MOCK TEST PAPER - 1

FINAL (OLD): GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWERS

1. (a) In the given case, Whale Ltd. offers to pay Rs. 60 per share to Dolphin Ltd.

The share exchange ratio would be $\frac{60}{150} = 0.4$

It means, Whale Ltd. would give 0.4 share for every one share of Dolphin Ltd. In other words, Whale Ltd. would give 2 shares for 5 shares of Dolphin Ltd.

The total number of shares to be issued by Whale Ltd. to Dolphin Ltd.

= 3,00,000$\times$ 0.4 = 1,20,000 shares

Total number of shares of Whale Ltd. after acquisition of Dolphin Ltd.

= 7,20,000 + 1,20,000 = 8,40,000 shares

Calculation of E.P.S. of the amalgamated company = $\frac{\text{Total Net Profit after Interest and Tax}}{\text{Total Number of shares}}$

= 43,20,000 / 8,40,000

= Rs. 5.14 per share

After amalgamation, the EPS of Whale Ltd., will improve from Rs. 5 to Rs. 5.14.

(b) Statement showing calculation of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL)

S. No.	*Particulars*	*Amount of difference*	*Nature of difference*	*DTA @ 40%*	*DTL @ 40%*
		Rs.		*Rs.*	*Rs.*
(i)	Excess allowable depreciation as per income-tax law	61,250	Timing	-	24,500
(ii)	Provision for doubtful debts - disallowed as per income-tax law in the current year but reversible in future years.	27,150	Timing	10,860	-
(iii)	Share issue expenses charged in the accounting books but allowed as deduction in the income-tax law from the next year	3,11,750	Timing	1,24,700	-
(iv)	Disallowed expenses as per income tax law	3,92,250	Permanent	-	-
(v)	Donation debited to Profit & Loss Account				
	Allowed as per income tax	50,000	No difference	-	-

	Disallowed as per income tax	50,000	Permanent	-	-
				1,35,560	24,500

(c) Net Realisable Value of Inventory as on 31st March, 2019

= Rs. 107.75 x 20 units = Rs. 2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

1.03.2021	Rs. 108 x 20 units = Rs. 2,160
8.3.2021	Rs. 107 x 15 units = Rs. 1,605
17.03.2021	Rs. 109 x 30 units = Rs. 3,270
25.3.2021	Rs. 107 x 15 units = Rs. 1,605
Total	80 units = Rs. 8,640

Weighted Average Cost = Rs. 8,640/80 units = Rs.108

Total Value = Rs. 108 x 20 units = Rs. 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2021 is, Cost or Net Realisable value whichever is lower i.e. Rs. 2,155.

(d) As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

(ii) Its segment result whether profit or loss is 10% or more of:

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss,

whichever is greater in absolute amount; or

(iii) Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until atleast 75% of total enterprise revenue is included in reportable segments.

Accordingly, on the basis of turnover criteria segments A and B are reportable segments.

On the basis of the result criteria, segments A, B and F are reportable segments (since their results in absolute amount is 10% or more of Rs. 100 lakhs).

On the basis of asset criteria, all segments except F are reportable segments.

Since all the segments are covered in atleast one or the other criteria all segments have to be reported upon in accordance with AS 17. Hence, the opinion of chief accountant that only "A" and "B" are reportable segment is wrong.

2. (a) Statement determining the maximum number of shares to be bought back

Number of shares

Particulars	*When loan fund is*		
	Rs. 3,600 crores	*Rs. 2,400 crores*	*Rs. 3,000 crores*
Shares Outstanding Test (W.N.1)	16.5	16.5	16.5
Resources Test (W.N.2)	12.5	12.5	12.5
Debt Equity Ratio Test (W.N.3)	Nil	7.5	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	7.5	Nil

(b) Journal Entries for the Buy Back (applicable only when loan fund is Rs. 2,400 crores)

			Rs. in crores	
			Debit	*Credit*
(a)	Equity share buy back account	Dr.	225	
	To Bank account			225
	(Being buy back of 7.5 crores equity shares of Rs. 10 each @ Rs. 30 per share)			
(b)	Equity share capital account	Dr.	75	
	General reserve account	Dr.	150	
	To Equity share buy back account			225
	(Being cancellation of shares bought back)			
(c)	General reserve account	Dr.	75	
	To Capital redemption reserve account			75
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. Shares Outstanding Test

Particulars	*(Shares in crores)*
Number of shares outstanding	66
25% of the shares outstanding	16.5

2. Resources Test

Particulars		
Paid up capital (Rs. in crores)		660
Free reserves (Rs. in crores)		
General Reserve	480	
Profit and Loss A/c	360	840
Shareholders' funds (Rs. in crores)		1,500
25% of Shareholders fund (Rs. in crores)		375
Buy-back price per share (Rs.) (Rs. 25 x 120%)		*Rs.* 30
Number of shares that can be bought back (shares in crores)		12.5 crores shares

3. Debt Equity Ratio Test

	Particulars	*When loan fund is*		
		Rs. 3,600 crores	*Rs. 2,400 crores*	*Rs. 3,000 crores*
(a)	Loan funds (Rs. in crores)	3,600	2,400	3,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs. in crores)	1,800	1,200	1,500
(c)	Present equity (Rs. in crores) (W.N.2)	1,500	1,500	1,500
(d)	Future equity (Rs. in crores) (See Note 2)	N.A.	1,425 (1,500-75)	N.A.
(e)	Maximum permitted buy back of Equity (Rs. in crores) [(d) – (b)] (See Note 2)	Nil	225 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share (shares in crores) (See Note 2)	Nil	7.5 (by simultaneous equation)	Nil

Note:

1. Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of Section 68 of the Companies Act, 2013.
2. As per Section 68 of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve **after** such buy-back. Also as per the section, on buy-back of shares, out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 55 of the Companies Act, 2013, utilization of CRR is restricted to issuance of fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be deducted from present equity.

   Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

   Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

   Then, $(1,500 - x) - 1200 = y$ (1)

   $\frac{y}{30} x 10 = x$ Or, $3x = y$ (2)

   by solving the above equation, we get

   x = Rs. 75 crores

   y = Rs. 225 crores

3. Valuation of goodwill: Super profits method

Particulars	Rs.	Rs.
Net trading assets attributable to equity share holders		
As computed in (WN 1)	23,18,506	

Less: Preference share Capital	(2,25,000)	20,93,506
Normal Rate of Return (NRR) to equity share holders		10%
Normal Profit available to equity share holders (a × b)		2,09,351
Future Maintainable Profits (FMP) to equity share holders		
As computed in (WN 3)	3,75,096	
Less: Preference dividend* (8% of 2,25,000)	(18,000)	3,57,096
Super profits to equity share holders		1,47,745
Goodwill (1,47,745 x 3)		4,43,235

*Since, NRR is given as percentage of net assets attributable to equity shareholders, preference share capital and preference share dividend have been deducted from the net assets and future maintainable profit respectively.

Value Per Equity Share

Net Trading Assets attributable to equity shareholders	Rs. 20,93,506
Add: Goodwill	Rs. 4,43,235
	Rs. 25,36,741

Number of Equity Shares = 9,500 shares,

Value per share = $\frac{25,36,741}{9,500}$ = Rs. 267 (approx.)

Working Notes:

1. **Computation of net trading assets**

Particulars	Rs.	Rs.
Sundry assets		
i Land & Building (62,400 ÷ 8%)	7,80,000	
ii Plant and Machinery	4,55,000	
iii Inventory	3,80,000	
iv Trade receivables (4,25,620 ÷ 92%)	4,62,630	
v Bank balance (given balance 5,20,520 + Sale of investment 4,95,200 - redemption of debentures 5,60,000 × 75%)	5,95,720	26,73,350
Less: Outside liabilities:		
i Current Liabilities	3,25,640	
ii Contingent Liability now to be accounted for	25,000	
iii Tax provision (WN 2)	4,204	(3,54,844)
Net assets		23,18,506

2. **Calculation of tax provision**

	Rs.
Profit on reversal of provision for bad debts	37,010
Loss on recognizing omitted claim (assuming tax deductible)	(25,000)

Net incremental profit on which tax is payable	12,010
Tax provision 35%	4,204

3. **Computation of future maintainable profit for the year ended on 31st March**

Particulars	*2019*	*2020*	*2021*
Profit after tax	3,25,000	4,99,000	2,95,000
Less: Non-recurring profits (after tax) (20% of 2017 Profit)	-	(99,800)	-
Less: Claims not recorded (after tax) [25,000 x (1-35%)]	-	-	(16,250)
Add: Provision no longer required (net of tax) [4,25,620 × 8/92 × (1-35%)]	-	-	24,057
Adjusted profits after tax	3,25,000	3,99,200	3,02,807

Simple average of the profits (as profits are fluctuating)	3,42,336
Adjustments for items which will not be reflected in future	
Add: Debenture interest (net of tax) [5,60,000 × 9% × (1 – 0.35)]	32,760
Future maintainable profit [for shareholders- both preference and equity)	3,75,096

Assumption : Tax effect has been ignored on profit on sale of investments and discount on redemption of debentures.

4. Consolidated Balance Sheet of Milli Ltd. and its subsidiary Neeta Ltd. and Joint Venture Chitra Ltd. as at 31st March, 2021

		Particular	Note No.	Rs.
I.	**EQUITY AND LIABILITIES**			
1	**Shareholders' funds**			
	a.	Share capital	1	6,00,000
	b.	Reserves and surplus	2	3,19,375
2.	**Non-current liabilities**			
		Long-term borrowings [6% Debentures]		1,12,500
3.	**Current Liabilities**			
		Trade payables (75,000 + 75% of 67,500)		1,25,625
		Total		**11,57,500**
II	**ASSETS**			
1.	**Non-current assets**			
	a	Property, plant and equipment (4,50,000 +75% of 1,50,000)		5,62,500
	b	Intangible assets [Goodwill] (W.N.2)		1,23,000
	c	Non-current investments [6% debentures of Chitra Ltd.]		90,000
2.	**Current assets**			
	a.	Inventories (W.N.3)		1,83,875
	b.	Trade receivables (80,000 +75% of 45,000)		1,13,750
	c.	Cash and cash equivalents [Balances with bank]		

(75,000 + 75% of 12,500)		84,375
Total		**11,57,500**

Notes to the financial statements

(1) Share capital

Particulars	*Rs.*
Authorised Issued, subscribed and fully paid up 60,000 shares of Rs. 100 each	6,00,000

(2) Reserves and Surplus

Particulars	*Rs.*
General reserve (W.N.4)	2,00,000
Surplus (W.N.4)	1,19,375
	3,19,375

Working Notes:

1. Statement of analysis of profits of Chitra Ltd.

		Capital Profit Rs.	*Revenue Profit Rs.*
Profit and Loss A/c as on 1.4.2020		(2,25,000)	
Profit and Loss A/c during the year (2,25,000 – 1,50,000)	75,000		
Add: Abnormal loss (9,000 – 3,000)	6,000		
To be divided in the ratio of 4 months : 8 months	81,000	27,000	54,000
Abnormal loss		(6,000)	
		(2,04,000)	54,000
Share of Milli Ltd. (75%)		1,53,000	40,500

2. Statement showing Cost of control

Particulars		*Rs.*
Cost of Investment		1,20,000
Add: Share of loss in net assets		
i. Share capital (75%)	1,50,000	
ii. Capital loss (Pre-acquisition)	(1,53,000)	3,000
Goodwill		1,23,000

3. Unrealised profit on stock

Particulars	*Rs.*
Milli Ltd. and its subsidiary	1,40,000
Chitra Ltd. (75% of 60,000)	45,000
Less: Unrealised profit (3,000 x 50% x 75%)	(1,125)
Net balance for Consolidated Balance Sheet	1,83,875

4. Consolidated Reserves and Surplus

Particulars	*General Reserve*	*Profit and Loss A/c*

	Rs.	Rs.
Milli Ltd. and its subsidiary	2,00,000	80,000
Proportionate share from Joint venture		40,500
Less: Unrealised profit		(1,125)
Net balance for Consolidated Balance Sheet	2,00,000	1,19,375

5. (a) (i) Outstanding Amount at the end of 8th year

= Rs. 50,00,000 x 1.12 x 1.12 x 1.12 x 1.12 x 1.12

= Rs. 88,11,708 (i.e. adding interest for 4th to 8th year)

Rescheduled amount to be paid at the end of the 8th year = Rs. 90,00,000

Additional amount to be paid on rescheduling = Rs. 90,00,000 - Rs. 88,11,7081

= Rs. 1,88,291

(ii) The above call option gives entity A, a contractual right to exchange cash of Rs. 100 for an equity share in another entity and will be exercised if the market value of the share exceeds Rs. 100 at the end of the 90 day period. If the market value of a share will be such that the entity A will gain on the exercise date, it will exercise the call option.

Since entity A stands to gain if the call option is exercised, the exchange is potentially favourable to the entity. Also, the determination of whether the option is a derivative is dependent on whether it satisfies all the following conditions as contained in the definition of derivative and not whether the contract is potentially favourable or unfavourable:

1. Its value changes on the basis of the change in some variable. If the variable is a non-financial variable, it is not specific to a party to the contract
2. It requires no or little initial net investment
3. It is settled at a future date.

Therefore, the option is a derivative financial asset from the time the entity becomes a party to the option contract.

On the other hand, if entity A writes an option under which the counterparty can force the entity to sell equity shares in the listed entity B for Rs. 100 per share at any time (if it is an American option*) in the next 90 days, then entity A will be said to have a contractual obligation to exchange its equity shares to another entity for cash of Rs. 100 per share on potentially unfavourable** terms i.e. if the holder exercises the option, on account of the market price per share being above the exercise price of Rs. 100 per share at the end of the 90 day period.

Since entity A, the writng party will have to buy shares from the market at Rs. 120 and sell those to the purchasing party at Rs. 100, it stands to lose if the option is exercised. Therefore, the exchange is potentially unfavourable and the option is a derivative financial liability from the time the entity becomes a party to the option contract.

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* The purchase option is an example of european option where the exercise happens at the expiry date whereas the written option is an american option where the exercise can happen at any time before the expiry date.

** Whether a derivative is favourable or unfavourable is determined at the end of each reporting period. At the date the contract is entered into, it is neither favourable or unfavourable. It is neutral and therefore the premium paid for the option is its fair value as on that date.

(b) Total Funds raised by Mutual Fund = 17.5 x 5 lakhs = 87.50 lakhs

			(Rs. in lakhs)
Opening Bank Balance (87.5-80-4.5)		3	
Add: Proceeds from sale of securities		62.5	
Add: Dividend received		1.5	67
Less: Cost of securities purchased	45		
Management expenses (Rs. 2.5 lakhs x 3 months)	7.5		
Realised gains distributed [80% of (Rs. 62.5 lakhs – Rs. 50 lakhs)]	10		
Dividend distributed (80% of Rs. 1.5 lakhs)	1.20		(63.70)
Closing Bank Balance			3.30
Closing Market value of portfolio			87.50
Closing Net Assets			90.80
No. of Units (Lakh)			5.00 lakh units
Closing NAV = Rs. 90.8 lakhs divided by 5 lakh units =			Rs. 18.16

6. (a) Journal Entries

Year 2016		*Rs.*	*Rs.*
Employee Compensation Expense A/c	Dr.	57,04,205	
To Employee Stock Options Outstanding A/c			57,04,205
(Being the compensation expenses recognized in respect of the ESOP)			
Profit and Loss A/c	Dr.	57,04,205	
To Employee Compensation Expense A/c			57,04,205
(Being Expenses of the year transferred to P & L A/c)			
Year 2017			
Employee Compensation Expense A/c	Dr.	34,08,295	
To Employee Stock Options Outstanding A/c			34,08,295
(Being the compensation expenses recognized in respect of the ESOP)			
Profit and Loss A/c	Dr.	34,08,295	
To Employee Compensation Expense A/c			34,08,295
(Being Expenses of the year transferred to P & L A/c)			
Year 2018			
Employee Compensation Expense A/c	Dr.	51,37,500	
To Employee Stock Options Outstanding A/c			51,37,500
(Being the compensation expenses recognized in respect of the ESOP)			
Profit and Loss A/c	Dr.	51,37,500	
To Employee Compensation Expense A/c			51,37,500

(Being Expenses of the year transferred to P & L A/c)			
Year 2020			
Bank A/c	Dr.	250,00,000	
Employee Stock Options Outstanding A/c	Dr.	75,00,000	
To Share Capital A/c			50,00,000
To Securities Premium			275,00,000
(Being shares issued to employees against options vested in them in pursuance of the ESOP)			
Year 2021			
Bank A/c	Dr.	125,00,000	
Employee Stock Options Outstanding A/c	Dr.	37,50,000	
To Share Capital A/c			25,00,000
To Securities Premium A/c			137,50,000
(Being shares issued to employees against options vested in them in pursuance of the ESOP)			
Employee Stock Options Outstanding A/c	Dr.	30,00,000	
To General Reserve A/c			30,00,000
(Being the balance standing to the credit of stock options outstanding account, in respect of vested options expired unexercised, transferred to general reserve account)			

Working Notes:

1. Fair value of options recognized as expense in the year 2013

Number of options expected to vest = 500 x 2,500 x .97 x .97x .97 = 11,40,841 options*

Fair value of options expected to vest = 11,40,841 × Rs. 15 = Rs. 171,12,615

One third of fair value recognized as expense = Rs. 171,12,615 / 3 = Rs. 57,04,205

Year 2017	
Fair Value of options revised in the year = 500 × 2500 × 0.90 × 0.90 × 0.90 x Rs.15	Rs. 136,68,750
Revised cumulative expenses in year 2017 = 136,68,750 $\times\frac{2}{3}$	Rs. 91,12,500
Less: Already recognized in year 2016	Rs. (57,04,205)
Expenses to be recognized in year 2017	Rs. 34,08,295
Year 2018	
Number of options actually vested = 1900 × 500 = 9,50,000	
Fair Value of options actually vested = 9,50,000 x Rs. 15	Rs. 1,42,50,000
Less: Expense recognized till year 2018	Rs. (91,12,500)
Balance amount to be recognized	Rs. 51,37,500

* Calculation may also be done first on the basis of estimated employees in absolute figure and then multiply number of options. For instance 2,500 x 0.97 x 0.97 x 0.97 = 2282 employees (approx..) and then 2282 x 50 = 11,41,000 options and so on.

2. **Amount recorded in share capital account and securities premium account upon issue of shares**

Particulars	*Year 2020*	*Year 2021*
Number of employees exercising option	1,000	500
Number of shares issued upon exercise of option @ 500 per employee	5,00,000	2,50,000
Exercise price received @ Rs. 50 per share	2,50,00,000	1,25,00,000
Corresponding amount recognized in the 'Employee stock options outstanding A/c' @ Rs. 15 per option	75,00,000	37,50,000
Total consideration	3,25,00,000	1,62,50,000
Amount to be recorded in 'Share capital A/c' @ Rs. 10 per share	50,00,000	25,00,000
Amount to be recorded in 'Securities premium A/c' @ Rs. 55 (i.e. 65 –10) per share	2,75,00,000	1,37,50,000
	3,25,00,000	1,62,50,000

(b) Gross Value Added Statement of Y Ltd. for the year ended on 31st March, 2021

(Rs. in '000)

VALUE ADDED	*Amount*	*Amount*
Sales less return		21,350
Less: Cost of bought out materials and services (W.N.)		(15,385)
Value added from manufacturing and trading activities		5,965
Add:		
a. Interest received	20	
b. Other income	80	100
Less: Extraordinary items		
a. Surplus on sale transactions	20	
b. Loss of goods by fire	(35)	(15)
Gross value added		**6,050**
VALUE APPLIED		
Towards employees		
a. Salaries, wages and other benefits	3,685	
b. Director's remuneration	360	4,045
Towards Government		688
a. Provision for tax (including charge for Deferred tax)		
Towards providers of finance		
a. Interest on loans and overdraft	160	
b. Dividend	340	500
Towards Replacement and Expansion		
a. Depreciation	302	
b. Retained profit	515	817
Gross value applied		**6,050**

Reconciliation between gross value added and profit before tax (Rs. in '000s)

Particulars		*Amount*
Profit before tax		1,558
Add: :i. Salaries, wages to employees	3,685	
ii. Remuneration to Director	360	
iii. Interest on loans and overdraft	160	
iv. Depreciation	302	
v. Extraordinary item	(15)	4,492
Gross Value added		6,050

Working Note:

Calculation of Cost of bought out materials and services

Particulars	*(Rs. in '000s)*
Sales	21,350
Less: Trading Profit	(1,920)
Total Cost	19,430
Less: i. Salaries and wages	(3,685)
ii. Director's remuneration	(360)
Cost of bought out materials and services	15,385

7. (a) As per AS 11 (revised), monetary items denominated in a foreign currency should be reported using the closing rate. The effect of exchange difference should be taken into profit and loss account. Sundry creditors is a monetary item hence should be valued at the closing rate i.e. Rs. 68 at 31st March, 2021 irrespective of the payment for the same subsequently at lower rate. The difference of Rs. 5 (68 - 63) per US dollar should be shown as an exchange loss in the profit and loss account and is not to be adjusted against the cost of raw materials. In the subsequent year, the company would record an exchange gain of Re. 1 per US dollar, i.e., the difference between Rs. 68 and Rs. 67 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

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

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

Since, P Ltd. has total control of 26% (directly and indirectly by Q Ltd.) in R Ltd. which is less than half of the voting power of R Ltd., P Ltd. is said to have significant influence over R Ltd. Also it is given in the question that R Ltd. is a listed company and regularly supplies goods to P Ltd. Therefore, related party disclosure, as per AS 18, is required by R Ltd. in its financial statements, in respect of goods supplied to P Ltd.

(c) While formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential.

Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in application of accounting principles and practices and economic conditions prevailing in India. These diffferences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as **'Carve-outs'.**

In Ind AS 103 "Business Combination", an additional guidance on "Accounting of Business Combinations of Entities under Common Control" is given which is over and above what is given in IFRS. This is termed as **'Carve-in'.**

(d) Calculation of Return on Operating Capital

NOPAT	**2019-2020**	**2020-2021**
PBT	134	168
Add: Interest Expenses	8	12
	142	180
Less: Taxes @ 35%	(49.7)	(63)
NOPAT (A)	92.3	117
Operating Capital	**2019-2020**	**2020-2021**
Eq. Shareholder's Funds	390	472
Long Term Debt	110	160
(B)	500	632
ROOC = A/B x 100	18.46%	18.51%
Calculation of WACC	**2019-2020**	**2020-2021**
Kd	9% (1-0.35) x110/500	10% (1-0.35) x160/632
	1.287%	1.645%
Ke	15% x 390/500	17% x 472/632
	11.7%	12.7%
	12.99%	14.34%

Calculation of Economic Value Added

	2019-2020	**2020-2021**
NOPAT	92.3	117
Less: Cost of Capital	64.95 (500 x 12.99%)	90.63 (632 x 14.34%)
EVA	Rs. 27.35 Cr.	Rs. 26.35 Cr.

Since EVA has declined in Yr. 2020-2021 by Rs. 1 crore, this can be attributed as reason for non-satisfaction.

(e) As per Para 4.1 of AS 9 "Revenue Recognition", revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

In the given case, Sarthak Ltd. should record the sales at gross value of Rs. 50,000. Discount of Rs. 8,000 in price and goods returned worth Rs. 7,000 are to be adjusted by suitable provisions. Sarthak Ltd. might have sent the credit note of Rs. 15,000 to Manas Ltd. to account for these adjustments. The contention of the accountant to book the sales for Rs. 35,000 is not correct.