PAPER – 1 : FINANCIAL REPORTING

*Question No.**1** is compulsory. Candidates are required to answer any **five** questions from the remaining **six** questions.*

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Question 1

(a) *Kunthu Ltd. began construction of a new building at an estimated cost of ₹ 7 lakh on 1st April, 2017. To finance construction of the building it obtained a specific loan of ₹ 2 lakh from a financial institution at an interest rate of 9% per annum.*

The company's other outstanding loans were:

Amount	Rate of Interest per annum
₹ 7,00,000	12%
₹ 9,00,000	11%

The expenditure incurred on the construction was:

April, 2017	₹ 1,50,000
August, 2017	₹ 2,00,000
October, 2017	₹ 3,50,000
January, 2018	₹ 1,00,000

The construction of building was completed by 31st January, 2018. Following the provisions of AS 16 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 2018.

(b) *The following particulars are stated in the Balance Sheet of PQR Ltd. as on 31.03.2016:*

	(₹ in lakh)
Deferred Tax Liability (Cr.)	30.00
Deferred Tax Assets (Dr.)	15.00

The following transactions were reported during the year 2016-2017:

i.	Tax Rate	30%
		(₹ in lakh)
ii.	Depreciation-as per books	80.00
	Depreciation-for tax purposes	70.00

iii.	*Items disallowed in 2015-2016 and allowed for tax purposes in 2016-2017.*	*10.00*
iv.	*Interest to Financial Institutions accounted in the books on accrual basis, but actual payment was made on 30.09.2017.*	*20.00*
v.	*Donations to Private Trust made in 2016-2017.*	*10.00*
vi.	*Share issue expenses allowed under I.T. Act for the year 2016-2017 (1/10th of ₹ 50 lakh incurred in 2015-2016).*	*5.00*
vii.	*Repairs to Plant and Machinery ₹ 200 lakh were spread over the period 2016-2017 and 2017-2018 equally in the books. However, the entire expenditure was allowed for income purposes.*	

There were no additions to Fixed Assets during the year.

Prepare Deferred Tax Assets A/c and Deferred Tax Liability A/c as on 31.03.2017.

(c) Ganesha Ltd. acquired a machine on 1st April, 2011 for ₹ 18 crore which had an estimated useful life of 9 years. The company follows Straight Line Method (SLM) for depreciating its fixed assets. It was estimated that this machine would have Zero residual value. On 1st April, 2016, the carrying value of the machine was reassessed at ₹ 12.40 crore and the gain arising out of the revaluation is credited to Revaluation Reserve. During the year 2017-18, due to change in market conditions, the recoverable amount ascertained to be only ₹ 260 lakh as on 31st March, 2018. Ganesha Ltd. had followed the policy of writing down the revaluation gain by the increased charge of depreciation resulting from revaluation.

You are required to calculate the loss on impairment of the machine and show the amount to be debited to Statement of Profit and Loss for the year ended on 31st March, 2018 as per AS 28 "Impairment of Assets".

(d) Nemi Finance is a non-banking finance company. The following are the details of various investments held by it as on 31.03.2018: *(₹ in lakh)*

Scripts		*Cost*	*Market Price*
A.	*Equity Shares*		
	A	*55*	*57.50*
	B	*34*	*31.20*
	C	*72*	*67.00*
	D	*48*	*53.00*
	E	*88*	*102.30*
	F	*24*	*18.50*

B.	*Mutual Funds*		
	MF-1	*50.55*	*46.10*
	MF-2	*27.00*	*29.00*
	MF-3	*16.00*	*12.90*
C.	*PSUs Bonds*		
	PB-1	*14.00*	*15.50*
	PB-2	*9.00*	*8.70*
	PB-3	*7.00*	*7.80*

(i) Find out the value of investments as on 31.03.2018 when:

(a) Considered category-wise

(b) Considered scrip-wise

Assuming investments in equity shares and mutual funds are current investments.

(ii) Can depreciation in the value of investment in mutual funds be offset against appreciation in the value of investment in equity shares and bonds of PSUs. Comment. ***(4 x 5 = 20 Marks)***

Answer

(a) (i) Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (₹)	*Rate of interest*		*Amount of interest (₹)*
7,00,000	12%	=	84,000
9,00,000	11%	=	99,000
16,00,000			1,83,000
Weighted average rate of interest (1,83,000/16,00,000) x 100		=	11.4375%

(ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	*Amount spent*	*Financed through*	*calculation*	*₹*
1^{st} April, 2017	1,50,000	Specific borrowing	1,50,000 x 9% x 10/12	11,250
1^{st} August, 2017	2,00,000	Specific borrowing	50,000 x 9% x 10/12	3,750

		General borrowing	1,50,000 x 11.4375% x 6/12	8,578.125
1st October, 2017	3,50,000	General borrowing	3,50,000 x 11.4375% x 4/12	13,343.75
1st January, 2018	1,00,000	General borrowing	1,00,000 x 11.4375% x 1/12	953.125
				37,875

Note: Since construction of building started on 1st April, 2017, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

(iii) Total expenses to be capitalized for building

	₹
Cost of building ₹ (1,50,000 + 2,00,000 + 3,50,000 + 1,00,000)	8,00,000
Add: Amount of interest to be capitalized	37,875
	8,37,875

(iv) Journal Entry

Date	*Particulars*		₹	₹
31.1.2018	Building account	Dr.	8,37,875	
	To Bank account			8,00,0000
	To Interest payable (borrowing cost)			37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2018.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	*Particulars*		₹	₹
31.1.2018	Building account	Dr.	8,37,875	
	To Bank account			8,37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

(b) Impact of various items in terms of AS 22 deferred tax liability/deferred tax asset

Transactions	*Analysis*	*Nature of difference*	*Effect*	*Amount*
Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing difference	Reversal of DTL	₹ (80-70) lakh × 30% = ₹ 3 lakh
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Responding timing difference	Reversal of DTA	₹ 10 lakh × 30% = ₹ 3 lakh
Interest to financial institutions	It is allowed as deduction under section 43B of the IT Act, if the payment is made before the due date of filing the return of income (i.e. 30th September, 2017).	No timing difference	Not applicable	Not applicable
Donation to private trusts	Not an allowable expenditure under IT Act.	Permanent difference	Not applicable	Not applicable
Share issue expenses	Due to disallowance of full expenditure under IT Act, tax payable in the earlier years was higher.	Responding timing difference	Reversal of DTA	₹ 5 lakh × 30% = ₹ 1.5 lakh
Repairs to plant and machinery	Due to allowance of full expenditure under IT Act, tax payable of the current year will be less.			
	₹ 100 lakh	No timing difference		
	₹ 100 lakh	Originating timing difference	Increase in DTL	₹ 100 lakh × 30% = ₹ 30 lakh

Deferred Tax Liability Account

		₹ *in lakh*			₹ *in lakh*
31.3.2017	To Profit and Loss A/c (Depreciation)	3.00	1.4.2016	By Balance b/d	30.00
				By Profit and Loss A/c	30.00
	To Balance c/d	57.00		(Repairs to plant)	
		60.00			60.00

Deferred Tax Asset Account

		₹ *in lakh*			₹ *in lakh*
1.4.2016	To Balance b/d	15.00	31.3.2017	By Profit and Loss A/c:	
				- Items disallowed in 2015-2016 and allowed as per I.T. Act in 2016-2017	3.00
				- Share issue expenses	1.50
				By Balance c/d	10.50
		15.00			15.00

(c) Statement Showing Impairment Loss

	(₹ *in crore)*
Cost of the machine as on 1st April 2011	18.00
Depreciation for 5 years i.e. 2011-2012 to 2015-2016 $\left[\frac{18\text{ crores}}{9\text{ years}}\times 5\text{ years}\right]$	(10.00)
Carrying amount as on 31.03.2016	8.00
Add: Upward Revaluation (credited to Revaluation Reserve account)	4.40
Carrying amount of the machine as on 1st April 2016 (revalued)	12.40
Less: Depreciation for 2 years i.e. 2016-2017 & 2017-2018 $\left[\frac{12.40\text{ crores}}{4\text{ years}}\times 2\text{ years}\right]$	(6.20)
Carrying amount as on 31.03.2018	6.20
Less: Recoverable amount	(2.60)
Impairment loss	3.60

Less: Balance in revaluation reserve as on 31.03.2018:			
Balance in revaluation reserve as on 1.4.2016	4.40		
Less: Amount equal to additional depreciation transferred from revaluation reserve			
2016-2017 & 2017-2018 = [(4.40/4 years) x 2 years]	(2.20)		
Impairment loss set off against revaluation reserve balance as per AS 28			(2.20)
Impairment Loss to be debited to Profit and Loss account			1.40

(d) (i) Value of investments as on 31.3.2018

Current investments for each category shall be valued at cost or market value, whichever is lower. For this purpose, the investments in each category shall be valued at the lower of cost and market value either scrip-wise or category-wise.

(a) Value of Investments as on 31.3.2018 (category-wise)

Type of Investment	*Valuation Principle*	*Cost (₹ in lakh)*	*Fair value i.e. market price (₹ in lakh)*	*Value (₹ in lakh)*
Equity Shares (Aggregated)	Lower of cost or fair value	321.00	329.50	321.00
Mutual Funds	Lower of cost or fair value	93.55	88.00	88.00
PSUs Bonds	Cost	30.00	32.00	30.00
				439.00

(b) Value of Investments as on 31.3.2018 (scrip-wise)

Scripts:		Cost	Market Price	Value	
A.	Equity Shares (Lower of cost or fair value)				
	A	55.00	57.50	55.00	
	B	34.00	31.20	31.20	
	C	72.00	67.00	67.00	
	D	48.00	53.00	48.00	
	E	88.00	102.30	88.00	
	F	24.00	18.50	18.50	307.70
B.	Mutual funds (Lower of cost or fair value)				
	MF-1	50.55	46.10	46.10	

	MF-2	27.00	29.00	27.00	
	MF-3	16.00	12.90	12.90	86.00
C.	PSUs Bonds				
	PB-1	14.00	15.50	14.00	
	PB-2	9.00	8.70	9.00	
	PB-3	7.00	7.80	7.00	30.00
					423.70

(ii) Inter category adjustments of appreciation and depreciation in values of investments cannot be done. Therefore, it is not possible to offset depreciation in investment in mutual funds against appreciation in the value of investments in equity shares and bonds of PSUs.

Question 2

The summarised Balance Sheet of Pinki Ltd. as on 31st March, 2018 is as under:

I. Equity and Liabilities

	Particulars	***₹***
1.	*Shareholders Fund*	
	Equity shares of ₹ 10 each	*3,00,000*
	6,000, 9% cumulative preference shares of ₹ 10 each	*60,000*
	Reserves & Surplus	*(1,70,000)*
2.	*Non-current Liabilities*	
	10% Debentures of ₹ 100 each	*2,00,000*
3.	*Current Liabilities*	
	Interest accrued on Debentures	*20,000*
	Trade Payables	*1,50,000*
	Total	***5,60,000***

II. Assets

	Particulars	***₹***
1.	*Non-current Assets*	
	Fixed Assets-Tangible	*3,40,000*
	Intangible-Goodwill	*10,000*
2.	*Current Assets*	
	Inventory	*80,000*
	Trade Receivables	*1,10,000*

	Bank Balance		*20,000*
		Total	***5,60,000***

The following scheme of reconstruction is passed and sanctioned by the Court:

(i) A new company Ravi Ltd. is formed with authorised share capital of ₹ 5,00,000 divided into 40,000 Equity Shares of ₹ 10 each and 10,000 9% Preference Shares of ₹ 10 each.

(ii) The new company will acquire the assets and liabilities of Pinki Ltd. on the following terms:

(a) Pinki Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

(b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

(c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

(d) Equity shareholders are issued one share at par for every three shares held in Pinki Ltd.

(iii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. Balance of purchase consideration being attributed to fixed assets.

(iv) Remaining equity shares of the new company are issued to public at par fully paid up.

(v) Expenses of ₹ 5,000 to be met from bank balance of Pinki Ltd.

You are required to present:

(a) In the books of Pinki Ltd.:

(i) Realisation and Reconstruction (combined) account.

(ii) Equity Shareholders' account.

(b) In the books of Ravi Ltd.

(i) Bank Account.

(ii) Summarised Balance Sheet with notes to accounts. ***(16 Marks)***

Answer

(a) **In the books of Pinki Ltd.**

(i) **Realisation and Reconstruction Account**

	₹		₹
To Goodwill	10,000	By 10% Debentures	2,00,000
To Fixed assets	3,40,000	By Interest accrued on debentures	20,000
To Inventory	80,000	By Trade payables	1,50,000
To Trade receivables	1,10,000	By Ravi Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To Bank (20,000 - 5,000)	15,000	By Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000
To Preference share holders A/c (W.N.3)	5,400		
	5,60,400		5,60,400

Note: Expenses of ₹ 5,000, to be met from bank balance of Pinki Ltd. is adjusted from the bank balance of Pinki Ltd. before its acquisition.

(ii) **Equity shareholders' Account**

	₹		₹
To Profit & loss A/c	1,70,000	By Equity Share capital	3,00,000
To Expenses	5,000		
To Equity shares in Ravi Ltd.	1,00,000		
To Realisation and Reconstruction A/c	25,000		
	3,00,000		3,00,000

(b) **In the books of Ravi Ltd.**

(i) **Bank Account**

	₹		₹
To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 4)	94,600		
	1,09,600		1,09,600

(ii) Balance Sheet as on 31st March, 2018

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	4,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	2,00,000
Total		6,00,000
II. Assets		
(1) Non-current assets		
Fixed assets		
(a) Tangible assets (W.N.2)		3,08,400
(2) Current assets		
(a) Inventories		72,000
(b) Trade receivables		1,10,000
(c) Cash and cash equivalents		1,09,600
Total		6,00,000

Notes to Accounts

		₹
1.	**Share Capital**	
	Authorised share capital	
	40,000 equity shares of ₹ 10 each	4,00,000
	10,000, 9% Preference shares of ₹ 10 each	1,00,000
		5,00,000
	Issued and Subscribed	
	40,000 shares of ₹ 10 each fully paid up	4,00,000
	(out of the above, 30,540 (W.N.4) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	
2.	**Long Term Borrowings**	
	10% Debentures	2,00,000
3.	**Fixed Assets**	
	Tangible Assets (W.N. 2)	3,08,400

Working Notes:

1. **Calculation of Purchase consideration**

	₹
Payment to preference shareholders	
6,000 equity shares @ ₹ 10	60,000
For arrears of dividend: (6,000 x ₹ 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ ₹ 10	1,00,000
Total purchase consideration	1,65,400

2. **Calculation of fair value at which fixed assets have been acquired by Ravi Ltd.**

Since, the question states that "balance of purchase consideration is being attributed to fixed assets", it is implied that the amount of purchase consideration is equal to the fair value at which the net assets have been acquired.

Therefore, the difference of fair value of net assets (excluding fixed assets) and the purchase consideration is the fair value at which the fixed assets have been acquired.

		₹
Purchase consideration / Net assets		1,65,400
Add: Liabilities:		
10% Debentures (including interest on debentures)		2,20,000
Trade payables		1,20,000
		5,05,400
Less: Inventory ₹ (80,000- 8,000)	72,000	
Trade receivables	1,10,000	
Bank	15,000	(1,97,000)
Fair value at which fixed assets has been acquired		3,08,400

3. **Preference shareholders' Account**

	₹		₹
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000

		By	Realisation and Reconstruction A/c (Bal. fig.)	5,400
	65,400			65,400

4. Calculation of number of Equity shares issued to public

	Number of shares	
Authorised equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Pinki Ltd.	12,000	
Preference shareholders of Pinki Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Pinki Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

Question 3

Sumati Ltd. acquired 100% (50,00,000) equity shares of ₹ 10 each in Sheetal Ltd. on 1st April, 2014.

Sumati Ltd. acquired 80% (24,00,000) equity shares in Dharam Ltd. for ₹ 600 lakh on 1st April, 2014 when Dharam Ltd. had share capital of ₹ 300 lakh and Reserves and Surplus of ₹ 300 lakh.

The company amortizes goodwill on consolidation on a SLM basis over a period of 5 years. A full year's amortization is considered if the goodwill exists for more than 6 months.

On 1st April, 2017, Sumati Ltd. sold 12,00,000 equity shares of Dharam Ltd. for cash consideration of ₹ 360 lakh with recognition of profit arising out of this sale.

The net assets of Dharam Ltd. on 31st March, 2017 were ₹ 700 lakh. The amount of Reserves and Surplus was ₹ 880 lakh, ₹ 720 lakh and ₹ 480 lakh respectively of Sumati Ltd., Sheetal Ltd. and Dharam Ltd. on 31st March, 2017.

The Balance Sheet extracts of the companies as on 31st March, 2018 were as follows:

(₹ in lakh)

	Sumati Ltd.	*Sheetal Ltd.*	*Dharam Ltd.*
Share Capital (₹ 10 each)	*1000*	*500*	*300*
Reserves and Surplus	*1240*	*910*	*640*

Current Liabilities	*460*	*490*	*560*
	2700	*1900*	*1500*
Fixed Assets	*640*	*420*	*380*
50,00,000 equity shares in Sheetal Ltd.	*500*		
12,00,000 equity shares in Dharam Ltd.	*300*		
Current Assets	*1260*	*1480*	*1120*
	2700	*1900*	*1500*

You are required to prepare for Sumati Ltd. Group Balance Sheet as on 31st March, 2018 following AS 21 and AS 23. Notes to Accounts and working notes should form part of your answer. ***(16 Marks)***

Answer

Consolidated Balance Sheet as on 31.3.2018

Particulars	*Note No.*	*(₹ in lakh)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,000
(b) Reserves and Surplus	2	2,206
(2) Current Liabilities	3	950
Total		4,156
II. Assets		
(1) Non-current assets		
Fixed Assets	4	1,060
Non-current investment (Investment in Associate Dharam Ltd.)	5	356
(2) Current assets	6	2,740
Total		4,156

Notes to Accounts

			₹ in lakh
1.	**Share Capital**		
	100 lakh Equity shares of ₹ 10 each fully paid up		1,000
2.	**Consolidated Reserves and Surplus as on 31.3.2018**		
	Balance of Reserves and surplus of Sumati Ltd. as on 31.3.2018	1,240	

	Add: Post-acquisition reserves and surplus of Sheetal Ltd. (subsidiary)**	910	
	Profit accumulated over the years on investment of Sumati Ltd. (304-300)	4	
	Post-acquisition reserves and surplus of Dharam Ltd. (640-480) x 40%	64	
	Less: Goodwill amortised for the period (24/2)	(12)	2,206
3.	**Current Liabilities**		
	Sumati Ltd.	460	
	Sheetal Ltd.	490	950
4.	**Fixed Assets**		
	Sumati Ltd.	640	
	Sheetal Ltd.	420	1,060
5.	**Non-current investment (Investment in Associate Dharam Ltd.)**		
	Carrying amount of Investment in Associate. [W.N.2]	304	
	(Identified goodwill included in the above ₹ 24 lakh) [W.N.3]		
	Add: Increase in reserves and surplus during the year (640-480) x 40%	64	
	Less: Goodwill written off in the fourth year (₹ 24 lakh x ½)	(12)	356
6.	**Current assets**		
	Sumati Ltd.	1,260	
	Sheetal Ltd.	1,480	2,740

****Note:** In the absence of 'Reserves and surplus' balance of Sheetal Ltd. on 1st April, 2014, it is assumed that Sheetal Ltd. was incorporated on 1st April, 2014 and had no balance in Reserves and Surplus Account on that date.

Working Notes:

1. Cost of Control on acquisition of shares in Dharam Ltd. and amortization of goodwill

	₹ in lakh
Investment by Sumati Ltd.	600
Less: Share capital (300 x 80%)	(240)
Capital profit (pre-acquisition) (300 x 80%)	(240)

Goodwill	120
Less: Amortization for 3 years [(120/5) x3]	(72)
Carrying value of goodwill after 3 years	48

2. Ascertainment of carrying value of investment in Dharam Ltd. disposed off and retained

	₹ in lakh
Net Assets of Dharam Ltd. on the date of disposal*	700*
Less: Minority's interest in Dharam Ltd. on the date of disposal (700 x 20%)	(140)
Share of Sumati Ltd. in Net Assets	560
Add: Carrying value of Goodwill (Refer W.N.1)	48
Total value of investment in Dharam Ltd. as on 1.4.2017	608
Less: Carrying Value of investment disposed off [₹ 608 lakh x (12 lakh /24 lakh)]	(304)
Carrying Value of investment retained by Sumati Ltd.	304

***Note:** The above answer is done on the basis of the net assets ie. ₹ 700 lakh (as mentioned in the question). However, from the information given in the question, the net assets or net worth of Dharam Ltd. may be calculated as ₹ 780 lakh (ie. Reserves and Surplus of Dharam Ltd. ₹ 480 lakh as on 31st March, 2017 + the share capital of Dharam Ltd. ₹ 300 lakh). The question can be solved on the basis of this figure also.

3. Goodwill arising on the Carrying Value of Unsold Portion of the Investment

	₹ in lakh
Carrying value of retained 40% holdings in Dharam Ltd. as on 1st April, 2017	304
Less: Share in value of equity of Dharam Ltd., as at date of investment when its subsidiary relationship is transformed to an associate (700 x 40%)	(280)
Goodwill arising on such investment under Equity method as per AS 23	(24)

Question 4

(a) A company announced Stock Appreciation Right (SAR) on 01.04.2014 for each of its 518 employees. The scheme gives employees the right to claim payment equivalent to excess of market price of company's shares, on exercise date, over the exercise price ₹ 130 per share in respect of 100 shares, subject to condition of continuous employment

for 3 years. The SAR is exercisable after 31.03.2017 but before 30.09.2017. The fair value of SAR was ₹ 24 in 2014-2015, ₹ 27 in 2015-2016 and ₹ 30 in 2016-2017.

In 2014-2015, the company estimates that 3% of the employees shall leave the company annually. This was revised to 4% in 2015-2016. Actually 18 employees left the company in 2014-2015, 10 left in 2015-2016 and 12 left in 2016-2017. The SAR, therefore actually vested to 478 employees. On 30.09.2017, when the SAR was exercised, the intrinsic value was ₹ 32 per share. Show provision for SAR A/c by fair value method.

(8 Marks)

(b) *Hill Ltd. has contracted as a point of staff welfare measures to lend to its employees a sum of ₹ 12,00,000 on 1st January, 2017 at a rate of interest of 6% per annum. The amounts lent are to be repaid, along with the interest, in four equal annual instalments. The market rate of interest is 10% per annum.*

Following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the journal entries for the year ended 31st December, 2015 for the transaction and also calculate the value of the loan initially to be recognised and the amortised cost for all the subsequent years.*

For the purpose of calculation, the following discount factors at interest rate of 10% may be considered:

At end of year	*1*	*2*	*3*	*4*
Discount factor	*0.909*	*0.827*	*0.751*	*0.683*

(8 Marks)

Answer

(a) Provision of SARs A/c (For 2014-2015)

	₹		₹
To Balance c/d	3,76,360	By Employee Compensation Expense	3,76,360
	3,76,360		3,76,360
Provision of SARs A/c (For 2015-2016)			
To Balance c/d	8,46,720	By Balance b/d	3,76,360
		By Employee Compensation Expenses	4,70,360
	8,46,720		8,46,720

* PS: Read '2015' as '2017'.

Provision of SARs A/c (For 2016-2017)			
To Balance c/d	14,34,000	By Balance b/d	8,46,720
		By Employee Compensation Expenses	5,87,280
	14,34,000		14,34,000

Provision of SARs A/c (For 2017-2018)			
To Bank (47,800 x 32)	15,29,600	By Balance b/d	14,34,000
		By Employee Expenses	95,600
	15,29,600		15,29,600

The Provision for SAR is a liability as settlement of SAR is through cash payment equivalent to an excess of market price of company's shares on exercise date over the exercise price.

Working Notes:

Year 2014-2015

Number of employees to whom SARs were announced = 518 employees

Number of SARs to be vested at the end of the vesting period, as on 2014-2015

= [{(518 -18) x 0.97 x 0.97} x 100 SARs = 47,045 SARs] = 47,045 SARs

Fair value of SARs = 47,045 SARs × ₹ 24 = ₹ 11,29,080

Vesting period = 3 years

Recognised as expense in 2014-2015 = ₹ 11,29,080 / 3 years = ₹ 3,76,360

Year 2015-2016

Total estimated number of SARs in 2015-2016 = [(518 – 18 - 10) x 0.96] x 100 SARs

= 47,040 SARs

Fair value of SARs = 47,040 SARs × ₹ 27 = ₹ 12,70,080

Vesting period = 3 years; No. of years expired = 2 years

Cumulative value of SARs to recognize as expense = (12,70,080 / 3) × 2

= ₹ 8,46,720

SARs recognize as expense in 2015–2016 = ₹ 8,46,720 – ₹ 3,76,360

= ₹ 4,70,360

Year 2016-2017

Fair value of SARs = ₹ 30

SARs actually vested = 478 employees × 100 = 47,800 SARs

Fair value = 47,800 SARs × ₹ 30 = ₹ 14,34,000

Cumulative value to be recognized = ₹ 14,34,000

Value of SARs to be recognized as an expense = ₹ 14,34,000 – ₹ 8,46,720

= ₹ 5,87,280

Year 2017–2018

Cash payment of SARs = 47,800 SARs × ₹ 32 = ₹ 15,29,600

Value of SARs to be recognized as an expense in 2017 – 2018

= ₹ 15,29,600 – ₹ 14,34,000 = ₹ 95,600.

Note: Alternatively, number of SARs can be calculated by rounding off the no. of employees. In such a situation, some of the figures will change slightly.

(b) Equal instalments for each year will be:

Present Value Annuity factor @ 6% for 4 years = 3.465 (to be calculated by the candidates)

Equated annual instalment will be 12,00,000 / 3.465 = ₹ 3,46,320

(i) Calculation of initial recognition amount of loan to employees

Year end (a)	*Total* ₹ (b)	*P.V. factor@10%* (c)	*Present value* ₹ (b) x (c) = (d)
2017	3,46,320	0.909	3,14,805
2018	3,46,320	0.827	2,86,407
2019	3,46,320	0.751	2,60,086
2020	3,46,320	0.683	2,36,537
			10,97,835

(ii) Calculation of amortised cost of loan to employees

Year	*Amortised cost (Opening balance) [1]* ₹	*Interest to be recognized @10% [2]* ₹	*Repayment (including interest) [3]* ₹	*Amortised Cost (Closing balance) [4]=[1]+ [2]–[3]* ₹
2017	10,97,835	1,09,784	3,46,320	8,61,299
2018	8,61,299	86,130	3,46,320	6,01,109
2019	6,01,109	60,111	3,46,320	3,14,900
2020	3,14,900	31,420*	3,46,320	Nil

*₹ 3,14,900x 10% = ₹ 31,490. The difference of ₹ 70 (₹ 31,490 – ₹ 31,420) is due to approximation in computation and discounting factor.

(iii) Journal Entries in the books of Hill Ltd.

For the year ended 31st December, 2017 (regarding loan to employees)

		Dr. (₹)	*Cr. (₹)*
Staff loan A/c	Dr.	12,00,000	
To Bank A/c			12,00,000
(Being the disbursement of loans to staff)			
Staff cost A/c* ₹ (12,00,000 –10,97,835) [Refer part (i)]	Dr.	1,02,165	
To Staff loan A/c			1,02,165
(Being the difference debited as staff cost to write off the excess of loan balance over present value in order to reflect the loan at its present value of ₹ 10,97,835)			
Staff loan A/c	Dr.	1,09,784	
To Interest on staff loan A/c			1,09,784
(Being the charge of interest @ market rate of 10% on the loan)			
Bank A/c	Dr.	3,46,320	
To Staff loan A/c			3,46,320
(Being the repayment of first instalment with interest for the year)			
Interest on staff loan A/c	Dr.	1,09,784	
To Profit and Loss A/c			1,09,784
(Being transfer of balance of staff loan Interest account to profit and loss account)			

* Where the difference between the amount given by the Company to its employees and its fair value represents another asset, then such asset shall be recognised. Accordingly, such difference is recognised as prepaid employee cost and amortised over the period of loan.

Note: The above question has been solved on the basis that the instalment including principal value and interest is equal for all the four years. Alternatively, it can be interpreted that the principal repayment is in 4 equal instalments. Thereafter the interest outstanding amount is added in each instalment.

Question 5

(a) Thoco Ltd. is in the business of high fashion women wears. The company operates from Taiwan. It outsourced substantial supplies of women wears from an Indian company Gorgeous Fashion Ltd. To ripe the synergy of business, Thoco Ltd. negotiated with Indian company for takeover. After due diligence of Gorgeous Fashion Ltd. (GFL) the following information is available:

(i) Cash Flow forecast for next 5 years: **(₹ in lakh)**

Year	1	2	3	4	5
Thoco Ltd.	1,200	1,500	2,000	2,700	3,500
Gorgeous Fashion Ltd.	600	800	1,000	1,300	1,700

(ii) The net worth of Gorgeous Fashion Ltd. suggested in due diligence report is as under:

	(₹ in lakh)
Fixed Assets	1,750
Investments (Non-trade)	750
Inventories	450
Trade Receivables	400
Total	**3,350**
Current Liabilities	(850)
Bank loan	(1,000)
Net Worth	**1,500**

(iii) Talks for takeover have been crystallized on the followings terms:

(1) Thoco Ltd. will have to discard machinery worth ₹ 200 lakh considered not being energy efficient. The expected realisation of the same will be ₹ 50 lakh.

(2) The Inventories and Trade Receivable are agreed for takeover at values of ₹ 300 lakh each, being their realisable price on disposal.

(3) Investments have ready market for ₹ 1,000 lakh.

(4) The entire liabilities are to be paid off immediately in full on takeover alongwith workman compensation claim payable ₹ 10 lakh, not provided for.

(5) Thoco Ltd. will have to incur ₹ 100 lakh in the second year to revamp the machine shop floor of Gorgeous Fashion Ltd. (GFL).

(iv) *The Cash Flows of Thoco Ltd. post takeover are estimated as follows:*

Year	*1*	*2*	*3*	*4*	*5*
Cash Flow (₹ in lakh)	*2,000*	*2,500*	*3,500*	*4,500*	*6,000*

You are required to advise Thoco Ltd. the maximum value it can pay for takeover of GFL. Also show the current valuation of GFL as a 'Stand Alone' entity. The discount rate of 15% is considered appropriate, values for which are given below:

Year	*1*	*2*	*3*	*4*	*5*
Present value	*0.870*	*0.756*	*0.658*	*0.572*	*0.497*

(10 Marks)

(b) *Find out leverage effect on Goodwill from the following information:*

(i)	*Average Capital employed (equity approach)*	*₹ 10,00,000*
(ii)	*Future Maintainable profit on equity fund (After Tax)*	*₹ 1,60,000*
(iii)	*12% Debentures outstanding (long term)*	*₹ 5,00,000*
(iv)	*Tax rate*	*30%*
(v)	*Normal rate of return:*	
	On equity capital employed	*16%*
	On long-term capital employed	*12.5%*

(6 Marks)

Answer

(a) (1) Calculation of operational synergy expected to arise out of merger (₹ in lakh)

Year	1	2	3	4	5
Projected cash flows of Thoco Ltd. after merger with GFL	2,000	2,500	3,500	4,500	6,000
Less: Projected cash flows of Thoco Ltd. without merger	(1,200)	(1,500)	(2,000)	(2,700)	(3,500)
(A)	800	1,000	1,500	1,800	2,500
Discount factor (B)	0.870	0.756	0.658	0.572	0.497
Present value of the estimated cash flows (A) x (B)	696	756	987	1,029.60	1,242.50
Total of PV all the years					4,711.10

(2) Maximum value to be quoted

	₹ in lakh	*₹ in lakh*
Value as per discounted cash flows from operations		4,711.10
Add: Cash to be collected immediately by disposal of assets:		
Fixed Assets	50	
Investments	1,000	
Inventory	300	
Trade receivables	300	1,650
		6361.10
Less: Liabilities		
Current liabilities	850	
Bank loan	1,000	
Workman Compensation claim	10	
Cost to revamp machine shop floor at PV (100 x 0.756)	75.60*	
		(1,935.60)
Maximum value to be quoted		4,425.50

So, Thoco Ltd. can quote as high as ₹ 4,425.50 lakh for taking over the business of GFL.

* Note: In the above solution, cost to revamp machine shop floor is assumed to be incurred at the end of the second year. Hence discounting factor applied to it is 0.756.

(3) Valuation of GFL ignoring merger (as a 'Stand Alone' entity)

Year	*Cash Flows*	*Discount Factor*	*Discounted Cash Flow*
	(₹ in Lakh)		*(₹ in Lakh)*
1	600	0.870	522.00
2	800	0.756	604.80
3	1,000	0.658	658.00
4	1,300	0.572	743.60
5	1,700	0.497	844.90
			3,373.30

(b) Calculation of Goodwill by capital and long-term approach

			₹
a	Profit for equity fund after Tax		1,60,000
b	Profit (as per Long-term fund approach)		
	Profit for equity fund after tax	1,60,000	
	Add: Interest on Debenture		
	[5,00,000 x 12% x (1-0.30)]	42,000	2,02,000
c	Current cost of capital employed (by Equity approach)		10,00,000
d	Capital employed as per Long-term fund approach		
	Current cost of capital employed (by Equity approach)	10,00,000	
	Add: 12% Debentures	5,00,000	15,00,000
e	Value of Goodwill		
	(A) By Equity Approach		
	Capitalised value of profit as per equity approach (1,60,000/16%)		10,00,000
	Less: Capital employed as per equity approach		(10,00,000)
	Value of Goodwill		Nil
	(B) By Long-Term Fund Approach		
	Capitalized value of Profit as per Long-term fund approach (2,02,000/12.5%)		16,16,000
	Less: Capital employed as per Long-term fund approach		(15,00,000)
	Value of Goodwill		1,16,000

Leverage effect on Goodwill:

Adverse Leverage effect on goodwill is ₹ 1,16,000 – Nil = ₹ 1,16,000

Question 6

(a) The following information is supplied to you by Lion Ltd. as of 31.03.2017:

	Particulars		***(₹ in lakh)***
(i)	*Profit after tax*		*205.90*
(ii)	*Interest*		*5.10*

(iii)	*Equity Share capital*	*40.00*	
	Accumulated surplus	*700.00*	
	Shareholder's fund	*740.00*	
	Long Term Loan	*37.00*	
	Total long term funds		*777.00*
(iv)	*Market capitalisation*		*2,892.00*

Additional Information:

(a)	*Risk free rate*		*12%*
(b)	*Long term market rate (based on BSE Sensex)*		*15.50%*
(c)	*Effective tax rate for the company*		*30%*
(d)	*Beta for last few years 1*	*0.48*	
	2	*0.52*	
	3	*0.60*	
	4	*0.80*	
	5	*0.90*	

Using the above data, you are required to calculate the Economic Value Added of Lion Ltd. as on 31st March, 2017. ***(8 Marks)***

(b) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model:

		Skilled	***Unskilled***
(i)	*Average annual earnings of an employee till the retirement age*	*₹ 85,000*	*₹ 50,000*
(ii)	*Age of retirement*	*62 years*	*60 years*
(iii)	*Discount rate*	*15%*	*15%*
(iv)	*No. of employees in the group*	*40*	*60*
(v)	*Average age*	*59 years*	*58 years*

(8 Marks)

Answer

(a) Net Operating Profit After Tax (NOPAT) = Profit After Tax (PAT) + Interest (net of tax)

= 205.90 + 5.10 x (1 - 0.30) = ₹ 209.47 crore

Debt Capital ₹ 37 crore

Equity capital (40 + 700) = ₹ 740 crore

Capital employed	=	₹ 37 +₹ 740 = ₹ 777 crore
Debt to capital employed	=	₹ 37 crore/₹ 777 crore = 0.0476
Equity to capital employed	=	₹ 740 crore /₹ 777 crore =0.952
Interest cost before Tax		₹ 5.10 crore
Less: Tax (30% of ₹ 5.10 crore)		(₹ 1.53 crore)
Interest cost after tax		₹ 3.57 crore
Cost of debt	=	(₹ 3.57 crore / ₹ 37 crore) x 100
	=	9.65%

According to Capital Asset Pricing Model (CAPM)

Beta for calculation of EVA should be the highest of the given beta for the last few years. Accordingly,

Cost of Equity Capital = Risk Free Rate + Beta (Market Rate – Risk Free Rate)

= 12% + {0.90 × (15.50% - 12%)}

= 12% + {0.90 × 3.5%} = 15.15%

Weighted Average Cost of Capital (WACC)

= Equity to Capital Employed (CE) x Cost of Equity Capital + Debt to CE x Cost of Debt

= 0.952× 15.15% + 0.0476 × 9.65%

= 14.42% + 0.46% = 14.88%

Cost of Capital Employed (COCE) = WACC × Capital Employed

= 14.88% ×₹ 777 crore = ₹ 115.62 crore

Economic Value Added (E.V.A.) = NOPAT – COCE

= ₹ 209.47 crore – ₹ 115.62 crore = ₹ 93.85 crore

(b) Value of Employees as per Lev and Schwartz method:

$$V = \sum_{t=\tau}^{t} \frac{I(t)}{(1+r)^{t-\tau}}$$

Where,

V = the human capital value of a person.

I(t) = the person's annual earnings up to retirement.

r = a discount rate specific to the person.

t = retirement age.

Value of Skilled Employee:

= [85,000 / $(1+0.15)^{62-59}$] + [85,000 / $(1+0.15)^{62-60}$] + [85,000 / $(1+0.15)^{62-61}$]

= [85,000 / $(1+0.15)^{3}$] + [85,000 / $(1+0.15)^{2}$] + [85,000 / $(1+0.15)^{1}$]

= ₹ 55,888.88 + ₹ 64,272.21 + ₹ 73,913.04 = ₹ 1,94,074.10

Total value of skilled employees is ₹ 1,94,074.10 x 40 employees

= ₹ 77,62,965

Value of Unskilled Employee:

= [50,000 / $(1+0.15)^{60-58}$] + [50,000 / $(1+0.15)^{60-59}$]

= [50,000 / $(1+0.15)^{2}$] + [50,000 / $(1+0.15)^{1}$]

= ₹ 37,807.18 + ₹ 43,478.26 = ₹ 81,285.44

Total value of unskilled employees = ₹ 81,285.44 x 60 employees

= ₹ 48,77,126

Total value of human resources (skilled and unskilled)

= ₹ 77,62,965 + ₹ 48,77,126 = ₹ 1,26,40,091.

Question 7

*Answer any **FOUR** of the following:*

(a) Highlight significant differences Ind AS 7 vis-a-vis AS 3 with reference to the followings:

(i) Bank Overdraft Repayable on-demand;

(ii) Cash Flows associated with extra-ordinary activities;

(iii) Investment in Subsidiaries, Associates and Joint Ventures (Investee), and

(iv) Disclosures. ***(4 Marks)***

(b) While closing its books of account on 31st March, 2018 a Non-banking Finance Company has its advances classified as follows:

	(₹ in lakh)
Standard Assets	*14,200*
Sub-standard Assets	*2,750*
Secured portion of doubtful debts	
- Upto one year	*880*

- One year to three years	*540*
- More than three years	*260*
Unsecured portion of doubtful debts	*1,010*
Loss assets	*745*

Calculate amount of provision, which must be made against the advances as per the Non-banking finance company - Non-systemically important - Non-deposit taking company (Reserve Bank) Directions, 2016. ***(4 Marks)***

(c) Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year 2017-18:

(i) On 31st December, 2017 shoes worth ₹ 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31st March, 2018.

(ii) On 10th January, 2018, Tonk Tanner supplied shoes worth ₹ 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April. 2018.

(iii) On 21st March, 2018 shoes worth ₹ 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12th April, 2018.

You are required to advise the accountant of Tonk Tanners, when amount is to be recognised as revenue in 2017 -18 in above cases in the context of AS 9. ***(4 Marks)***

(d) State the significant differences between Ind AS 37 "Provisions, Contingent Liabilities and Contingent Assets" and AS 29 "Provisions, Contingent Liabilities and Contingent Assets". ***(4 Marks)***

(e) (i) Whether Corporate Dividend Tax is chargeable on any amount declared/paid by the domestic company by way of interim dividend?

(ii) Whether Corporate Dividend Tax is chargeable when dividend is declared/paid by the domestic company out of the accumulated profits?

(iii) Whether Corporate Dividend Tax is payable when no income tax is payable by the domestic company on its total income?

(iv) When Corporate Dividend Tax is payable by the domestic company to the credit of Central Government? ***(4 Marks)***

Answer

(a) Significant differences in Ind AS 7 vis-à-vis AS 3

(i) ***Bank Overdraft Repayable on Demand:*** Ind AS 7 specifically includes bank overdrafts which are repayable on demand as a part of cash and cash equivalents, whereas AS 3 is silent on this aspect.

(ii) ***Cash Flows associated with Extraordinary Activities:*** AS 3 requires cash flows associated with extraordinary activities to be separately classified as arising from operating, investing and financing activities, whereas Ind AS 7 does not contain this requirement. As per Ind AS, there is no concept of extra-ordinary item.

(iii) ***Investment in Subsidiaries, Associates and Joint Ventures (Investee):*** Ind AS 7 mentions the use of equity or cost method while accounting for an investment in an associate, joint venture or a subsidiary. It also specifically deals with the reporting of interest in an associate or a joint venture using equity method. AS 3 does not contain such requirements.

(iv) ***Disclosures:*** Ind AS 7 requires more disclosures as compared to AS 3 that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Ind AS 7 requires disclosure of segmental cash flows from the operating, investing and financing activities of each reportable segment. However, no such requirement is there in AS 3.

(b) Calculation of provision required on advances as on 31st March, 2018 as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

	Amount ₹ in lakh	*Percentage of provision*	*Provision ₹ in lakh*
Standard assets	14,200	0.25	35.50
Sub-standard assets	2,750	10	275
Secured portions of doubtful debts–			
–upto one year	880	20	176
– one year to three years	540	30	162
–more than three years	260	50	130
Unsecured portions of doubtful debts	1,010	100	1,010
Loss assets	745	100	745
			2,533.50

(c) (i) Shoes sent to Mohan Shoes (consignee) for consignment sale

In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer.

In the given case, Mohan Shoes is the consignee i.e. an agent of Tonk Tanners and not the buyer. Therefore, the risk and reward is considered to vest with Tonk Tanners only till the time the sale is made to the third party by Mohan Shoes; although the goods are held by Mohan Shoes. Hence, in the year 2017-2018, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for ₹ 3,20,000 x 75% = ₹ 2,40,000.

(ii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date

For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue and should not be recognised as revenue in the year 2017-2018. Hence, sale of ₹ 4,50,000 to Shani Shoes should not be recognized as revenue.

(iii) Delivery is delayed at buyer's request

On 21st March, 2018, if Shoe Shine takes title and accepts billing for the goods then it is implied that the sale is complete and all the risk and rewards of ownership has been transferred to the buyer. In case no significant uncertainty exists regarding the amount of consideration for sale, revenue shall be recognized in the year 2017-2018 irrespective of the fact that the delivery is delayed on the request of Shoe Shine.

(d) Significant Differences between Ind AS 37 vis-a-vis AS 29

(i) Constructive obligations and Change in the Definition of Provision and Obligating Event: Unlike AS 29, Ind AS 37 requires creation of provisions in respect of constructive obligations also. [However, AS 29 requires creation of provisions arising out of normal business practices, custom and a desire to maintain good business relations or to act in an equitable manner]. This has resulted in some consequential changes also. For example, definitions of provision and obligating event have been revised in Ind AS 37, while the terms 'legal obligation' and 'constructive obligation' have been inserted and defined in Ind AS 37. Similarly, the portion of AS 29 pertaining to restructuring provisions has been revised in Ind AS 37.

(ii) Discounting Provisions: AS 29 prohibits discounting the amounts of provisions except in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment. Ind AS 37 requires discounting the amounts of provisions, if effect of the time value of money is material.

(iii) Disclosure of Contingent Assets: AS 29 notes the practice of disclosure of contingent assets in the report of the approving authority but prohibits disclosure of the same in the financial statements. Ind AS 37 requires disclosure of contingent assets in the financial statements when the inflow of economic benefits is probable.

(iv) Onerous Contracts: Ind AS 37 makes it clear that before a separate provision for an onerous contract is established, an entity should recognise any impairment loss that has occurred on assets dedicated to that contract in accordance with Ind AS 36. There is no such specific provision in AS 29.

(v) ***Future Operating Losses:*** AS 29 states that identifiable future operating losses up to the date of restructuring are not included in a provision. Ind AS 37 gives an exception to this principle.

(vi) ***Appendix:*** Ind AS 37 gives guidance on:

(a) Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

(b) Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

(c) Levies (imposed by government).

AS 29 does not give such guidance.

(e) (i) Yes, Corporate Dividend Tax (CDT), which is now termed as tax on distributed profits is chargeable on any amount declared, distributed or paid by such company by way of dividends (whether interim or otherwise) on or after the 1st day of April, 2003.

(ii) Yes, even if the dividend is declared / paid by the domestic company out of the current profits or accumulated profits, CDT is chargeable on it.

(iii) Yes, CDT shall be payable even if no income-tax is payable by the domestic company on its total income.

(iv) CDT is payable to the credit of the Central Government within 14 days of -

(a) declaration of any dividend,

(b) distribution of any dividend, or

(c) payment of any dividend,

whichever is the earliest.