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MAY '19
REVISION NOTES
Financial Reporting

Part - X

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ABSORPTION, AMALGAMATION & EXTERNAL RECONSTRUCTION

Q.1. The following is the Balance Sheet of W. Ltd. as on 31st March, 2012 :

Liabilities	₹	Assets	₹
Share Capital :		Goodwill	25,000
20,000 shares of ₹ 10 each	2,00,000	Land and Building	1,00,000
General Reserve	20,000	Plant and Machinery	1,45,000
10% Debentures	1,00,000	Stock	55,000
Loan from Bank	40,000	Debtors	65,000
Sundry Creditors	80,000	Cash at Bank	34,000
		Preliminary Expenses	16,000
	4,40,000		4,40,000

The business of W. Ltd. is taken over by S. Ltd. as on that date on the following terms :

(i) All assets except Cash at Bank are taken over at book value less 10% subject to (ii) below.

(ii) Goodwill is to be valued at 4 years purchase of the excess of average (five years) profits over 8% of the combined amount of Share Capital and General Reserve.

(iii) Trade Creditors are to be taken over subject to a discount of 5%

(iv) Loan from Bank and 10% debentures is to be repaid by W. Ltd.

(v) The purchase consideration is to be discharged in cash to the extent of ₹ 1,50,000 and the balance in fully paid Equity Shares of ₹ 10 each valued at ₹ 12.50 per share.

The average of the five years' profit is ₹ 30,100. The expenses of liquidation amount to ₹ 2,000. Prior to 31st March, 2012 W. Ltd. sold goods costing ₹ 30,000 to S. Ltd. for ₹ 40,000. Debtors include ₹ 20,000 still due from S. Ltd. On the date of absorption, ₹ 25,000 worth of goods were still in stock of S. Ltd.

You are required to show :

(a) Realisation Account, Bank A/c., Sundry Shareholders A/c. and Shares in S. Ltd.

(b) Journal entries in the books of S. Ltd.

Calculation of goodwill and purchase consideration should form part of your answer.

Q.2. The following are the summarized Balance Sheets of three undertakings as on 31st December, 2011.

Particulars	Pooh Ltd.	Tiger Ltd.	Kanga & Rao
Freehold Premises, at Cost	5,00,000	1,80,000	1,20,000
Other Fixed Assets at Cost Less Depreciation	15,80,000	3,70,000	2,00,000
Stock in Trade	13,50,000	1,80,000	1,10,000
Sundry Debtors	12,30,000	4,30,000	2,10,000
Cash at Bank	2,10,000	1,20,000	55,000
Total	**48,70,000**	**12,80,000**	**6,95,000**
Equity shares of ₹ 10 each	30,00,000	5,00,000	---
Capital : Kanga	---	---	3,05,000
Capital : Rao	---	---	1,10,000
Reserves	12,20,000	2,60,000	---
Creditors	6,50,000	5,20,000	2,80,000
Total	**48,70,000**	**12,80,000**	**6,95,000**

It was decided that on December 31, 2011 Pooh Ltd. would acquire the whole of the Share Capital of Tiger Ltd. and the Goodwill, Fixed Assets and Stocks of Kanga and Rao, the purchase consideration in both cases being discharged by the issue of Equity Shares in Pooh Ltd. valued at ₹ 12.50 per share. The terms agreed upon were :

1. The Fixed Assets were to be taken at the value placed on them by an independent valuer.
2. The Stocks of Kanga and Rao were to be reduced by ₹ 10,000 because of obsolete items. Stocks of Tiger Ltd. were to be taken at their book value and debtors at book value less ₹ 15,000 in respect of a bad debt.
3. Goodwill was to be valued at two years purchase of the average profits of the last three years subject only to the following adjustments.

In the case of Tiger Ltd. :

1. The Directors remuneration charged in each year was to be reduced by ₹ 25,000 and
2. The Depreciation charged in each year on Other Fixed Assets was to be substituted with depreciation on those assets calculated at 10% of cost on straight - line basis.

In the case of Kanga and Rao : Notional salaries of ₹ 50,000 p.a. in total, were to be charged for the partners ₹ 20,000 being an exceptional item of expense was to be added back to the profits in 2011.

Other Information :

Particulars	Pooh Ltd.	Tiger Ltd.	Kanga & Rao
Depreciation on Other Fixed Assets till date	6,20,000	2,60,000	1,00,000
Independent Valuation as on 31.12.2012			
Freehold Premises	---	6,00,000	2,50,000
Other Fixed Assets	---	3,30,000	2,10,000
Profits for the last three years			
2010	---	90,000	90,000
2011	---	1,21,000	65,000
2012	---	1,31,060	95,000

Depreciation charged on Other Fixed Assets of Tiger Ltd. was ₹ 54,500 in Year 2010, ₹ 44,580 in Year 2011 and ₹ 45,360 in Year 2012.

Particulars of Other Fixed Assets as at 31.12.2012 at cost were :

Before 31.12.2010	6,00,000
Purchased on 1.1.2011	1,10,000
Disposed of on 1.1.2012	80,000 (Acquired on 1.1.2006)

Prepare :

(a) A statement showing the shares to be issued for the acquisition ; and
(b) The Balance Sheet of Pooh Ltd. as on 1.1.2012. Ignore Taxation.

Q.3. (a) A Limited and B Limited both engaged in similar merchanting activities since 1.4.2010 decided to amalgamate their businesses. Holding Co. C Limited, would be formed on 1st April 2012 to acquire all the shares in both Companies.
From the information given below you are required to (a) calculate the amount of purchase consideration.

(b) Prepare the Balance Sheet of C Limited after the transactions have been completed.

The terms of the offer were :

1. (a) ₹ 100 12% Debentures for every ₹ 100 of net asset owned by each company on 31 March, 2012; and
   (b) ₹ 100 equity shares based on two years purchase of profit before taxation. The profit is to be determined taking weighted average profits of 2010-2011 and 2011-2012, weights being 1 and 2 respectively.
2. It was agreed that accounts of B Ltd. for the two years ended March 31, 2012 be adjusted, where necessary, to conform with the accounting policies followed by A Ltd.

3. The pre-tax-profits, including investment income, of the two companies were as follows :

Year ended 31.3.	2011	2012
A Ltd.	₹ 5,46,000	₹ 6,12,000
B Ltd.	₹ 5,96,000	₹ 8,58,000

4. A Ltd. values Stock on last-in-first-out basis while B Ltd. used first-in-first-in-first-out basis. To bring B Ltd.'s values in line with those of A Ltd. its value will require to be reduced by ₹12,000 at the end of 31.3.2011 and ₹ 34,000 at the end of 31.3.2012.
5. Both the companies use straight line method of depreciation.
6. B Ltd. deducts 1% from trade debtors as a general provision against doubtful debts.
7. Prepaid expenses in B Ltd. include advertising expenditure carried forward of ₹ 60,000 in 2010-2011 and ₹ 30,000 in 2011-2012, which is being part of initial advertising in 2010-2011 which is being written off over three years. Similar expenditure in A Ltd. has been fully written off in 2010-2011.
8. To bring director's remuneration on to a comparative basis the profits of B Ltd. are to be reduced by ₹ 40,000 in 2010-2011 and ₹ 60,000 in 2011-2012.

Balance sheets as on 31st March, 2011 and 2012 were as follows :

A Ltd.

	2011	2012		2011	2012
	₹	₹		₹	₹
			Fixed Assets		
Share Capital Issued & Subscribed 4,000 shares of ₹ 100 each fully paid	4,00,000	4,00,000	Furniture & Fixtures : Cost	2,30,000	2,30,000
			Less : Depreciation	23,000	46,000
				2,07,000	1,84,000
Reserves & Surplus			**Investments**		
Capital Reserve	---	70,000	Quoted Investments at		
Revenue Reserve	2,66,100	5,58,000	Market value	---	2,60,000
Current Liabilities and Provisions			**Current Assets**		
			Stock at Cost	6,10,000	7,25,000
Sundry Creditors	5,00,900	6,07,000	Sundry Debtors	6,00,000	7,40,000
Provision for			Prepaid expenses	10,000	14,000
Taxation	2,80,000	3,20,000	Cash at Bank	20,000	32,000
	14,47,000	**19,55,000**		**14,47,000**	**19,55,000**

B Ltd.

	2011	2012		2011	2012
	₹	₹		₹	₹
Shares Capital			**Fixed Assets**		
Issued & Subscribed			Cost Less	3,20,000	3,20,000
5,000 Equity Shares of ₹ 100 each			Depreciation	48,000	96,000
				2,72,000	**2,24,000**
fully paid	5,00,000	5,00,000	**Investments** Quoted Investments at Cost		
Reserves & Surplus					
Revenue Reserve	2,86,000	7,14,000	(Market value 4,90,000)	---	4,00,000
Current **Liabilities & Provisions**			**Current Assets**		
Sundry Creditors	4,90,000	4,94,000	Stock-in-trade at cost	5,97,000	7,42,000
Bank Overdraft	---	1,70,000	Sundry Debtors	5,94,000	8,91,000
Provision for Taxation	3,10,000	4,30,000	Prepaid Expense	72,000	48,000
			Cash at Bank	51,000	3,000
	15,86,000	**23,08,000**		**15,86,000**	**23,08,000**

Q.4. Batliboi & Co. Ltd. carried on manufacturing business. Its products were sold to wholesalers and the company had its own retail shop. Adhikary & Co., Private Ltd. carried on similar manufacturing business, but all goods produced were sold through the company's own retail shops.

The summarised balance sheets of the two companies as at 31st March, 2012 were as follows :

	Batliboi & Co. Ltd.	Adhikary & Co. (P) Ltd.		Batliboi & Co. Ltd.	Adhikary & Co. (P) Ltd.
	₹	₹		₹	₹
Share Capital :			**Fixed Assets :**		
Authorised Equity			Freehold Properties		
Shares of ₹ 10	40,00,000	6,00,000	at cost	10,00,000	2,50,000
Issued & Fully paid up	25,00,000	6,00,000	Plant & Machinery at		
P & L A/c	3,40,000	90,000	Cost less depreciation	13,00,000	1,00,000
Creditors	4,20,000	70,000		23,00,000	3,50,000
			Current Assets :		
			Stock	4,80,000	1,20,000
			Debtors	2,30,000	80,000
			Bank	2,50,000	2,10,000
	32,60,000	**7,60,000**		**32,60,000**	**7,60,000**

The original cost of Plant and Machinery was :

Batliboi & Co. Ltd. ₹ 26,00,000

Adhikary & Co. (P) Ltd. ₹ 2,00,000

The following arrangements were made and carried out on April 1, 2012 :

1. Batliboi & Co. Ltd. purchased from the shareholders of Adhikary & Co. (P) Ltd. all the issued shares @ ₹ 14 per share.
2. The shareholders of Adhikary & Co. (P) Ltd. took over one of the freehold properties of Adhikary & Co. (Private) Ltd. for ₹ 60,000, at the book value of the same. It was agreed that the amount should be set off against the amount due to them under (I) above and the balance due to them to be satisfied by the issue of an appropriate number of equity shares in Batliboi & Co. Ltd. at ₹ 19.50 per share.
   The necessary transfer in regard to the setting off the price of the property taken over by the shareholders against the amount due to them from Batliboi & Co. Ltd. were made in the books of the two companies.
3. All manufacturing was to be carried on by Batliboi and Co. Ltd. and all retail business is to be carried on by Adhikary & Co. (Private) Ltd. in this connection.
   (i) Batliboi & Co. Ltd. purchased the whole of Adhikary & Co. (P) Ltd.'s plant and machinery for ₹ 1,50,000 and certain of their free - hold property (cost ₹ 1,00,000) at ₹ 1,20,000.
   (ii) Adhikary & Co. (P) Ltd. purchased Batliboi & Co. Ltd.'s. freehold retail shop buildings (cost to Batliboi & Co. Ltd., ₹ 75,000) at ₹ 60,000 and took over the retail stock at ₹ 80,000 at the book value.
4. Batliboi & Co. Ltd. drew a cheque in favour of Adhikary & Co. (P) Ltd. for the net amount due, taking into account all the matters mentioned above.
5. Immediately after the transfer of shares in (1) above, Adhikary & Co. (P) Ltd. declared and paid a dividend of ₹ 60,000 (ignore income - tax).

You are required to prepare the Balance Sheets of Batliboi & Co. Ltd. and Adhikary & Co. (P) Ltd. immediately after the completion of the above transaction.

Q.5. A Ltd. agreed to absorb B Ltd. on 31st March 2006, whose balance sheet stood as follows:

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	7,00,000
80,000 shares of		Investments	---
₹ 10 each fully paid	8,00,000	Current Assets	
Reserve & Surplus		Loans & Advances	
General Reserve	1,00,000	Stock in trade	1,00,000
Secured Loan	---	Sundry Debtors	2,00,000
Unsecured Loan	---		
Current Liabilities & Provisions			
Sundry Creditors	1,00,000		
	10,00,000		**10,00,000**

The consideration was agreed to be paid as follows :

(a) A payment in cash of ₹ 5 per share in B Ltd. and

(b) The issue of shares of ₹ 10 each in A Ltd. on the basis of 2 Equity Shares (valued at ₹ 15) and one 10% cumulative preference share (valued at ₹ 10) for every five shares held in B Ltd.

The whole of the share capital consists of shareholdings in exact multiple of five except the following holding :

Q.6. The following are the Balance Sheet of Major Ltd. and Minor Ltd. as on 31st March, 2012:

Assets		Major Ltd. ₹	Minor Ltd. ₹
Fixed Assets :			
	Machinery	1,00,000	50,000
	Furniture	20,000	5,000
Investments :			
	Shares in Major Ltd.	25,000	
	Shares in Minor Ltd.		12,000
Current Assets :			
	Stock	75,000	45,000
	Debtors	60,000	68,000
	Cash at Bank	20,000	20,000
Liabilities		₹	₹
Issued, Subscribed, and Paid up capital :			
Equity Shares of ₹ 100 each fully paid.		2,00,000	1,00,000
Reserve & Surplus :			
Profit and Loss Account		60,000	30,000
Current Liabilities and Provisions :			
Sundry Creditors		40,000	70,000
		3,00,000	**2,00,000**

Major Ltd. holds 200 shares in Minor Ltd. and Minor Ltd. holds 100 shares in Major Ltd.

The two companies agree on amalgamation on the following basis :

(1) A new company is to be formed called Hind Ltd.

(2) The Goodwill is valued for Major Ltd. ₹ 50,000 and for Minor Ltd. ₹ 25,000.

(3) The shares of Hind Ltd. are of nominal value of ₹ 10 each.

Prepare :

(1) Balance Sheet of Hind Ltd. resulting from the amalgamation.

(2) Schedule showing fully the shareholdings therein attributable to share-holders of Major Ltd. and Minor Ltd. All costs of amalgamation are to be ignored.

Q.7. The following is the Balance Sheet of Diverse Ltd. having an authorised capital of ₹ 1,000 Cr. as on 31st March, 2012 :

(₹ in crores)	**₹**	**₹**
Sources of funds :		
Shareholders' funds :		
Share capital		
Equity shares of ₹10 each fully paid in cash	250	
Reserves and Surplus (Revenue)	750	
Loan funds :		
Secured against (a) Fixed Assets₹300 Cr.		
(b) Working capital ₹ 100 Cr.	400	
Unsecured	600	
Employment of funds :		**2,000**
Fixed Assets :		
Gross block	800	
Less Depreciation	200	600
Investments at cost (Market value ₹ 1,000 Cr.)	3,000	400
Net current assets :	2,000	
Current Assets		1,000
Less Current Liabilities		
		2,000

Capital commitments : ₹ 700 crores.

The company consists of 2 divisions :

(i) Established division whose gross block was ₹ 200 crores and net block was ₹ 30 crores; current assets were ₹ 1,500 crores and working capital was ₹ 1,200 crores; the entire amount being financed by shareholders' funds.

(ii) New project division to which the remaining fixed assets, current assets and current liabilities related.

The following scheme of reconstruction was agreed upon :

(a) Two new companies Sunrise Ltd. and Khajana Ltd. are to be formed. The authorised capital of Sunrise Ltd. is to be ₹ 1,000 crores. The authorised capital of Khajana Ltd. is to be ₹ 500 crores.

(b) Khajana Ltd. is to take over investments at ₹ 800 crores and unsecured loans at balance sheet value. It is to allot equity shares of ₹ 10 each at par to the members of Diverse Ltd. in satisfaction of the amount due under the arrangement.

(c) Sunrise Ltd. is to take over the fixed assets and net working capital of the new project division along with the secured loans and obligation for capital commitments for which Diverse Ltd. is to continue to stand guarantee at book values. It is to allot one crore equity shares of ₹ 10 each as consideration to Diverse Ltd. Sunrise Ltd. made an issue of unsecured convertible debentures of ₹ 500 crores carrying interest at 15% per annum and having a right to convert into equity shares of ₹ 10 each at par on 31.3.2016. This issue was made to the member of Sunrise Ltd. as a right who grabbed the opportunity and subscribed in full.

(d) Diverse Ltd. is to guarantee all liabilities transferred to the 2 companies.

(e) Diverse Ltd. is to make a bonus issue of equity shares in the ratio of one equity share for every equity share held by making use of the revenue reserves.

Assume that the above scheme was duly approved by the Honourable High Court and that there are no other transactions. Ignore taxation.

You are asked to :

(i) Pass journal entries in the books of Diverse Ltd.

(ii) Prepare the balance sheets of the three companies giving all the information required by the Companies Act, 1956 in manner so required to the extent of available information.

Q.8. The following was the abridged Balance Sheet of X co. Ltd, as at 31st March, 2012;

Liabilities		₹	Assets	₹
Capital:			Plant and machinery	8,60,000
Authorized:			at depreciated value	
10,000 Equity shares of ₹100 each		10,00,000	Land	
Issued and paid up:			Current assets (Debtors)	7,00,000
8,000 Equity shares of ₹100 each,		8,00,000	Patents trademarks	8,00,000
fully paid up			and copyrights	6,00,000
Reserves and surplus:				
General reserve		5,00,000		
Securities Premium	4,00,000			
Profit and loss	3,60,000	12,60,000		
11% Debentures secured				
against the assets of the Co.		5,00,000		
Sundry Creditors		4,00,000		
		29,60,000		**29,60,000**

The Company ran two district departments utilizing the trademarks and copyright owned and generated by it. The assets and liabilities of one of the departments as on the date of Balance Sheet were:

Plant and Machinery	4,00,000
Land (used for business)	2,00,000
Current assets	2,00,000
Trademarks and copyrights	3,50,000
	11,50,000
Sundry creditors	2,50,000
	9,00,000

Due to managerial constraints, X is unable to develop this department. An overseas buyer is interested to acquire this department and after due diligence, offers a consideration of ₹ 20,00,000 to the company by transfer of business. The buyer offered to discharge the purchase consideration immediately after 31st March, 2012, in the following manner:

i. Issue of equity shares of the buyer's company for ₹ 10,00,000 nominal value at a premium of 20% over the face value; and

ii. Payment of the balance consideration in £ Sterling. The exchange rate agreed upon is ₹80 per £ Sterling. This amount will be retained in London, till the actual takeover of the business is done by the buyer.

(a) Expenses to put through the transaction come to ₹ 8,00,000 initially to be incurred by X but to be shared equally by the parties.

(b) The balance value of trademarks, copyright and patents left with X does not enjoy any market value and has to be written off.

(c) The value of the balance of land in X's possession will be taken at its market value in the books of account. Such a value, determined by an approved value, is 200 percent of the book value.

(d) The parties agree that the date of legal ownership of the transferred business shall be 31st March, 2012 though certain formalities may have to be gone through and agree that the actual transfer to the buyer will be affected before 30th April, 2012.

X Co. Ltd to carry on the business in the normal course and account for the profits of the transferred department to the foreign buyer. X made a net profit of ₹ 2,40,000 from the whole business for April, 2012; 40 percent of the net profit related to the business of the transferred department.

(e) The shares of the overseas buyer's company were quoted on the London Stock Exchange and on 30th April 2012 were quoted at 95 percent of their face value.

(f) The cash received by X at London was remitted by it to its Indian banking account on 30th April 2012 when the rupee sterling rate was `75 per UK sterling pound.

Draw the Balance Sheet of X Co. Ltd. as at 30th April, 2012, after the transfer of the business to the overseas buyer.

Q.9. The shareholders of sunrise ltd. decided on a corporate restructuring exercise necessitated due to economic recession and a slump in business. From the audited statements as on 31-3-2010. And the information supplied. You are requested to prepare.

(i) balance sheet after the completion of the restructuring exercise.
(ii) the capital reduction account.
(iii) the cash account of the entry.

Balance sheet of sunrise ltd. as on 31.3.2010

Liabilities	₹	Assets	₹
Share capital		Fixed assets	
30,000 equity shares of	3,00,000	Trademarks and patents	1,10,000
10 each 40000 8%	4,00,000	goodwill at cost	36,100
cumulative preference shares		Freehold land	1,20,000
10 each		Freehold premises	2,44,000
Reserves and Surplus		Plant and equipment	3,20,000
Securities premium account	10,000	Investment (market to market)	64,000
Profit and loss account	(1,38,400)	Current assets Investment	
Secured borrowings :		Raw materials and	
9% debentures (100)		packing materials	60,000
1,20,000		Finished goods	76,000
Accrued interest 5,400	1,25,400	Trade receivable	1,20,000
Creditors	1,20,000		
Deferred vat payable	50,000		
Temporary bank overdraft	2,23,100		
	10,90,100		**10,90,100**

Note : Preference dividends are in arrears for 4years :

The scheme of reconstruction that received the permission of the court was on the following lines:

(1) The authorized capital of the company to be re-fixed at 10 lakhs (preference capital 3 lakhs and equity capital 7 lakhs both 10 shares each)
(2) The preference shares are to be reduced to 5 each and equity shares reduced by 3 per share. Post reduction, both classes of shares to be re-consolidated into 10 shares.
(3) Trade investments are to be liquidated in open market.
(4) One fresh equity shares of 10 to be issued for every 40 of preference dividends in arrears (ignore taxation).
(5) The securities premium is to be fully utilized to meet the reconstruction programme.
(6) The debentures holders took over freehold land at 2,10,000 and settled the balance after adjusting their dues.
(7) Unprovided contingent liabilities were settled at 54,000 and a pending insurance claim will be immediately settled.
(8) The intangible assets were all to be written off along with 10,000 worth obsolete packing material and 10% of the receivables.
(9) Expenses for the scheme were 10,000.
(10) Remaining cash available as a results of the above transaction is to be utilities to pay off the bank overdraft to that extent.
(11) the equity shareholders agree that they will bring in cash to liquidate the balance outstanding on the overdraft account and also agree that sufficient funds will be bought in to bring up the net working capital after completing the re-structuring execise, to 2 lakhs. The equity shares will be issued at per for this purpose.

AS – 24 : DISCOUNTING OPERATIONS

1) **Definition:**
A discontinuing operation is a component of an enterprise
(a) That the enterprise, pursuant to a single plan, is
i) Disposing of substantially in its entirety, such as by selling the component in a single transaction, or by demerger or spin-off of ownership of the component to the enterprise's shareholders,
ii) Disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually, or
iii) Terminating through abandonment, and
(b) That represents a separate major line of business or geographical area of operations, and
(c) That can be distinguished operationally and for financial reporting purposes.

2) Discontinuing Operations are expected to occur infrequently. However Discontinuing Operation is not an extraordinary item as defined in Accounting Standard - 5. Also a Discontinuing Operation does not automatically bring into question the fundamental assumption of going concern.

3) A restructuring event is not necessarily a Discontinuing Operation. Examples of activities that do not necessarily on their own satisfy the discontinuing definition, but that might do so in combination with other circumstances, include :
(a) Gradual or evolutionary phasing out of a product line or class of service ;
(b) Discontinuing, even if relatively abruptly, several products within an ongoing line of business ;
(c) Shifting of some production or marketing activities for a particular line of business from one location to another; and
(d) Closing of a facility to achieve productivity improvements or other cost savings.

4) A Discontinuing Operation is a component of an enterprise that can be distinguished operationally and for financial reporting. A component can be distinguished operationally and for financial reporting purposes if all the following conditions are met :
a) The operating assets and liabilities of the component can be directly attributed to it:
b) Its revenue can be directly attributed to it ;
c) At least a majority of its operating expenses can be directly attributed to it.
Assets, liabilities, revenue, and expenses are directly attributable to a component if they would be eliminated when the component is sold, abandoned or otherwise disposed of. If debt is attributable to a component, the related interest and other financing costs are similarly attributed to it.

5) **Discontinuance begins when initial disclosure event takes place. A disclosure is required when either of the following two events takes place (whichever is earlier):**
(a) The enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation ; or
(b) the enterprise's board of directors or similar governing body has both (i) approved a detailed, formal plan for the discontinuance and (ii) made an announcement of the plan.

A detailed, formal plan for the discontinuance normally includes :

(a) Identification of the major assets to be disposed of ;
(b) The expected method of disposal ;
(c) The period expected to be required for completion of the disposal;
(d) The principal locations affected ;
(e) The location, function, and approximate number of employees who will be compensated for terminating their services ; and
(f) The estimated proceeds or salvage to be realised by disposal.
An enterprise's board of directors or similar governing body is considered to have made the announcement of a detailed, formal plan for discontinuance, if it has announced the main features of the plan to those affected by it, such as, lenders, stock exchanges, creditors, trade unions, etc., in a sufficiently specific manner so as to make the enterprise demonstrably committed to the discontinuance.

6) The initial disclosure required relating to a discontinuing Operations are

(a) A description of the discontinuing operation ;
(b) The business or geographical segment in which it is reported as per Accounting Standard - 17, Segment Reporting ;
(c) The date and nature of the initial disclosure event ;
(d) The date or period in which the discontinuance is expected to be completed if known or determinable ;
(e) The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled ;
(f) The amount of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period ;
(g) The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense (as defined under Accounting Standard - 22) related thereto; and
(h) The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

For the purpose of presentation and disclosures required by Accounting Standard - 24, the items of assets, liabilities, revenues, expenses, gains, losses, and cash flows can be attributed to a discontinuing operation only if they will be disposed of, settled, reduced, or eliminated when the discontinuance is completed.
When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include, in its financial statements, the following information when the events occur :

(a) For any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation,
    (i) The amount of the pre-tax gain or loss and
    (ii) Income tax expense relating to the gain or loss; and
(b) The net selling price or range of prices (which is after deducting expected disposal costs) of the those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows and the carrying amount of those net assets on the balance sheet date.

7) If an initial disclosure event occurs between the balance sheet date and the date on which the financial statements for that period are approved by the board of directors in the case of a company or by the corresponding approving authority in the case of any other enterprise, disclosures as required by Accounting Standard - 4, Contingencies and Events Occurring After Balance Sheet Date, are made. However, disclosures under Accounting Standard - 24 are not required.

8) The disclosure should continue in Financial Statement for the periods upto and including the period in which the discontinuance is completed.

9) **Narrative disclosures** are given as notes to Financial Statement giving the following information :

- ❖ Description of Discontinuing Operations.
- ❖ Business geographical segment in which it is covered under Accounting Standard - 17.
- ❖ Date & nature of initial disclosure event
- ❖ Date and period in which discontinuance is likely to be completed if known or determinable.

Quantitative disclosures are as follows :

- ❖ Carrying amount of Assets and Liabilities to be disposed.
- ❖ Revenue, expenses, Pre-tax profits, tax related to Discontinuing Operations.
- ❖ Cash flow classified as operating, Investing & Financing activities for current period to be separately shown for Discontinuing Operations.

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AS – 24 : DISCOUNTING OPERATIONS

Q.1. A healthcare goods producer has changed the product line as follows :

Monthly Sales	Washing Soap	Bathing Soap
January, 2009 - September, 2009	4,00,000	4,00,000
October, 2009 - December, 2009	2,00,000	6,00,000
January, 2010 - March, 2010	--	8,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors of the Company has passed a resolution in March, 2009 to this effect. The company follows calendar year as its accounting year. Should it be treated as discontinuing operation?

Q.2. A healthcare goods producer has changed its geographic segment for one area, as follows:

Monthly Sales	Maharashtra	Gujarat
January, 2008 - September, 2008	4,00,000	4,00,000
October, 2008 - December, 2008	2,00,000	6,00,000
January, 2009 - March, 2009	--	8,00,000

Earlier the company was marketing the production in two geographic segments. Because of stiff competition and falling margin in the Maharastra, it had gradually closed down its operation in Maharastra and shifted all activities to Gujarat. Should this event form part of discontinuing operations?

Q.3. A Company belonging to the process industry carries out three consecutive processes. The output of the first process is taken as input of the second process, and the output of the second process is taken as input of the third process. The final product emerges out of the third process. It is also possible to outsource the intermediate products. It has been found that over a period of time cost of production of the first process is 10% higher than the market price of the intermediate product available freely in the market. The company has decided to close down the first process as a measure of cost saving (vertical spin off) and outsource. Should this event be treated as discontinuing operations?

Q.4. A company has two divisions - cement and steel. It has started negotiating for disposal of the steel division informally since May 2008, discussion has been held with the possible buyers, the labour union has demonstrated against this secret deal, the company has given a statement that there is no move to sell the steel division. The significant reduction in the production has taken place because of decline in the market demand for the company's product not as planned strategy to close down operation. During November 2008 the Board of Directors has announced that they are considering disposal of the steel division because of continuing loss suffered by that division. But no formal resolution was passed. Necessary formalities for disposal of a division were fulfilled only during January 2005 and the steel division was disposed of in the last week of January 2009. The company follows calendar year as accounting year. Does this event require disclosure?