DEPARTMENT OF COMMERCE

(SERAMPORE COLLEGE)

B.COM (HONS) 6TH SEMESTER

FINANCIAL REPORTING AND FINANCIAL STATEMENT ANALYSIS:

UNIT 2: INDIAN ACCOUNTING STANDARDS

Some problems on Indian AS 1, Ind AS 16 and Ind AS 33

I. INDIAN ACCOUNTING STANDARD 1: PRESENTATION OF FINANCIAL STATEMENT.

Presentation of Financial Statement exhibits:

a) Balance Sheet showing financial position: Assets, Liabilities, Equity.
b) Financial Performance showing income and gain, expense and losses.
c) Statement of Cash Flow.
d) Statement of Changes in Equity and Notes to Accounts.

Its general features are Presentation of True and Fair view and compliances with Indian Accounting Standards such as:

i. Going Concern.
ii. Accrual Basis.
iii. Materiality.
iv. Off Setting
v. Frequency of Reporting
vi. Comparative information
vii. Consistency.
    1) Balance Sheet Format
    2) Income Statement Format
    3) Cash Flow
    4) Statement of Changes in Equity.

PROBLEM:

A company earned profit Rs 149000 during the year end 31.3.19 and distributed dividend Rs 69000. During the year 2018-19 the company issued equity shares of Rs 150000 including premium Rs 50000. Company revalued its building of Rs 10 lakhs to Rs 11 lakhs. The following balances as on 1.4.18 are:

Retained Earnings	**Rs 180000**
Revaluation Reserves	**Rs 20000**
Equity Share Capital	**Rs 600000**

Prepare statement of changes in equity for 18-19.

SOLUTION:

Statement showing changes in equity for the year ended 2018-19

PARTICULARS	**EQUITY SHARE CAPITAL**	**RETAINED EARNING**	**RESERVE SURPLUS**	**TOTAL**
Balances on 1.4.18	6,00,000	1,80,000	20,000	8,00,000
changes in equity during the year (new issue including premium)	1,50,000			1,50,000
Dividend Paid		-69000		-69,000
Comprehensive income (profit + revaluation profit) (Building 11 lakhs - 10 lakhs = 1 lakhs(R&S)		1,49,000	1,00,000	2,49,000
	7,50,000	2,60,000	1,20,000	11,30,000

II. INDIAN ACCOUNTING STANDARD 16: PROPERTY PLANT AND EQUIPMENT.

CAPITALISATION OF ASSETS IND AS 16:

PROBLEM 1:

Cost of Plant	**Rs 1200000**
Delivery charges	**Rs 50000**
Consultation fees for acquisition of plant	**Rs 50000**
Present Value of dismantling (after 5 years)	**Rs 100000**
Interest paid to supplier for delay in payment	**Rs 20000**

Determine capitalised value according to Indian AS 16

SOLUTION TO 1:

PARTICULARS	**AMOUNT (Rs)**
Cost of Plant	12,00,000
Delivery Charges	50,000
Fees for Consultation	50,000
P.V of Dismantling Cost after 5 years	1,00,000
TOTAL	14,00,000

Interest is revenue item to be taken to P/L A/C.

PROBLEM 2:

On 1.1.2020 purchased a piece of land for Rs 2000000 for factory. Old building in the land was demolished. Following additional cost incurred in this connection till 31.3.2020:

Legal fees for recording ownership	**Rs 100000**
Cost of demolition of old building	**Rs 100,000**
Fees paid to lawyer (including searching fees)	**Rs 80,000**
Proceeds of sale of old building	**Rs 30000**

Calculate capital value on 31.3.2020 as per Ind AS 16

SOLUTION TO 2:

PARTICULARS	**AMOUNT (Rs)**
Purchase Price	20,00,000
Legal Fees:	
Before Purchase	80,000
For Recording Ownership	1,00,000
Net cost of demolition (100,000 - 30,000)	70,000
TOTAL	22,50,000

<u>CHANGE IN THE METHOD OF CHARGING DEPRECIATION:</u> As per Ind AS 16 it is always prospective and not retrospective. No surplus or deficit due to change to be recorded.

PROBLEM 3:

Machine for Rs 1000000 installed in 2015-16 its useful life is 8 years. The company charge depreciation @ 10% pa on it. However, in the year 19-20 the company decides to change the method of depreciation from straight line to Diminishing Balance Method keeping the rate same. Calculate the amount of depreciation for the year ended 31.3.2020. What would be the amount of resultant surplus or deficit?

SOLUTION TO 3:

Calculation of depreciation for the year 31.12.20

DATE	**PARTICULARS**	**AMOUNT (Rs)**
1.4.15	Cost	10,00,000
31.3.16	depreciation	-1,00,000
1.4.16	**W.D.V**	**9,00,000**
31.3.17	depreciation	-1,00,000
1.4.17	**W.D.V**	**8,00,000**

31.3.18	depreciation	-1,00,000
1.4.18	**W.D.V**	**7,00,000**
31.3.19	depreciation	-1,00,000
1.4.19	**W.D.V**	**6,00,000**
31.3.20	depreciation @ 10% pa on DMV	-60,000
1.4.20	**W.D.V**	**5,40,000**

Thus 60,000 to be charged as depreciation for the year 2019-2020 and depreciation to be charged @ 10% pa on Diminishing Value Method (DMV). Henceforth, no resultant surplus or deficit is accounted for as it is prospective and not retrospective.

- **Re estimation of useful life of P.P.E**
- **Revaluation of Assets during the life period if any profit arises out of it , it would be credited to "REVALUATION RESERVE ACCOUNT"**

- **REVISION OF ESTIMATED USEFUL LIFE:**

RULE: Unamortized depreciable amount should be charged over the revised remaining useful life.

PROBLEM 1:

On 1.4.15 a company purchased machine costing Rs 2000000, useful life 8 years. Till the year ended 31.3.18 the amount of accumulated depreciation was Rs 800000. The remaining life of the machine was reviewed during 2018-19 was estimated 2 years due to wear and tear. Calculate depreciation to be charged from 18-19 onwards.

SOLUTION TO 1:

Here unamortised depreciable amount is Rs2000000 – Rs 800000 = Rs 1200000 and the revised remaining useful life is 2 years. Therefore, the amount of depreciation to be charged on 18-19 onwards is Rs 1200000/2 = Rs 600000 pa.

PROBLEM 2:

Machine costing Rs 120000, life 10 years, depreciation on straight line method and residual value is nil for 3 years. Estimated remaining useful life after 3rd year was reassessed at 5 years. Calculate depreciation as per Ind AS 16

SOLUTION TO 2:

PARTICULARS	1	2	3	4	5	6	7	8
Initial Cost	1,20,000							
estimated life	10 years							
Dep	12,000							
Carrying Amt	1,08,000							
		1,08,000						
Dep		12,000						
Carrying Amt		96,000						
			96,000					
Dep			12,000					
Carrying Amt			84,000					
				84,000				
Re estimated life				5 years				
Dep				16800				
Carrying Amt				67,200				
					67200			
Dep					16800			
Carrying Amt					50400			
						50400		
Dep						16800		
Carrying Amt						33600		
							33600	
Dep							16800	
Carrying Amt							16800	
								16800
Dep								16800
								Nil

- **<u>REVALUATION OF ASSETS:</u>**

PROBLEM 1:
A company produces tools at the end of each year depreciation is charged on revaluation method. From the following show the tools account:

Year ended 31.12.16 production is Rs 5000 revalued on 31.12.16 is Rs 4100.

Year ended 31.12.17 production is Rs 2700 revalued on 31.12.17 is Rs 5700.

Year ended 31.12.18 production is Rs 1000 revalued on 31.12.18 is Rs 6000.

Year ended 31.12.19 production is Rs1500 revalued on 31.12.19 is Rs 5100.

The value on 31.12.19 after considering sales of old tools at the book value Rs1200 on 31.12.19 for Rs 950.

SOLUTION TO 1:

TOOLS ACCOUNT

Dr			**Cr**		
DATE	**PARICULARS**	**AMT (Rs)**	**DATE**	**PARICULARS**	**AMT (Rs)**
31.12.16	To Manufacturing A/C	5000	31.12.16	By Depreciation	900
			31.12.16	By Balance C/D	4100
		5000			5000
1.1.17	To Balance B/D	4100	31.12.17	By Depreciation	1100
31.12.17	To Manufacturing A/C	2700	31.12.17	By Balance C/D	5700
		6800			6800
1.1.18	To Balance B/D	5700	31.12.18	By Depreciation	700
31.12.18	To Manufacturing A/C	1000	31.12.18	By Balance C/D	6000
		6700			6700
1.1.19	To Balance B/D	6000	31.12.19	By Bank	950
31.12.19	To Manufacturing A/C	1500	31.12.19	By Rev Reserve A/C	250
			31.12.19	By Depreciation	1200
			31.12.19	By Balance C/D	5100
		7500			7500
1.1.2020	To Balance B/D	5100			

III. INDIAN ACCOUNTING STANDARD33: Earning Per Share

A. BASIC EPS:

$$\frac{\text{Profit available to share holder}}{\text{Weighted average number of ordinary share outstanding this year}}$$

Weighted Average number of share:

EXAMPLE:

On 1.1.18 20,000 ordinary share outstanding. On 1.10.18 issue 4800 such shares. On 1.1.19, company bought back 3600 ordinary shares. Calculate weighted average number of ordinary shares on 31.3.19 as per Ind AS 33

SOLUTION:

20,000 * (12/12) + 4800 * (7/12) – 3600 (3/12)
= 20,000 + 2800 – 900
= 21900

PROBLEM ON BASIC EPS:

PROBLEM 1:

EBT is Rs 350,000.
Capital structure: **Ordinary Share Capital 40,000 @ Rs 10**
7.5% Preference Shares, 20,000 @ Rs 10
Tax Rate @ 30%
Calculate EPS

SOLUTION TO 1:

PARTICULARS	AMOUNT (Rs)
EBT	3,50,000
Less: tax @ 30 %	-105000
EAT	2,45,000
Less: Preference Dividend	-15,000
EAESH (amt available to eq SH)	2,30,000
No. Of. Ordinary Share	40,000
Basic E.P.S	5.75

PROBLEM 2:

Same as Problem 1 + assume out of 40,000 ordinary shares on 31.3.19, 10,000 issued on 1.1.19.

SOLUTION TO 2:

Weighted average number of Ordinary Share
= 30,000 * (12/12) + 10,000 * (3/12)
= 30,000 + 2500
= 32500.
Therefore, Basic EPS = 230,000 / 32500 = 7.077
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B. **Dilution of share reduces the earning per share or increases loss per share.**

DILUTED EPS:

$$\frac{\text{Profit attributable to ordinary share holder (after adjusting diluted earning)}}{\text{Weighted average number of ordinary share outstanding during the period (assuming conversion of potential ordinary share)}}$$

Potential ordinary share =Convertible debenture + Convertible preference share + equity instrument converted to ordinary share.

Diluted adjusted profit attributable to ordinary share:

PARTICULARS	**AMOUNT (Rs)**
EBT attributable to existing ordinary share of the company	******
Add back dividend on convertible preference share (earlier deducted)	******
Add back interest charge on convertible debenture / loan (earlier deducted)	******
	******
Add/ Less: any changes in income / expense which would result from conversion of diluted potential equity share	******
Diluted Adjusted Profit Attributable to Ordinary Share	******

PROBLEM 3:

Calculate:

i. **Earning per incremental share**
ii. **Diluted earnings per share**

From the following:

a) **120,000 shares on 1.4.18 @ Rs 10 ------- Rs 12,00,0000.**
b) **Profit for the year 31.3.19 --------- RS 500,000**
c) **Company further issued 3000 9% convertible bond on 31.7.18 ------ Rs 300,000**
d) **Terms of conversion is 11 equity at par after 5 years for each convertible bond**
e) **Tax rate @ 30%**

SOLUTION TO 3:

NOTE 1: Adjusted profit

PARTICULARS	AMOUNT (Rs)
Profit for 31.3.19	5,00,000
Add: Tax adjusted interest	
(300,000 * 9% * 8/12* (1-0.3))	12600
	5,12,600

NOTE 2: Weighted no. of ordinary share outstanding arising conversion of potential equity share

Weighted no.of Ordinary share on 4.4.18 1,20,000 * 12/12	1,20,000
Add weighted no. of ordinary share issued on account of conversion	
(3000 * 11/10 * 8/12)	2200
	1,22,200

Therefore, earning per incremental share Rs 12600 / 2200 = 5.73

Diluted EPS = 512,600/ 122200 = 4.2

PROBLEM 4:

X Ltd furnishes the information on the basis of it calculate EPS:

EBT **Rs 10000000**

No. of equity share outstanding **5000000**

No. of 12% convertible debenture

(Convertible at 10 equity) **100000**

Interest expense **Rs 1200000**

Tax rate @ 30%

Commission payable @ 5% on PAT

SOLUTION:

<u>Basic EPS:</u>

PARTICULARS	AMOUNT (Rs)
EBT	1,00,00,000
Less: Tax @ 30%	-30,00,000
EAT	70,00,000
Less: Commission 5%	-3,50,000
Profit for basic EPS	66,50,000
No .of share outstanding	50,00,000
Basic EPS	1.33

Diluted EPS or Adjusted EPS:

PARTICULARS	AMOUNT (Rs)
EBT	1,00,00,000
Add: Interest expense	12,00,000
	1,12,00,000
Less: Tax @ 30%	-33,60,000
EAT	78,40,000
Less: Commission 5%	-3,92,000
Profit for ordinary share adjusted(A)	74,48,000
Weighted no. Of ordinary share:	
Ordinary Share	50,00,000
Potential Ordinary Share (1,00,000 * 10)	10,00,000
Total weighted no.of ordinary share (B)	60,00,000
Diluted EPS / Adjusted EPS ((A) / (B))	1.24

Here Diluted/ Adjusted EPS Rs 1.24 lower than Basic EPS Rs 1.33.

For any query contact N.B. 9830953576.