AS = 19

Soln.Q.92

(i) Present value of residual value = Rs. 40,000 × 0.7513 = Rs. 30,052

Present value of lease payments = Rs. 3,00,000 – Rs. 30,052 = Rs. 2,69,948.

The present value of lease payments being 89.98% $\left(\frac{2,69,948}{3,00,000}\times 100\right)$ of the fair value, i.e. being a substantial portion thereof, the lease constitutes a finance lease.

(ii) Calculation of unearned finance income

	Rs.
Gross investment in the lease [(Rs.1,08,552 × 3) + Rs. 40,000]	**3,65,656**
Less: Cost of the equipment	**3,00,000**
Unearned finance income	**65,656**

Note: - In the above solution, annual lease payment has been determined on the basis that the present value of lease payments plus residual value is equal to the fair value (cost) of the asset.

Soln.Q.95 :

In case of financial lease, lessee records lease asset & lease liability at F.V. or P.V. of MLP whichever is less.

MLP (l'ee) = LR + GRV by or on behalf of lessee
= (5,00,000 x 4) + 1,00,000
= 21,00,000

Year	**DF @ 14.97**
1	0.8698
2	0.7565
3	0.6580
4	0.5724
	2.8567

PV of MLP (l'ee) = (5,00,000 x 2.8567) + (1,00,000 x 0.5724)

= 14,85,590

∴ Samsung Ltd. will record a lease asset & lease liability at the inception of
lease at FV = 16,00,000 OR
PV of MLP = 14,85,590, whichever is less.
i.e. 14,85,590

Also, a financial lease will give rise to depreciation & finance expenses.

Depreciation has been calculated on SLM over the lease period.

$\therefore$ Depreciation = $\frac{14,85,590}{4}$ = 3,71,398

Finance expense will be recognized at a constant rate on the outstanding liability.

Year	Financial Charges	Lease payment	in liability	Outstanding liability
1/4/02	-	-	-	14,85,590
31/3/03	2,22,393	5,00,000	2,77,607	12,07,983
31/3/04	1,80,835	5,00,000	3,19,165	8,88,818
31/3/05	1,33,056	5,00,000	3,66,944	5,21,874
31/3/06	78,126*	6,00,000	5,21,874	-

* $\therefore$ Adjusted for rounding off.

In the books of Samsung Ltd.

Lease Asset A/c

Date	Particulars	Amt.	Date	Particulars	Amt.
1/4/02	To Lease Liability	14,85,590	31/3/03	By Depreciation	3,71,398
				By Balance	11,14,192
--					
--					
1/4/05	To Balance	**3,71,396**	31/3/06	By Depreciation	**3,71,396**

Lease Liability A/c

Date	Particulars	Amt.	Date	Particulars	Amt.
31/3/03	To Bank	5,00,000	1/4/02	By Lease Asset	14,85,590
	To Balance c/d	12,07,983	31/3/03	By Fin. Exp.	2,22,393
31/3/04	To Bank	5,00,000	1/4/03	By Balance b/d	12,07,983
	To Balance c/d	8,88,818	31/3/04	By Fin. Exp.	1,80,835
31/3/05	To Bank	5,00,000	1/4/04	By Balance b/d	8,88,818
	To Balance c/d	5,21,874	31/3/05	By Fin. Exp.	1,33,056
31/3/06	To Bank	5,00,000	1/4/05	By Balance b/d	5,21,874
	To Balance c/d	1,00,000	31/3/03	By Fin. Exp.	78,126

Disclosures : **Extract of P & L A/c**

Particulars	Amt.	Particulars	Amt.
Year ending 31/3/03			
To Fin. Exp.	2,22,393		
To Depreciation	3,71,398		
Year ending 31/3/04			
To Fin. Exp.	1,80,835		
To Depreciation	3,71,398		

Extract of P & L A/c

Particulars	Amt.	Particulars	Amt.
As on 31/3/03		Lease Asset	14,85,590
Lease Liability	12,07,983	(-) Depreciation	3,71,398
As on 31/3/04		Lease Asset	
Lease Liability	8,88,818	(-) Depreciation	

Disclosures to be made on 31/3/03 :

i) Future Payable :

Period	MLP	PV
< 1 year	5,00,000	4,34,900*
> 1 year but < 5 years	11,00,000	7,73,050**
> 5 years	-	-

* 5,00,000 x 0.8698

* 5,00,000 x 0.7565 + 6,00,000 x 0.6580

ii) Sublease Receivable : Nil

iii) Contingent rent recognized in Profit & Loss A/c : Nil

iv) There are no terms of renewal or purchase option and escalation clause.

v) Restrictive Clauses in the lease agreements : None.

Soln104. :

A i)	20	20	20	No profit or loss
ii)	20	20	18	Recognize profit of 2 immediately
iii)	20	20	22	Recognize loss of 2 immediately
B i)	22	20	20	Defer profit of 2 in the ratio of lease
ii)	22	20	18	Recognize profit of 2 immediately & Defer profit of 2
				in the ratio of lease rent.
iii)	22	20	22	Recognize loss of 2 immediately & defer profit of 2 in
				the ratio of lease rent.
C i)	18	20	20	Recognise loss of 2 immediately or defer in the ratio
				of lese rent if the loss is compensated by future lease
				payments at below market price.
ii)	18	20	18	No profit or loss we can't show a profit immediately
				and then defer a loss. As done in (B iii), we have
				recognize loss immediately & deferred profit even
				though there was no profit / Loss. But in this case it
				is opposite
iii	18	20	22	Recognise loss of 2 immediately and defer the Recognition of future loss of 2

AS = 20

Soln.Q.107 :

Reported Basic EPS for year 2000 = $\frac{18,00,000}{2,00,000}$ = Rs. 9

The company has declared bonus of 2 shares for 1 on 30/9/01. However, when calculating WANES, no. of equity shares are so adjusted as if the bonus was made before the beginning of earliest reporting period i.e. 1/1/2000.

No. of bonus shares = 2,00,000 x 2 = 4,00,000

∴ BEPS for 2000 Restated = $\frac{18,00,000}{6,00,000}$ = 3.00

BEPS for 2001 = $\frac{60,00,000}{6,00,000}$ = 10.00

Soln.Q.108 :

If the rights issue is below fair value then there is a bonus element to it. In such a case, no. of shares outstanding before rights issue are multiplied by a rights factor which is calculated as follows :

Theoretical ex – right price = $\frac{5 \text{ x } 21 + 1 \text{ x } 15}{5 + 1}$

= $\frac{120}{6}$ = Rs. 20

∴ Cost of a right = Re. 1

∴ Right Factor = $\frac{\text{F.V.per share immediately prior to exercise of rights}}{\text{Theoretical ex rights price per share}}$

□□□□□□□ = $\frac{21}{20}$ = Rs. 1.05

Therefore, no. of shares before rights issue will be multiplied by 1.05 i.e.

5,00,000 x 1.05 = 5,25,000

1,00,000 (rights issue) x 15 (price) = 15,00,000

The Rs. 15,00,000 shares at ex right price = $\frac{15,00,000}{20}$ = 75,000 share

Co. is giving 1,00,000 shares.

∴ 25,000 Bonus shares out of the total no. of right shares issued, 25,000 will be considered as bonus element.

Reported BEPS for 2000 = $\frac{11,00,000}{5,00,000}$ = 2.20

Restated BEPS for 2000 = $\frac{11,00,000}{5,25,000}$ = 2.10

BEPS for 2001 = $\frac{15,00,000}{(5,25,000 \times 2/12 + 6,00,000 \times 10/12)}$ = 2.55

(or 5,25,000 x 12/12 + 75,000 x 10/12)

Sol.Q.109 :

BEPS for 2001 = $\frac{1,00,00,000}{50,00,000}$ = 2

Calculation of DEPS :

Calculation of Numerater :

N.P. attributed to ESH as reported	=	1,00,00,000
Add : Savings in Debentures interest	=	8,40,000
12,00,000 (1 – 0.3)		
N.P. after adjustment for diluted earnings		1,08,40,000

Calculation of denominator :

No. of shares existing	=	50,00,000
Add : No. of shares to be	=	10,00,000
Used on conversion	=	60,00,000
(1,00,000 x 10)		

∴ DEPS = $\frac{1,08,40,000}{60,00,000}$ = 1.81

Sol.Q.110 :

In case of option no. of incremental shares for which no consideration is received it must be included for calculation of DEPS. The remaining no. of Equity shares i.e. no. of shares that would have been issued if the issue was at F.V. are not included because for those shares

consideration is yet to be received. There shares are just like any fresh issue which would be adjusted when actually issued.

$$\text{BEPS} = \frac{\text{N.P. attributable to ESH}}{\text{WANES}}$$

$$\therefore \text{DEPS} = \frac{12,00,000}{5,00,000 + 25,000} = 2.29$$

$$= \frac{12,00,000}{5,00,000} = 2.40$$

Calculation of denominator

No. of shares under option	1,00,000
(-) No. of shares that would be issued at face value $\left(\frac{1,00,000 \times 15}{20}\right)$	75,000
∴No. of incremental shares for which no consideration will be received	25,000

Sol.Q.111 :

Calculation of BEPS :

$$\text{BEPS} = \frac{\text{N.P. attributable to ESH}}{\text{WANES}}$$

$$= \frac{1,00,00,000}{20,00,000}$$

= Rs. 5 per shares

In order to rank the dilutive shares for inclusion in WANES, we need to calculate EPS on incremental shares.

i) Options:

Increase in earnings	Nil
No. of shares issued for which no consideration is received $\left(1,00,000 - \frac{1,00,000 \times 60}{75}\right)$	20,000
EPS on incremental shares	Nil

ii) Convertible P.S. :

Increase in earnings (8 x 8,00,00,000 + 10%)	70,40,000
No. of shares to be issued (8,00,000 x 2)	16,00,000
EPS on incremental shares	4.40

iii) Convertible Debentures :

Increase in earnings [1,20,00,000 (1 – 0.3)	84,00,000
No. of shares to be issued (10,00,000 x 4)	40,00,000
EPS on incremental shares	2.10

The above calculation shows that options are most dilutive, convertible debentures are most dilutive & Convertible P.S. will be considered last.

Calculation of diluted EPS :

	N.P. Attributed to ESH	**No. of E.S.**	**EPS**	
N.P. attributed to ESH as reported	1,00,00,000	20,00,000	5	
Options	-	20,000		
	1,00,00,000	20,20,000	4.95	(Dilutive)
Convertible Deb.	84,00,000	40,00,000		
	1,84,00,000	60,20,000	3.06	(Dilutive)
Convertible P.S.	70,40,000	16,00,000		
	2,54,40,000	76,20,000	3.34	(Anti Dilutive)

DEPS to be reported = 3.06

The preference shares are anti – dilutive & hence are to be ignored.

Sol.Q.112 :

(i) Earnings per share :

	Year ended 31.3.2003	**Year ended 31.3.2002**
Net profit attributable to equity shareholders	Rs. 10,00,000	Rs. 10,00,000
Weighted average number of equity shares [(W.N. 1) - without considering bonus issue for the year ended 31.3.20021	2,00,000	1,50,000
Earning per share	Rs.5	Rs. 6.667

(ii) Diluted earnings per share

Options are most dilutive as their earnings per incremental share is nil. Hence, for the purpose of computation of diluted earnings per sliare, options will be considered first. 12% convertible debentures being second most dilutive will be considered next and thereafter convertible preference shares will be considered (as per W.N. 2).

	Year ended 31.3.2003			Year ended 31.3.2002	
	Net profit attributable to equity shareholders Rs.	**No. of equity shares**	**Net Profit attributable per share Rs.**	**No. of equity shares (without Considering bonus issue)**	**Net Profit attributable per share Rs.**
As reported (for years ended 31.3.2003 and 31.3.2002)	10,00,000	2,00,000	5	1,50,000	6.667
Options		2,000		2,000	
	10,00,000	2,02,000	4.95 Dilutive	1,52,000	6.579 Dilutive
12% Convertible Debentures	84,000	40,000		40,000	
	10,84,000	2,42,000	4.48 Dilutive	1,92,000	5.646 Dilutive
10% Convertible Preference Shares	8,80,000	1,60,000		1,60,000	
	19,64,000	4,02,000	4.886 Anti – Dilutive	3,52,000	5.58 Dilutive

Since diluted earnings per share is increased when taking the convertible preference shares into account (Rs. 4.48 to Rs. 4.886), the convertible preference shares are antidilutive and are ignored in the -calculation of diluted earnings per share for' the year ended 31.3:2003. Therefore, diluted earnings per share for the year ended 31st March, 2003 is Rs. 4.48.

For the year ended 31st March, 2002, Options, 12% Convertible debentures and Convertible preference shares will be considered dilutive and diluted earnings per share will be taken as Rs.5.58.

	Year ended 31.3.2003	Year ended 31.3.2002
Diluted earnings per Share	4.48	5.58

(iii) Adjusted earnings per share and diluted earnings per share for the year ending 31.3.2002.

Net profit attributable to equity shareholders	Rs. 10,00,000
Weighted average number of equity shares ((W.N. 1) - considering bonus issue]	1,75,000
Adjusted earnings per share	Rs. 5.714

Calculation of adjusted diluted earnings per share

	Net profit attributable to equity shareholders Rs.	**No. of equity shares (after considering Bonus issue)**	**Net profit attributable per share Rs.**
As reported	10,00,000	1,75,000	5.714
Options		2,000	
	10,00,000	1,77,000	5.65 Dilutive
12% Convertible Debentures	84,000	40,000	
	10,84,000	2,17,000	4.995 Dilutive
10% Convertible Preference Shares	8,80,000	1,60,000	
	19,64,000	3,77.000	5.21 Anti - Dilutive

Since diluted earnings per share is increased when taking the convertible preference shares into account (from Rs. 4.995 to Rs. 5.21), the convertible preference shares are anti-dilutive and are ignored in the calculation of diluted earnings per share, Therefore, adjusted diluted earnings per share for year ended 31.3.2002 is Rs. 4.995

Adjusted diluted earnings per share Rs. 4.995

Working Remarks:

1. Weighted average number of equity shares:

		31.3.2003 No. of Shares	**31.3.2002 No. of Shares**
(a)	Fully paid equity shares	1,00,000	1,00,000
(b)	Partly paid equity shares*		50,000
	Partly paid equity shares	25,000	
	Fully paid equity shares	50,000	
	(Partly paid shares converted into fully paid up on 1.10.2002)		

(c)	Bonus Shares"	25,000	
	Weighted average number of equity shares	2,00,020	1,50,000
	(without considering bonus issue for year ended 31.3,2002)		
	Bonus Shares		25,000
	Weighted average number of equity shares		1,75,000
	(after considering bonus issue for year ended 31.3.2002)		

*Since partly paid equity shares are entitled to participate in dividend to the extent of amount paid, 1,00,000 equity shares of Rs. 10 each, Rs. 5 paid up will be considered as 50,000 equity shares for the year ended 31st March, 2002.

On 1st October, 2002 the partly paid shares were converted into fully paid up. Thus, the weighted average equity shares (for six months ended 30th September, 2002) will be calculated as

$$50,000 \times \frac{6}{12} = 25,000 \text{ shares}$$

Weighted average shares (for six months ended 31st March, 2003) will be calculated as

$$1,00,000 \times \frac{6}{12} = 50,000 \text{ shares}$$

Total number of fully paid shares on 1st January, 2003

Fully paid shares on 1st April, 2002	1,00,000
Partly paid shares being made fully paid up on 1st October, 20	1,00,000
	2,00,000

The company issued 1 bonus share for 8 shares held on 1st January, 2003.

Thus 2,00,000/8 = 25,000 bonus shares will be issued.

Bonus is an issue without consideration, thus it will be treated as if it had occurred prior to the beginning of 1st April, 2001, the earliest period reported.

2. Increase in earnings attributable to equity shareholders on conversion of potential equity shares

	Increase in earnings **(1)** **Rs.**	**Increase in Number of equity shares** **(2)**	**Earnings per incremental share** **(3) = (1) - (2)** **Rs.**
Options			
Increase in earnings	Nil		
No. of incremental shares issued for no			

Consideration [10,000 x (75 -.60)/75]		2,000	Nil
Convertible Preference Shares			
Increase in net profit attributable to	8,80,000		
equity shareholders as adjusted by			
attributable dividend			
tax [(Rs. 10 x 80,000) + 10%			
(Rs. 10 x 80,000)]			
No. of incremental shares (2 x 80,000)		1,60,000	5.50
12% Convertible Debentures increase in			
net profit	84,000		
[(Rs.10,00,000 x 0.12 x (1 - 0.30)]*			
No. of incremental shares (10,000 x 4)		40,000	2.10

* Tax rate has been taken at 30% in the absence of any information in the question

Soln.Q.116

Step 1: Ascertain Theoretical Ex-buy back price

		Rs. in lacs
a.	Fair Value of 1,000 lakh Outstanding Shares before buy back @ 25	25,000
b.	Buy back proceeds of 300 lakh share @ 40	(12,000)
c.	Net Amount	13,000
d.	No. of outstanding shares before buy back	1,000
e.	No. of shares bought back	(300)
f.	No. of shares after buy back	700

Theoretical ex-buy back price = $\frac{13,000}{700}$ = Rs. 18.57

Step 2: Ascertain buy back adjustment factor

Buy back adjustment factor (Reverse right factor) = 25 / 18.57 = 1.35.

Step 3: Computation of Basic EPS for 2002:

		2001	**2002**
		Recomputed	
a.	PAES (Rs. in lacs)	2000	2000
b.	No. of equity shares outstanding (No.in lacs)	1000	700
c.	WANES	1350	1025
d.	Originally computed Basic EPS (Rs.)	2	

e.	Restated using reverse right factor (Rs.)	1.48	1.95

$* \frac{(1000 x 1.35 x 6m) + (700 x 6m)}{12m}$

Soln.Q.117

Computation of EPS:

Step 1. : Computation of Weighted Average No. of Equity Shares (WANES)

	Purchase	Merger
Opening Shares:		
Number of Shares	500,00,000	500,00,000
No. of Months	12	12
Product – A	6,000,00,000	6,000,00,000
New Shares:		
Number of Shares	50,00,000	50,00,000
No. of Months	6	12
Product – B	300,00,000	600,00,000
Total Product (A+B)	6,300,00,000	6,600,00,000
WANES	525,00,000	550,00,000

assumed is to issued at beginning of the year.

Step 2: EPS

	Purchase	Merger
Profit available to Equity Shareholders (Rs.)	1,400,00,000*	1,550,00,000@
WANES	525,00,000	550,00,000
Basic EPS (Rs.)	2.67	2.82

* Profit of X Ltd. plus post merger of profit Y Ltd. which is now a division of X Ltd. i.e. Rs. 1400 lakhs. The entrie profit of X Ltd. and erstwhile Y Ltd. including post – merger profit of Y Ltd.

@ Rs. 1200 lakhs + Rs. 350 lakhs.

Sol.Q.119

I. Calculation of Basic EPS with & Without Extra ordinary items.

Particulars		With Extra ordinary items		With Out Extra Ordinary items	
		31/3/08	31/3/07	31/3/08	31/3/07
1.	Earnings for E.S.H	2,00,000 (2,06,000 – 6,000)	70,000 (73,000 – 3,000)	1,00,000 (2,06,000 – 6,000 -	70,000 (73,000 – 3,000)

				1,00,000)	
	Weighted Average No. of Equity Share	20,000	20,000	20,000	20,000
	∴ Basic EPS	10	3.5	5	3.5
2.	A. Dividend on Preference Shares			6,000	3,000
	B. Incremental shares			15,000	7,500
	C. EPS on Incremental Shares [A/B]			0.40 (dilutive)	0.40 (dilutive)
4.	Convertible Debentures				
	A. Increase in earnings $\left(1,00,000 \times \frac{15}{100} \times 6.5\right)$ $1,00,000 \times \frac{15}{100} \times .60 \times \frac{9}{12}$			9,750	6,750
	B. Increase in shares			1,000	750
	C. Increase in EPS [A/B]			9.75 (Anti dilutive)	9.00 (Anti dilutive)

It is anti-dilutive as it increases the EPS from continuing ordinary operations (Para 39, AS 20)

II. Calculation of Diluted EPS with & with out Extra Ordinary items.

Particulars		With Extra ordinary items		With Out Extra Ordinary items	
		31/3/08	**31/3/07**	**31/3/08**	**31/3/07**
	Earnings for E.S.H after Adjust of Pref. Dividend	2,06,000 (2,00,000 + 6,000)	73,000 (70,000 + 3,000)	1,06,000 (1,00,000 + 6,000)	73,000 (70,000 + 3,000)
	Weighted Average No. of Equity Share	35,000 (20,000 + 15,000)	27,500 (20,000 + 7,500)	35,000 (20,000 + 15,000)	27,500 (20,000 + 7,500)
	∴ Diluted EPS	5.89	2.65	3.03	2.65

AS – 20 EPS

Objective

To provide guidelines for determination and presentation of EPS

Scope

Applicable to all companies, SMC may not disclose diluted EPS

Classification

Basic EPS

1. Bonus Shares
2. Right Shares
3. Buy Back
4. Amalgamation in the nature of Merger

Diluted EPS (potentialEQ.SH.)

1. Convertible Debentures
2. Convertible Pref. Shares
3. Options (Including ESOP)

Important points

Basic

1. In case of loss present loss per share
2. NP attributable to Eq.Sh. should be after considering prior period and extraordinary items

Diluted

1. Potential equity sh. are deemed to be issued at beginning of reporting period or date of issue, whichever is later
2. Control figure is profit per share from continuing ordinary operation (i.e. excluding extraordinary items)

Disclosure Presentation

On the face of PIL Basic & Diluted EPS to be presented with and without extraordinary items

AS = 22

Sol. Q.122:

1) Calculation of Current Tax / Provision for Tax :

Years	1	2	3	4	5
NPBDT	200	200	200	200	200
(-) Dep.	200	-	-	-	-
Taxable Profit	-	200	200	200	200
Current Tax @ 50%	-	100	100	100	100

2) Calculation of Def. Tax :

Book Dep.	40	40	40	40	40
Tax Dep.	200	-	-	-	-
Originating timing difference	160	-	-	-	-
Reversing time Diff.	-	40	40	40	40

Tax Exp. - Tax as per A/cs
Current Tax - Tax as per tax records
Tax Exp. = C.T. + DTL - DTA

DTL @ 50%	80				
DTL written back	-	20	20	20	20

3) Statement of Profit & Loss :

NPBDT	200	200	200	200	200
(-) Dep.	40	40	40	40	40
	160	160	160	160	160
(-) Current Tax	-	(100)	(100)	(100)	(100)
(-) Deferred Tax liability	(80)	-	-	-	-
(+) DTL w/back	-	20	20	20	20
N.P. attributed to shareholders	80	80	80	80	80

Journal Entries :

Year 1:

Profit & Loss A/c Dr. 80

To DTL 80

Year 2 :

Profit & Loss A/c Dr. 100

To Provision for Tax 100

DTL Dr. 20

To Profit & Loss A/c 20

For years 3, 4 & 5 – Same as year 2

Sol. Q.123 : 1) Calculation of Current tax / Provision for Tax :

	1	2
Profit before tax	200	200
(+) Interest disallowed	20	
(-) Interest allowed		(20)
Taxable Profit	220	180
Provision for Tax @ 50%	**110**	**90**

2) Calculation of deferred tax :

Book interest	20	-
Tax interest	-	20
Originating timing difference	20	-
Reversing timing difference	-	20
DTA @ 50%	10	-
DTA w/off	**-**	**10**

3) Statement of Profit & Loss :

Profit before tax	200 (after charging interest)	200
(-) Current Tax	(110)	(90)
(+) DTA	10	
(-) DTA w/off		(10)
N.P. attributed to shareholders	**100**	**100**

Journal Entries :

Year 1:

Profit & Loss A/c Dr. 110

To Provision for tax 110

DTA A/c Dr. 10

To Profit & Loss A/c			10
Year 2 :			
Profit & Loss A/c	Dr.	90	
To Provision for Tax			90
Profit & Loss A/c	Dr.	10	
To DTA A/c			10

Sol.Q.124 : 1) Calculation of tax / payable as per I.T.

	97 – 98	**98 – 99**	**99 – 00**	**00 – 01**
NPNTD	15,00,000	18,00,000	25,00,000	30,00,000
(-) Dep.	(1,00,000)	(1,50,000)	(1,12,500)	(1,84,375)
NPBT	14,00,000	16,50,000	23,87,500	28,15,625
Tax	**7,00,000**	**7,42,500**	**9,55,000**	**9,85,469**

2) a) Profit and Loss Statement (before AS - 22)

	97 – 98	**98 – 99**	**99 – 00**	**00 – 01**
NPNTD	15,00,000	18,00,000	25,00,000	30,00,000
(-) Dep.	(60,000)	(96,000)	(81,600)	(1,29,360)
NPBT	14,40,000	17,04,000	24,18,400	28,70,640
(-) Tax	7,00,000	7,42,500	19,55,000	9,85,469
N.P. attributed to shareholders	**7,40,000**	**9,61,500**	**14,63,400**	**18,85,171**

b) As per AS – 22 :

Calculation of deferred tax :

	97 – 98	**98 – 99**	**99 – 00**	**00 – 01**
Book dep.	60,000	96,000	81,600	1,29,360
Tax dep.	1,00,000	1,50,000	1,12,500	1,84,375
OTD	40,000	54,000	30,900	55,015
RTD	-	-	-	-
Tax rate	45%	40%	35%	35%
Deferred tax liability	18,000	21,600	10,815	19,255
(-) DTL not required	-	(2,000)	(2,000)	-
			(2,700)	
Net DTL to be provided	**18,000**	**19,600**	**6,115**	**19,255**

Statement of Profit & Loss :

	97 – 98	98 – 99	99 – 00	00 – 01
NPNTD	15,00,000	18,00,000	25,00,000	30,00,000
(-) Dep.	(60,000)	(96,000)	(81,600)	(1,29,360)
(-) Current tax	7,00,000	7,42,500	9,55,000	9,85,469
(-) DTL	18,000	19,600	6,115	19,255
N.P. attributable to shareholders	7,22,000	9,41,900	14,57,285	18,65,916

Sol. Q.121: a) Tax on Accounting Profit = 5,00,000 x 30%
= Rs. 1,50,000

b) Tax on book profit as = 4,50,000 x 7.5%
per min Alt. Tax. = Rs. 33,750.

c) Tax on profit as per I.T. Act = 50,000 x 30%
= Rs. 15,000

Current tax equals (B) or (C), whichever is more = Rs. 33,750.

The entire difference Rs. 4,50,000 is, _____ to be originating temporary timing

Calculation of deferred tax :

Accounting Profit	5,00,000
Tax Profit	50,000
OTD	4,50,000
DTL @ 30% of 4,50,000	1,35,000

∴ Tax expenses = Current tax + Deferred Tax
= 33,750 + 1,35,000
= Rs. 1,68,750

Remarks : Interpretation committee of Accounting standards Board has issued an opinion that where an enterprise pays tax u/s 115JB of I.T. Act the deferred tax in respect of timing difference during the period should be calculated using regular tax rates & not tax rate u/s 115JB (i.e. MAT not to be applied). The implication is even if timing differences were capable of reversal at a time when Co. expects to pay tax u/s 115JB, deferred tax should be computed using regular tax rate & not otherwise.

Sol.Q.120 : Calculation of Deferred Tax :

1)

Book Dep.	8,00,000
Tax Dep.	14,00,000
OTD	6,00,000
DTL @ 30%	1,80,000

Opening Balance in Reserves will be charged with Rs. 1,80,000 to create DTL as a transition provision.

2) Unamortised preliminary = Rs. 10,000

Expenses as per I.T.Act.

DTA @ 30% = Rs. 3,000

A DTA should be raised by crediting opening balance of reserves by Rs. 3,000 as a transition provision

DTA can only be raised to the extent ____ is reasonable certainly that sufficient future taxable income will be available against which DTA can be raised.

Sol.Q.132 Omega Limited :

Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
2006	11,00,000	7,00,000	4,00,000	1,40,000
2007	16,00,000	18,00,000	2,00,000	70,000
2008	21,00,000	23,00,000	NIL	NIL
	48,00,000	**48,00,000**		

Sol. Q.130 Disclosure of Current and Deferred Tax balances will be on the basis of principles laid down in AS-22. These are:

(a) Current tax assets and liabilities can be set off, if the enterprise has a legally enforceable right to set off the recognized amounts and intends to settle them on a net basis.

(b) Deferred tax assets and liabilities can be set off, if the items relate to taxes on47 income levied by the same governing taxation laws. Applying these principles, the required disclosures will be as follows:

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Deferred tax liabilities	100		Current assets, loans and advances:		
Less: Deferred tax assets	20	80	Advance tax paid	795	
			Less: Provisions	750	45

AS 22 – ACCOUNTING FOR TAXES ON INCOME

OBJECTIVE

"Focus on matching concept"

SCOPE

Applicable for tax on Income – (Domestic & Foreign) Does not apply to wealth tax/DDT/CDT

IMPORTANT TERMS

1. Accounting profit/loss(NPBT)
2. Taxable Income/Loss
3. Current Tax
4. Deferred Tax
5. Tax Expense

DEFERRED TAX ON TIMING DIFFERENCE

- Originates in one period but are not capable of being reversed.
- Originates in one period but are capable of being reversed in one or more subsequent period

Creation of DTL

C/F Loss or unabsorbed Depri or Capital Loss (Cap Gain)

↓

Virtual Certainty

Creation of DTA [CAUTION]

Others

↓

Reasonable Certainty

Disclosure

- DTL → Non current Liabilities
- DTA → Non Current Assets

Important Points

1. 80IA/80IB/10A/10B
2. MAT (115JB)
3. First time adoption of AS 22

Diff B/W Acounting profit & Taxable Income

- Permanent Difference
- Timing Difference

AS = 28

Sol.Q.156 :

1) VIU

Year	CI	DF @ 25%	CF
31/3/03	100	0.8	80
31/3/04	60	0.64	38.4
31/3/05	60	0.512	30.72
31/3/06	40	0.410	16.40
31/3/07	50 (40 + 10)	0.328	16.40
			181.92

2) RA = VIU 181.92 OR Net S.P. 120, Whichever is more

i.e. 181.92

CA > RA, the asset is impaired.

3) IL = CA - RA

= 200 - 181.92

= 18.08

Sol.157: Calculation of IL :

Cost on 1/4/95	100
(-) Depreciation for 5 years	50

C.A. as on 31/3/00	50
Add : Revaluation Reserve	8
Revised C.A. as on 1/4/00	58
Less : Depreciation for 2 years $\left(\frac{58}{5} \times 2\right)$	(23.20)
C.A. as on 31/3/02	34.80
(-) R.A.	28.0
Impairment loss	6.80

Impairment loss is charged to Profit and Loss unless the asset has been revalued earlier in which case, IL will be adjusted against balance in R.R. & remaining IL, if any will be charged to Profit and Loss.

R.R. on 1/4/00	8
(-) Amortised in 2 years upto 31/3/02 $\left(\frac{8}{5} \times 2\right)$	3.20
Balance in R.R. as on 31/3/02	4.80

IL of 6.8 will be adjusted against R.R. to the extent of 4.8 and the balance loss of 2 will be charged to profit and loss A/c.

Sol. Q.159: 1) RA = VIU of 27,00,000 OR

= NSP of 30,80,000, whichever is more

i.e. 30,80,000

2) C.A.

Cost on 30/11/00	64,00,000
(-) Depreciation upto 31/3/03 $\left(\frac{64,00,000 - 10,00,000}{60}\right)$ x 28	25,20,000
C.A. as on 31/3/03	38,80,000
(-) R.A.	30,80,000
IL	8,00,000

3)

C.A. as on 31/3/03 (before IL)	38,80,000
(-) IL	(8,00,000)
Revised C.A. as on 31/3/03	30,80,000

Depreciation for year ended 31/3/04

$= \left(\frac{30,80,000 - NIL}{32\,months}\right) \times 12\,months = 11,55,000$

Sol. Q.160: 1) VIU

Year	CF	DF @ 15%	PV
2001	4,000	0.870	3,480
2002	6,000	0.756	4,536
2003	6,000	0.658	3,948
2004	8,000	0.572	4,576
2005	5,000	0.497	2,485
			19,025

2) RA = VIU of 19,025 OR

NSP of 20,000 whichever is more

i.e. 20,000

3) CA

Cost on 1/1/98	40,000
(-) Depreciation for 3 years upto 31/12/00 $\left(\frac{40,000 - 1,000}{8}\right) \times 3$	(14,625)
C.A. as on 31/12/00	25,375
(-) R.A.	20,000
IL	**5,375**

4)

□ C.A. as on 31/12/00 (before IL)	25,375
(-) IL	(5,375)
□ Revised C.A. as on 31/12/00 after IL	**20,000**

Depreciation charged for 2001

$= \frac{20,000 - 1,000}{5} = 3,800$

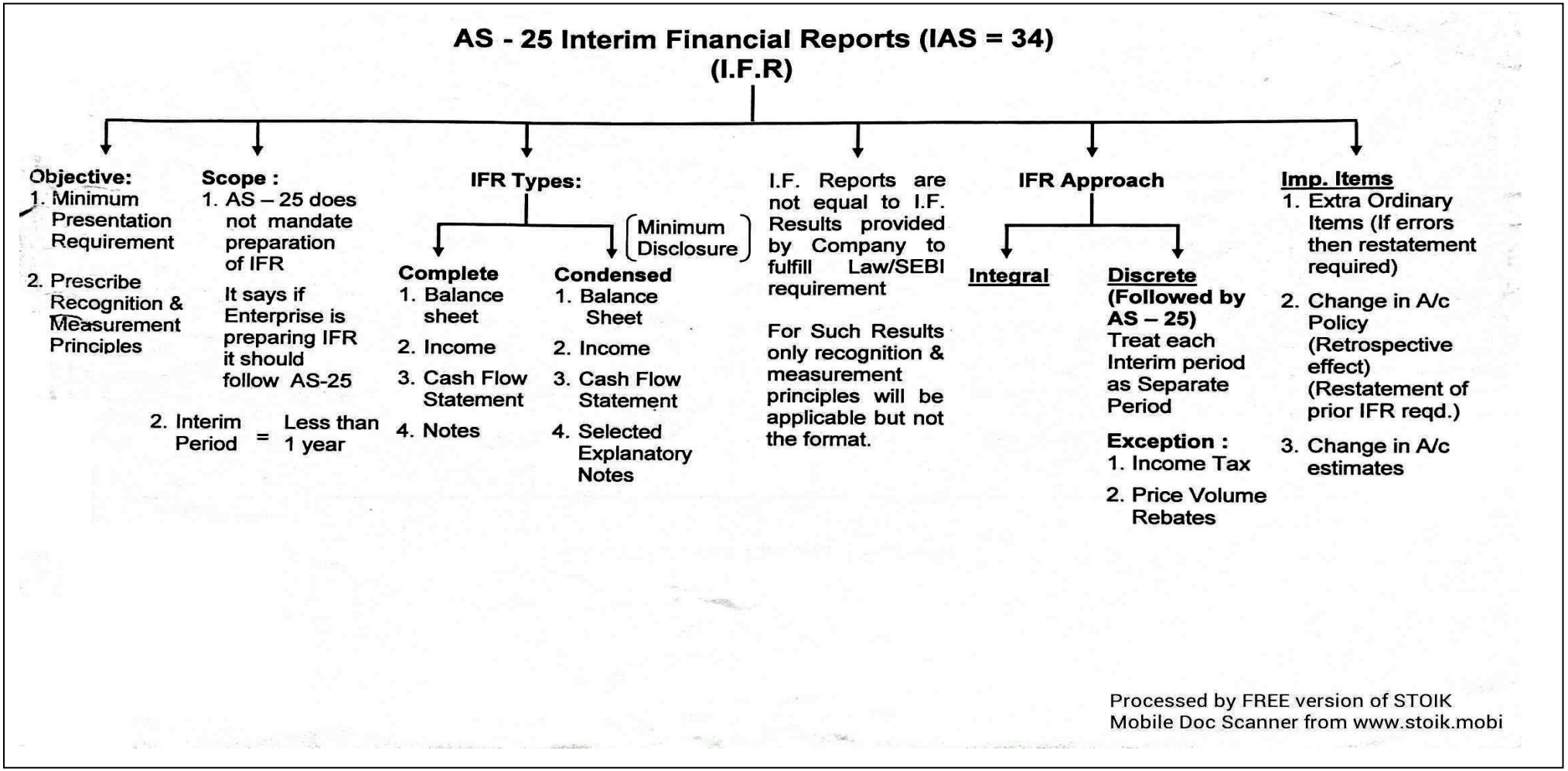
Remarks: Recognition of IL will also require adjustment in the deferred tax asset and / or deferred tax liability.

Sol.Q.162 : Calculation of IL :

C.G.U.	X	Y	Z
C.A. as on 31/3/05	96	64	32
Add : Goodwill allocated (in the ratio of fair values i.e. 3 : 2 : 1)	15	10	5
Total C.A.	111	74	37
(-) R.A.	105		
IL	6		

IL of 6 shall be reduced from Goodwill.

AS = 25


AS - 25 Interim Financial Reports (IAS = 34)
(I.F.R)
Objective:
1. Minimum Presentation Requirement
2. Prescribe Recognition & Measurement Principles
Scope :
1. AS – 25 does not mandate preparation of IFR
It says if Enterprise is preparing IFR it should follow AS-25
2. Interim Period = Less than 1 year
IFR Types:
Minimum Disclosure
Complete
1. Balance sheet
2. Income
3. Cash Flow Statement
4. Notes
Condensed
1. Balance Sheet
2. Income
3. Cash Flow Statement
4. Selected Explanatory Notes
I.F. Reports are not equal to I.F. Results provided by Company to fulfill Law/SEBI requirement
For Such Results only recognition & measurement principles will be applicable but not the format.
IFR Approach
Integral
Discrete
(Followed by AS – 25)
Treat each Interim period as Separate Period
Exception :
1. Income Tax
2. Price Volume Rebates
Imp. Items
1. Extra Ordinary Items (If errors then restatement required)
2. Change in A/c Policy (Retrospective effect) (Restatement of prior IFR reqd.)
3. Change in A/c estimates
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