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Ans. 1(a)

Unearned Finance Income

As per **AS 19** on Leases, unearned finance income is the difference between **(a)** the gross investment in the lease and **(b)** the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.
where :

(a) Gross investment in the lease is the aggregate of **(i)** minimum lease payments from the stand point of the lessor and **(ii)** any unguaranteed residual value accruing to the lessor.

Gross investment = Minimum lease payments + Unguaranteed residual value
= (Total lease rent + Guaranteed residual value) + Unguaranteed residual value
= [(Rs. 8,00,000 × 5 years) + Rs 1,60,000] + Rs. 1,40,000
= Rs. 43,00,000

(b) Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	MLP and URV	Internal rate of return (Discount factor 15%)	Present Value	
	(₹)		(₹)	
1	8,00,000	0.8696	6,95,680	
2	8,00,000	0.7561	6,04,880	
3	8,00,000	0.6575	5,26,000	
4	8,00,000	0.5718	4,57,440	
5	8,00,000	0.4972	3,97,760	
	1,60,000 (guaranteed residual value)	0.4972	79,552	
			27,61,312	(i)
	1,40,000 (unguaranteed residual value)	0.4972	69,608	(ii)
		(i) + (ii)	28,30,920	(b)

Unearned Finance Income = **(a) – (b)**

= 43,00,000 – 28,30,920
= Rs.14,69,080

Ans.1 (b)

As per explanation to para 13 of AS 22

"Accounting for Taxes on Income in the situations of Tax Holiday under sections 10A and 10B of the Income-tax Act, 1961

Accounting Standard (AS) 22, Accounting for Taxes on Income", deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognised to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income-tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognised in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence as laid down in AS 22. For this purpose, the timing differences which originate first should be considered to reverse first.

	Particulars	Year 1	Year 2	Year 3
	Timing Difference	200	300	400
Less :	Reversing during Tax Holiday Period	(10 ×9) 90	—	—
	Reversing after tax Holiday Period	110	300	400
Cumulative Timing Difference as at year end		110	410	810
DTL to be created at 35% (Current Year) by debit to P&L		38.50 (110 ×35%)	105 (300 ×35%)	140 (400 ×35%)
Cumulative Balance in Deferred Tax Liability A/c		**38.50**	**143.50**	**283.50**

Ans.1 (c)

Statement showing calculation of Joint cost

Cost element	Total cost	MP1	MP2	BP
Raw material	1,60,000			
Less : Scrap	6,000			
	1,54,000			
Less : Cost of by-product	25,000			**25,000**
(working note i)	**1,29,000**			
Add :				
Wages	82,000			
Fixed overheads	58,000			
Variable overheads	40,000			
Distributed in 2 : 1 ratio,				
[MP1(80 × 6,250) : MP2(50 × 5,000)]	**3,09,000**	**2,06,000**	**1,03,000**	

Statement showing valuation of closing stock

Closing Stock Valuation :				
			X	**Y**
a Total cost			2,06,000	1,03,000
b Numbers of unit produced			6,250	5,000
c Closing Stock			800	200
Value of closing stock **(a/b × C)**			**26,368**	**4,120**

Working note (i)

Cost of by-product at the point of separation :				
Sale price by-product		40,000		
Less :				
Separate processing	4,000			
Packing	6,000			
Profit	5,000	15,000		
		25,000		

Ans.1(d)

Statement showing calculation of Adjusted Profit befor tax

	Particulars	Amount
	PBT as reported	**4,00,000**
Add:	Dividend Income (Balance income to be recognized) (4,00,000 - 1,00,000)	3,00,000
	Difference due to change in method of Depreciation (12,00,000 - 3,00,000)	9,00,000
	Extraordinary gain allocated to fourth quarter (2,00,000 - 1,00,000)	1,00,000
	Loss on change in method of inventory valuation relating to previous quarters	1,00,000
Less:	Sales Promotion expenses relating to this quarter (80% x 15,00,000)	12,00,000
	Apportioned gain on sale of investments in first quarter to be reversed (20,00,000 \ 4)	5,00,000
	Adjusted PBT for the third quarter	**1,00,000**

Note: The Company should also restate the results of the previous quarters based on the above adjustments.

Ans. 2

Consolidated Balance Sheet of War Ltd. with its subsidiary Peace Ltd. as on 31st March, 2012

Particulars	Note No.	Rs.
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	10,50,000
(b) Reserves and Surplus	2	3,22,000
(2) Minority Interest		90,000
(3) Non-Current Liabilities		
Long-term borrowings	3	6,00,000
	Total	**20,62,000**
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	4	7,10,000
Intangible assets	5	2,32,000
(2) Current assets		
Net Current Assets	6	11,20,000
	Total	**20,62,000**

Notes to Accounts

			Rs.	Rs.
1.	**Share Capital**			
	Authorised share capital			
	1,05,000 equity shares of **Rs.** 10 each			10,50,000
	Issued, Subscribed and Paid up			
	1,05,000 equity shares of **Rs.** 10 each fully paid			10,50,000
2.	**Reserves and surplus**			
	Security Premium			1,20,000
	General Reserve			1,60,000
	Profit and Loss Account:			
		War Ltd.	62,000	
	Add : Share in	Peace Ltd	(80,000)	
			(18,000)	
	Less: Preliminary expenses written off		(20,000)	
	Add back Provision for Loss in subsidiary		80,000	42,000
3.	**Long-term borrowings**			
	8% Debentures			6,00,000
4.	**Tangible Assets**			
		War Ltd.	5,50,000	
		Peace Ltd.	1,60,000	7,10,000
5.	**Intangible Assets**			
	Goodwill (w.n iv (c))			2,32,000
6.	**Net Current Assets**			
		War Ltd.	8,30,000	
		Peace Ltd.	2,90,000	11,20,000

Working Notes :

(i)

Investment in Peace Ltd. (48,000 shares) Face Value of shares	4,80,000
Premium (50%) over face value	2,40,000
Cost of investment	**7,20,000**
Acquired by issue of debentures at 20% premium:	
8% Debentures (Nominal value = 7,20,000/120 × 100)	6,00,000
Securities premium	1,20,000
	7,20,000
Cost of investment	7,20,000
Less : Investment written off	
2010-11 : 1/10 × 2,40,000	(24,000)
2011-12 : 1/10 × 2,40,000	(24,000)
Investment as on 3 1.3.2012	**6,72,000**

(ii)

Balance of Profit and Loss Account on 31st March, 2012

	War Ltd. Rs.	Peace. Ltd. Rs.
Balance as on 31.3.2010	80,000	(80,000)
Profit (Loss)		
For 2010 –11	1,60,000	(40.000)
For 2011–12	2,00,000	(60,000)
Investment written off		
2010–11	(24,000)	
2011–12	(24,000)	
Provision for share of loss in subsidiary		
2010–11 : (4/5 x 40,000)	(32,000)	
2011–12 : (4/5 x 60,000)	(48,000)	
Transfer to General Reserve		
2010–11	(20,000)	
2011–12	(20,000)	
Dividend		
2010–11	(1,05,000)	
2011–12	(1,05,000)	
	62,000	**(1,80,000)**

(In the absence of information, taxation has not been considered)

(iii) **Balance Sheets as at 31st March, 2012**

Liabilities	War Ltd. Rs.	Peace Ltd. Rs.	Assets		War Ltd. Rs.	Peace Ltd. Rs.
Share capital	10,50,000	6,00,000	**Fixed assets**		5,50,000*	1,60,000*
Security premium	1,20.000	–	**Investment**	6,72,000		
			Less: Provision for			
General reserve	1,60,000	40,000	loss in subsidiary	(80,000)	5,92,000	
P & L A/C	62,000	–	**Net current assets**		8,30,000	2,90,000
8% Debentures	6,00,000	–	(Balancing figure)			
			Preliminary expenses		20,000	10,000
			Profit and loss account		–	1,80,000
	19,92,000	**6,40,000**			**19.92.000**	**6,40,000**

***Fixed Assets on 31st March, 2012**

	War Ltd. Rs.	Peace Ltd Rs.
Fixed assets on 31.3.2010	6,50,000	2,00,000
Less : Depreciation		
2010-11	(60,000)	(20,000)
2011-12	(40,000)	(20,000)
	5,50,000	**1,60,000**

Note : In the absence of information about the movement in individual current assets and liabilities, balance sheets on 31.3.2012 have been prepared on the basis of net current assets.

(iv) Computations for Consolidation

(a) Analysis of Profits (Losses) of Peace Ltd.

	Capital Profit	Revenue Profit
General Reserve on 31.3.2010	40,000	
Profit and Loss Account on 31.3.2010	(80,000)	
Profit (Loss) for the years 2010-11 and 2011-12		(1,00,000)
	(40,000)	**(1,00,000)**
Minority I nterest(1 /5)	(8,000)	(20,000)
Share of War Ltd.(4/5)	(32,000)	(80,000)

(b) Minority Interest

Share capital	1,20,000
Capital profits(losses)	(8,000)
Revenue profits(losses)	(20,000)
Preliminary expenses (1/5 x 10,000)	(2,000)
	90,000

(c) Cost of Control

		Rs.
Investment in Peace Ltd.		6,72,000
Less: Paid up value of investment	4,80,000	
Capital profits (losses)	(32,000)	
Preliminary expenses (4/5 x 10,000)	(8,000)	4,40,000
Goodwill		**2,32,000**

Ans. 3

(a) In the Books of V Ltd.

(i) Realisation and Reconstruction Account

Dr. Cr.

Particulars	Rs	Particulars	Rs
To Goodwill	5,000	By 8% Debentures	1,00,000
To Fixed Assets	2,57,000	By Interest accrued on Debentures	8,000
To Stock	50,000	By Creditors	1,00,000
To Debtors	60,000	By P Ltd. (Purchase consideration)	1,36,000
To Bank A/c	1,000	By Equity Shareholders' A/c (Loss)	35,000
To Pref. Shareholders' A/c (Arrears)	6,000		
	3,79,000		**3,79,000**

(ii) Equity Shareholder's Account

Dr. Cr.

Particulars	Rs	Particulars	Rs
To Preliminary Expenses	15,000	By Equity Share Capital A/c	2,40,000
To P & L A/c	1,10,000		
To Realisation & Reconstruction A/c	35,000		
To Equity Shares in P Ltd.	80,000		
	2,40,000		**2,40,000**

(b) **In the Books of P Ltd.**

(i) **Bank Account**

Dr. Cr.

Particulars	Rs	Particulars	Rs
To Business Purchase A/c	1,000	By Goodwill	8,000
To Share Capital		By Creditors of V Ltd.	16,000
(5,600 Shares of Rs. 10 each)	56,000	By Balance c/d	33,000
	57,000		**57,000**

(ii) **Balance Sheet of P Ltd. as on 31st March 2012**

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	3,00,000
(2) Non-Current Liabilities		
Long term borrowings	2	1,00,000
	Total	**4,00,000**
II. Assets		
(1) Non-current assets		
Fixed assets:		
i. Tangible assets	3	2,52,000
ii. Intangible assets	4	8,000
(2) Current assets		
(a) Inventories		47,000
(b) Trade receivables		60,000
(c) Cash and cash equivalents		33,000
	Total	**4,00,000**

Notes to Accounts

	(Rs.)
1. Share Capital	
Issued , Subscribed & Paid up	
30,000 Equity shares of Rs. 10 each	3,00,000
(Of the above 24,400 shares Issued for consideration other than cash, pursuant to scheme of amalgamation)	
2. Long term borrowings	
8 % Debentures	1,00,000
3. Tangible Fixed Assets (WN iii)	2,52,000
4. Intangible assets	
Goodwill	8,000

Working Notes:

(i) **Calculation of Purchase Consideration**

	Rs.	Rs.
For Pref. Shareholders :		
Shares for 5,000 Shares	50,000	
Shares for Dividend $\frac{12{,}000}{100} \times 5 \times$ Rs. 10	6,000	56,000
For Equity Shareholders :		
Shares 24,000 × 1/3 = 8,000 Shares × 10		80,000
Purchase for Shares Consideration		1,36,000

(ii) **Shares available for Public Issue:**

Total Share Capital (30000X10)	**Rs.** 3,00,000
Less : (i) Shares issued as Purchase Consideration **(W.N.i)**	**Rs.** 1,36,000
(ii) Shares issued for Accrued Interest	**Rs.** 8,000
(iii) Shares issued to Creditors	**Rs.** 1,00,000
Shares available for Public Issue	**Rs. 56,000**

(iii) <u>Value of Fixed Assets:</u>

A	**Total Assets taken over**	
	Debtors	60,000
	Stock	47,000
	Bank	1,000
	Fixed Assets **(Balancing figure)**	**2,52,000**
		3,60,000
B	**Less: Liabilities taken over**	
	8% Debentures	1,00,000
	Interest accrued	8,000
	Creditors	1,16,000
		2,24,000
C	Net Assets taken over / Purchase consideration	**1,36,000**

(iv) It has been assumed that the liquidation expenses have been paid by the new company directly.

Ans. 4(a)

Particulars	Rs. in Lakhs
(a) HP Price	100
(b) Down Payment	20
(c) Balance amount payable (a) - (b)	80
(d) Amount payable in each instalment (80 Lakh ÷ 5 instalments)	16
(e) AF at 10.42% for 5 Years	3.7505
(f) PV of the instalments (d) x (e)	60
(g) Interest Component (c) - (f)	20

Loan Repayment Schedule

Year	Opening Principal	Instalment Amount	Interest	Principal Repaid	Closing Principal
(1)	**(2)**	**(3)**	**(4) = (2) x 10.42%**	**(5) = (3) – (4)**	**(6) = (2) – (5)**
1	60	16	6.252	9.748	50.252
2	50.252	16	5.236	10.764	39.488
3	39.488	16	4.115	11.885	27.603
4	27.603	16	2.876	13.124	14.479
5	14.479	16	1.521	14.479	Nil
	Total	**80**	**20**	**60**	

Principal outstanding as on 01.04.2011 = Rs.50.252 Lakhs. Finance Charges for the year 2011-12 can be recognized as income since the instalments are overdue for a period less than 12 months. Since as at Balance Sheet it is not yet Non Performing Asset.

Computation of Net Book Value Assets

Particulars	Rs. in Lakhs
(a) Aggregate of Overdue and Future Instalments Receivable (16 Lakhs x 4)	64
(b) Balance of Unmatured Finance Charges (4.115 + 2.876 + 1.521)	8.512
(c) Provision for Non—Performing Assets (Note)	7.488
(d) Net Book Value of the Asset	48

Note:

Particulars	Rs. in Lakhs
(a) Aggregate of Overdue and Future Instalments Receivable	64
(b) Balance of Unmatured Finance Charges	8.512
(c) Depreciated Value of the Asset [80 Lakhs – (80 Lakhs x 20% x 2 years)]	48
(d) Provision to be created **(a) — (b) — (c)** (shown as reduction on Liabilities Side in Balance Sheet)	7.488
(e) Provision on Standard Assets at 0.25% of 48,00,000	0.12
(f) Total Provision to be created (d) + (e)	7.608

Ans. 4(b)

Determination of leverage effect on the value of goodwill

Particulars	Shareholders funds Approach	Long term funds Approach
a. Future maintainable profits (WN # 1)	1,72,000	2,17,000
b. Normal rate of return (Given)	15.6%	13.57%
c. Normal capital employed	11,02,564	16,07,407
d. Actual capital Employed (WN # 2)	10,40,000	14,90,000
e. Goodwill	62,564	11,7407
f. Leverage effect on goodwill (62,564-1,17,407)	**54.843**	

Working Note

1. Future maintainable profits

Particulars	Share fund Approach	Long term funds Approach
a. Profit earned after current cost adjustments	**1,72,000**	**1,72,000**
b. Add : Interest on term loan @ 10% p.a.		**45,000**
c. Future maintainable profits (a) + (b)	**1,72,000**	**2,17,000**

Note : Tax effect Ignored.

2. Actual capital employed

Particulars	Shareholders funds Approach	Long term funds approach
a. Current cost of capital employed	**10,40,000**	**10,40,000**
b. 10% long term loan		**4,50,000**
c. capital employed		
	10,40,000	**14,90,000**

Ans. 5 (a)

Valuation of Equity Shares

		Rs.
Value of Net Tangible Assets as per working note (i)		10,02,748
Add:	Goodwill (Working note iii)	39,992
	Non-trade investments	80,000
	Calls in Arrears	10,000
		11,32,740
Less:	Preference Share Capital	2,00,000
		9,32,740
No. of Shares		50,000
Intrinsic value of fully paid share (9,32,740 / 50,000)		**Rs. 18.65**
Intrinsic value of partly paid share (Rs.18.65 – 2.00)		**Rs. 16.65**

Working Notes:

(i) Computation of Capital Employed / Net Tangible Assets as on 31-12-2010

		Rs.
Machinery		2,30,000
Factory Shed		3,00,000
Vehicles		60,000
Furniture (25,000 + 7,290)		32,290
		6,22,290
Add : 20% Increase in value		1,24,458
		7,46,748
Trade Investments (1,00,000 x 20% - 20 %)		16,000
Stock in Trade		2,10,000
Sundry Debtors		3,50,000
Cash at Bank		50,000
		13,72,748
Less : Bank Loan	1,00,000	
Sundry Creditors	2,70,000	3,70,000
Capital Employed		10,02,748

(ii) Average profits of the last three years

	2008 Rs.	2009 Rs.	2010 Rs.
Reported Profit (profit after tax)	1,90,000	2,00,000	2,50,000
Add : Furniture purchased charged to revenue (net of tax)	5,000	-	-
	1,95,000	2,00,000	2,50,000
Less: Depreciation on furniture purchased (net of tax)	500	450	405
	1,94,500	1,99,550	2,49,595
Dividend on non-trading investments less tax	4,000	4,000	4,000
	1,90,500	**1,95,550**	**2,45,595**
Average Profit **{** (1,90,500+1,95,550+2,45,595) / 3 **}**		**2,10,548**	

(iii) Calculation of Super Profits

Capital Employed (W. N. i)	10,02,748
Average Profit (W. N. ii)	2,10,548
Normal Profit @ 20% on Capital Employed	2,00,550
Super Profit	9,998
Goodwill at 6 years purchase	**59,988**

Ans. 5(b) **Statement showing Calculation of Effective Yield (%)**

	X	Y	Z
Retrun			
(a) Dividend Received	1900	3000	Nil
(b) Increase in NAV			
$X\left(\frac{1,00,000}{10.50}\times 10.40-1,00,000\right)$	(952.38)	-	-
$Y\left(\frac{2,00,000}{10}\times 10.10-2,00,000\right)$	-	2,000	
$Z\left(\frac{1,00,000}{10}\times 9.8-1,00,000\right)$	-	-	(2000)
Return on Investment (a) + (b)	947.62	5,000	(2000)
Period of Investment	4 month	3 month	1 month
Amount Investment	1,00,000	2,00,000	1,00,000
Return on Investment (%)	0.947%	2.50%	- 2.00%
Return on Investment (Annual %) **(W.N. i)**	2.84%	10.00%	-24.00%

Working Note (i) **Return on investment (Annual %)**

	X	Y	Z
	$\frac{0.947\% \times 12}{4}$	$\frac{2.50\% \times 12}{3}$	$\frac{-2.00\% \times 12}{1}$

Ans. 6(a)

Maximum limit of Buyback (least of "4" conditions)

	CASE - I	CASE - II	CASE - III
(a) Free Reserve (W.N.1)	840	840	840
(b) 25 % of Equity share Capital + Free Reserve) (W.N.2)	375	375	375
(c) 25% of Equity Share (W.N.3)	495	495	495
(d) Debt equity ratio Test (W.N.4)	Nil	300	Nil
Maximum limit of Buyback	**Nil**	**300**	**Nil**

Working Note :

1. Free Reserve (including security premium) :

General Reserve	= 480
Security Premium	= 180
Profit and loss Account	= 180
	= **840** Crore

2. 25 % of (Equity share Capital + Free Reserve) :

= 25% (660 + 840)
= **375** crore

3. 25% of Equity share Capital (No. of shares) :

= 25 % × 66 crore
= 16.5 crore shares

Amount of buy back = 16.5 crore × 30
= **495** crore

4. Debt Equity Ratio :

		CASE - I	CASE - II	CASE - III
(a)	Debt	= 3,600 Cr.	= 2,400 Cr.	= 3,000 Cr.
(b)	Equity	= 1,500 Cr.	= 1,500 Cr.	= 1,500 Cr.
(c)	Minimum Equity	= 1,800 Cr.	= 1,200 Cr.	= 1,500 Cr.
(d)	Maximum Buy back **(b) – (c)**	= Nil	= 300 Cr.	= Nil

			Dr.	Cr.
(i)	Equity Share Capital	A/c Dr.	100	
	Premium on buy back	A/c Dr.	200	
	To Equity share buy back			300
	(Being condition of shares bought back)			
(ii)	Equity share buy back	A/c Dr.	300	
	To Bank			300
	(Being Payment of amount due under a scheme of buyback)			
(iii)	Security Premium	A/c Dr.	180	
	General Reserve	A/c Dr.	20	
	To Premium on buy back			200
	(Being Premium on buy back written off)			
(iii)	General Reserve	A/c Dr.	100	
	To Capital Redemption Reserve			100
	(Being transfer of free Reserve to Capital Redemption reserve to the extent of nominal value of nominal value of capital redeemed through free Reserve)			

Ans. 6(b)

Particulars	
(a) Average Annual Earning till retirement	₹ 1,00,000
(b) Annuity Factor for 3 years at 15%	2.2832
(c) No. of Employees	20
(d) Value of Human Resource of skilled Employee group (a) × (b) ×(c)	₹ 45,66,400

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

Ans. 6(c)

Definition of As per revised schedule VI : "An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents".

In the above given case, the process of manufacturing of lotus wine takes around 1.5 years, therefore, its realisation into cash and cash equivalents will be done only when it is ready for sale i.e. after 1.5 years. Hence, we cannot take operating cycle of this product as 12 months. Therefore, the intention of the company's management and treatment of inventory is correct but taking period of 1.5 years as operating cycle is not correct because time for realization in cash is not considered .

Ans. 7(a)

Year	Calculation	Expense for Period Rs.	Cumulative expense Rs.
1	(1,24,200 options x 70% x Rs. 15 x 1/4 years)	3,26,025	3,26,025
2	(1,24,200 options x 70% x Rs. 15 x 2/4 years) - Rs.3,26,025	3,26,025	6,52,050
3	(1,24,200 options x 70% x Rs. 15 x 3/4 years)- Rs 6,52,050	3,26,025	9,78,075
4	(1,24,200 options x 70% x Rs. 15 x 4/4 years)- Rs 9,78,075	3,26,025	13,04,100

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An enterprise should review all estimates taken in consideration for valuation of option. The value of options recognised as expense in an accounting period is the excess of cumulative expense as per latest estimates upto the current accounting period over total expense recognised upto the previous accounting period.

Ans. 7(b)

P Ltd. has direct economic interest in R Ltd to the extent of 14%, and through Q Ltd. in which it is the majority shareholders, it has further control of 12% in R Ltd. (60% of Q Ltd's 20%). These two taken together (14% + 12%) make the total control of 26%.

Para 10 of AS 18 'Related Party Disclosures', defines related party as one that has at any time during the reporting period, the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Here, Control is defined as ownership directly or indirectly of more than one-half of the voting power of an enterprise; and Significant Influence is defined as participation in the financial and/or operating policy decisions of an enterprise but not control of those policies.

In the present case, control of P Ltd. in R Ltd. directly and through Q Ltd., does not go beyond 26%. However, as per para 12 of AS 18, significant influence may be exercised as an investing party (P Ltd.) holds, directly or indirectly through intermediaries 20% or more of the voting power of the R Ltd. As R Ltd. is a listed company and regularly supplies goods to P Ltd. therefore, related party disclosure, as per AS 18, is required.

Ans. 7(c)

Present obligation as a result of a past obligating event - The obligating event is the contamination of the land because of the virtual certainty of legislation requiring cleaning up.

An outflow of resources embodying economic benefits in settlement - Probable.

Conclusion - A provision is recognised for the best estimate of the costs of the clean-up

Ans. 7(d)

Para 29 of AS 5 (Revised) 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" states that a change in an accounting policy should be made only if

(a) It is required by statute, or
(b) for compliance with an accounting standard, or
(c) if it is considered that the change would result in a more appropriate presentation of the financial statements of an enterprise.

Therefore the change in the method of stock valuation is justified in view of the fact that the change is in line with the recommendations of AS 2 (Revised) 'Valuation of Inventories' and would result in more appropriate preparation of the financial statements.

Disclosure: As per AS 2, this accounting policy adopted for valuation of inventories including the cost formulae used should be disclosed in the financial statements in Notes to Accounts. Also, appropriate disclosure of the change and the amount by which any item in the financial statements is affected by such change is necessary as per AS 1, AS 2 and AS 5. Therefore, the under mentioned note should be given in the annual accounts. "In compliance with the Accounting Standards issued by the ICAI, delayed cotton clearing charges which are in the nature of interest have been excluded from the valuation of closing stock unlike preceding years. Had the company continued the accounting practice followed earlier, the value of closing stock as well as profit before tax for the year would have been higher by Rs. 8.60 lakhs."

Ans. 7(e)

Market value added :

Market value added is the market value of capital employed in the firm less the book value of capital employed. Market value added is calculated by summing up the paid up value of equity and preference share capital, Retained earnings, long term and short term debts and subtracting this sum from the market value of equity and debt.

Market value added measures cumulatively the performance of corporate entity.

A High market value added means that the company has created substantial wealth for share holders. On the other hand negative MVA means that the value of management's actions and investments are less than the value of the capital contributed to the company by the capital market or that the wealth and value has been destroyed.