{Rate}]{1 + \text{Rate}} - 1 \\
 &= \sqrt[1 + 0.025]{1 + 0.025} - 1 \\
 &= \sqrt[1.025]{1.025} - 1 \\
 &= 1.05 - 1 = 0.05 \text{ or } 5\% \text{ per half year}
 \end{aligned}$$

Solution

(i) Statement showing Calculation of expected return:

(A) Return on Plan asset for 1 st half year:		
(Opening Balance X Rate)		
100000 X 5%		5000
(B) Return on Plan asset for another 6 months		
Opening Balance	100000	
Add: Return of 1 st 6 month	5000	
Add: Contribution	40000	
Less: Benefits Paid	(19000)	
Adjusted balance	135000	
Rate of return	5%	
Amount of return (135000 X 5%)		6,750
Total expected return		<u>11,750</u>

(ii) Statement of Actual return

Expected return on Plan asset	11,750
Add: Actuarial gain	8,250
Actual return	<u>20,000</u>

Q.2

Journal entries

- | | | | | |
|-------|---|-----|-----------|-----|
| (i) | Bank A/c | Dr. | 200 | |
| | To Investment A/c | | | 175 |
| | To Profit and Loss a/c | | | 25 |
| | (Being Sale of investment at Profit) | | | |
| (ii) | Loan fund (Debtures) A/c | Dr. | 200 | |
| | To Bank A/c | | | 180 |
| | To Profit on Redemption | | | 20 |
| | (Being Redemption of Debtures at discount) | | | |
| (iii) | Profit on Redemption | Dr. | 20 | |
| | To Profit and Loss A/c | | | 20 |
| | (Being Profit on Redemption transferred to P&L) | | | |
| (iv) | Current liability A/c | Dr. | 305 | |
| | Loan fund A/c | Dr. | 20 | |
| | Prov. for Deb. A/c | Dr. | 240 | |
| | Loss on demerger A/c | Dr. | 590 (BIF) | |
| | To Fixed assets A/c | | | 510 |
| | To Current assets A/c | | | 645 |
| | (Being assets and liability transferred) | | | |
| (v) | Reserves and Surplus A/c | Dr. | 590 | |
| | To Loss on De-merger A/c | | | 590 |
| | (Being loss on De-merger written off) | | | |



Books of Bright Ltd.

By ADWISH SIR

(i)	Fixed asset A/c	Dr.	400
	Current asset A/c	Dr.	450
	Goodwill A/c	Dr.	315 (BIF)
	To Current liability		305
	To Loan fund		20
	To members of white Ltd.		
	(420 x 2)		840
	(Being assets and liabilities taken over)		

(ii)	Members of white Ltd.	Dr.	840
	To Eq. Sh. Capital		840

B/S of White Ltd.

I: Equity and liability:	
Equity share Capital	420
Reserves and Surplus	
(420 + 25 + 20 - 590)	175
Non Current liability:	
Loan fund (530 - 20 - 200)	310
Current liability	275
	<u>1180</u>
II: Assets	
Non current assets:	
Fixed assets	635
Current assets	
(525 + 200 - 180)	545
	<u>1180</u>



BY ADHESH SIR

B/S of Bright Ltd.

I Equity and liability

Equity Share Capital

840

Reserves and Surplus

-

Non current liability

Loan fund

20

current liability

305

1165

II Assets

Non current assets :

Fixed assets

400

Goodwill

315

current assets

450

1165



BY ADHESH SIR

(iii) Calculation of Intrinsic value per sh. of white Ltd :

Particular	Before	After
Fixed assets	905	635
Current assets	1190	545
	(1170 + 200 - 180)	
	2095	1180
Less: Current liability	580	275
Loan Fund	330	310
	(530 - 200)	
Net assets	1185	595
No. of Shares	42	42
Intrinsic value per sh.	28.21	14.17

(iv) Statement showing Impact on Shareholder's wealth

(A) Value per share before De-merger		28.21
(B) Value per share after De-merger		
Value of white Ltd. sh.	14.17	
Value of Bleight Ltd. sh. (10 x 2)	20.00	34.17
Gain per sh.		5.96

Working: I.V. per share of Bleight Ltd.

Fixed assets		400
Goodwill		315
Current assets		450
		1165
Less: Current liability	305	
Loan Fund	20	325
Net asset		840
No. of shares		84
I.V. per sh.		10



BY ADHESH SIR

Q.4 (a)	3%		5%			
	25 left	31.3.12	15 left	31.3.13	10 left	31.3.14
1.4.11	F.V = 25		F.V = 28		F.V = 32	
	30.6.14					

Employees: 600

NO. OF SH. : 100

Assumption: Company estimation rate is annual.

Calculation of Expenses to be recognized for each Year

Year 2011-12

$$\frac{(600 \times .97 \times .97 \times .97) \times 100 \times 25}{3} \times 1 = 4,56,337$$

Year 2012-13

$$\frac{(600 - 25) \times 0.95 \times 0.95 \times 100 \times 28}{3} \times 2 = 9,68,683$$

Less: Expenses already recognized in 11-12 4,56,337

Expenses of C.Y. 5,12,346

Year 2013-14

$$\frac{(600 - 25 - 15 - 10) \times 100 \times 32}{3} \times 3 = 17,60,000$$

Less: Expenses already recognized 9,68,683

Expenses of C.Y. 7,91,317

BY ADHESH SIR

Provision for SAR A/c

31.3.12

To Balance b/d

4,56,337

31.3.12

By Employees Compensation

4,56,337

31.3.13

To Balance b/d

9,68,683

1.4.12

By Balance b/d

4,56,337

31.3.13

By Employees Comp. A/c

5,12,346

9,68,683

9,68,683

31.3.14

To Balance b/d

17,60,000

1.4.13

By Balance b/d

9,68,683

31.3.14

By Employees Comp.

7,91,317

17,60,000

17,60,000

30.6.14

To Bank

19,25,000

1.4.14

By Balance b/d

17,60,000

31.3.15

By P&L App. A/c

1,65,000

~~550 X 100 X 35~~

(550 X 100 X 35)

19,25,000

19,25,000



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(b)

(i) Calculation of Equity and liability Component?

(a) Value of liability Component:

Year	CF	P.V. Factor	Present Value
1	2,25,000	0.900	2,02,500
2	2,25,000	0.812	1,82,700
3	2,25,000	0.731	1,64,475
3	25,00,000	0.731	18,27,500
Liability Component			<u>23,77,175</u>

(b) Value of Equity Component:

Total Proceeds received:	25,00,000
Less: Liability Component	<u>23,77,175</u>
Equity Component	<u>1,22,825</u>

(ii) Statement of bond liability at the end of each year:

Year	Opening Balance	Installment	Intt.	Principal value	Closing balance
1	23,77,175	2,25,000	2,61,489	-	24,13,664
2	24,13,664	2,25,000	2,65,503	-	24,54,167
3	24,54,167	27,28,000	2,70,833	24,54,167	-

(iii) Journal Entries

Beginning of Year I (Inception of Bond)

Bank A/c	Dr.	25,00,000	
To Convertible bond (liability) A/c			23,77,175
To Convertible bond (Equity) A/c			1,22,825

End of Year I:

Finance Charges A/c	Dr.	2,61,489	
To Bank A/c			2,25,000
To Convertible bond (liab.) A/c			36,489

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Profit and loss A/c Dr. 2,61,489
 To Finance charges A/c 2,61,489

End of Year 2:

Finance charges A/c Dr. 2,65,503
 To Bank A/c 2,25,000
 To Convertible bond (Liab) A/c 40503

Profit and loss A/c Dr. 2,65,503
 To Finance charges A/c 2,65,503

End of Year 3:

Finance charges A/c Dr. 2,70,833
Convertible bond (Liab) Dr. 24,54,167
 To Bank A/c 27,25,000.

Convertible bond (equity) Dr. 122825
 To Reserves / P&L App. A/c 122825

Profit and loss A/c Dr. 2,70,833
 To Finance charges 2,70,833



Q.5

(a) Calculation of value of Synergy:

Particulars	1	2	3	4	5
Cash Flows after merger earned by RPPL	2800	3200	3100	4300	5000
Less: Cash Flows earned by RPPL without merger	2000	2500	3000	3500	4000
Synergy gain	800	700	100	800	1000
P.V. Factor @ 15%	0.870	0.756	0.658	0.572	0.497
P.V. of Synergy gain	696	529.20	460.60	457.60	497
	2640.40				

Statement Showing maximum Price to be quoted:

P.V. of Synergy gain	2640.40
Add: Increase in goodwill due to acquisition	200.00
	2840.60
Add: Realizable value of assets not required	
Fixed asset	300
Investment	2000
Stock	80
	2380
	5220.40
Less: Payment for unrequited liability	
Current liabilities	1500
(1500 - 164)	1336
Compensation	820
	(2156.00)
Maximum Price to be quoted	3064.40



Value of Act as Stand alone entity :

Year	Cash Flows	P.V. factor	Present value
1	600	0.870	522
2	600	0.756	453.60
3	800	0.658	526.40
4	800	0.572	457.60
5	1000	0.497	497.00
			<u>2456.60</u>

(b)

(i) Goodwill based on Long term Fund

Capital employed :

Capital employed as Per equity	11,50,000
+ 10 % long term loans	<u>4,50,000</u>
Total Fund (Avg.)	16,00,000

FMP for Long term Fund

FMP for Equity Fund

+ Intt. (Net of tax)

FMP

1,80,000

27000

2,07,000

$$\text{Goodwill} = \frac{\text{FMP}}{\text{NRR}} - \text{Avg. capital employed}$$

$$= \frac{207000}{.12} - 16,00,000$$

$$= 17,25,000 - 16,00,000 = 1,25,000$$

(ii) Goodwill based on Equity Fund

Capital employed

FMP

NRR on equity fund

11,50,000

1,80,000

15%



$$\text{Goodwill} = \frac{\text{FMP}}{\text{NRR}} - \text{Avg capital employed}$$

$$= \frac{180000}{.15} - 11,50,000$$

$$= 1200000 - 1150000 = 50000$$

$$\text{So, leverage effect} = 125000 - 50000 = 75000$$

Q.6

(a)

Cooking Notes:

(i) Calculation of EBIT:

$$\text{Financial leverage} = \frac{\text{EBIT}}{\text{EBT}}$$

$$1.10 = \frac{\text{EBIT}}{\text{EBIT} - 2500000}$$

$$1.10 \text{ EBIT} - 2750000 = \text{EBIT}$$

$$0.10 \text{ EBIT} = 27,50,000$$

$$\text{EBIT} = 2,75,00,000$$

(ii) Calculation of NOPAT:

EBIT	2,75,00,000
less: Tax @ 30%	82,50,000
NOPAT	1,92,50,000



(iii) Calculation of WACC:

Source	Amount	w	Cost of Cap.	WACC
Equity Fund				
Capital	7,91,00,000			
Cap. Res.	54,00,000			
Free Res.	75,00,000			
Sec. Premium	80,00,000	10,00,00,000	0.80	12
				9.60
10 % Debentures	2,50,00,000	0.20	7	1.40
				<u>11 %</u>
	12,50,00,000			

(iv) Calculation of k_d (After tax) = $10(1 - 30) = 7\%$

(v) Calculation of operating capital:

Equity Share Capital	7,91,00,000
Capital Reserves	54,00,000
Free Reserves	75,00,000
Securities Premium	80,00,000
10 % Debentures	2,50,00,000
Operating Capital	<u>12,50,00,000</u>

(vi) Calculation of ROCE:

$$ROCE = \frac{NPAT}{\text{Operating Cap.}} \times 100$$

$$= \frac{1,92,50,000}{12,50,00,000} \times 100 = 15.40\%$$

Solution: Calculation of EVA

$$\begin{aligned}
 \text{EVA} &= (\text{ROOC} - \text{WACC}) \text{OC} \\
 &= (15.40\% - 11\%) 12,50,00,000 \\
 &= 12,50,00,000 \times 4.40\% \\
 &= 55,00,000
 \end{aligned}$$

MVA of ₹ 7010 crores.

The MVA of ₹ 7010 crores is the difference between the current market value of vijay Ltd. and book value of vijay Ltd. (i.e. Capital contributed by the fund providers). EVA measures current earning efficiency of the company while MVA considers future projections of the company. The difference between MVA and EVA thus represents the value attributed to the future potential of the company. In short the MVA is the net Present value of all future EVA's.

(b)

Calculation of value of assets shown in balance-sheet:

(i) Goodwill

Amount Paid for Purchase of asset of Dark Ltd.	11,40,000
Less: Fair value of identifiable net asset	8,50,000
Goodwill	2,90,000
Less: Amortization (290000/10)	29000
Goodwill shown in balance-sheet	2,61,000

(ii) Franchise

Amount Paid for Purchase of Franchise	12,00,000
Less: Amortization (1200000/5)	2,40,000
Value to be shown in balance-sheet	9,60,000



(iii) Patent

Legal cost for Patent	1,10,000
Add: Additional cost for suit against competitor	3,00,000
Total value	4,10,000
Less: Amortization (410000/10)	41000
Value to be shown in balance-sheet	<u>3,69,000</u>

(a) Balance-sheet (Extract) at 31.3.2015

II. Assets

Non-current assets:

Intangible assets:

Goodwill	2,61,000
Franchise	9,60,000
Patent	3,69,000
	<u>15,90,000</u>

(b) Statement of Profit (Extract) for 2014-15

Revenue:

Revenue from transport	<u>1,20,000</u>
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Expenditures:

Amortization:

Goodwill	29000
Franchise	2,40,000
Patent	41000
Annual fees (1,20,000 x 4%)	4800
Total expenditure	<u>3,14,800</u>