

ECONOMIC VALUE ADDITION

Q.1. From the following information given compute the missing figures :

Sales Value	₹ 20,00,000
Income	₹ 4,00,000
Average Investment	?
Sales Margin%	?
Capital turnover (Times)	4 times
ROI%	?
Economic valued added ₹	?
Weighted average cost of capital	8%

Q.2. The following data pertains to three divisions of C Ltd. the company's required rate of return on invested capital is 8%.

Particulars	Division A	Division B	Division C
Sales Value (₹)	?	2 Crore	?
Income (₹)	8 Lakhs	40 Lakhs	?
Average Investment (₹)	?	50 Lakhs	?
Sales Margin (%)	20%	?	25%
Capital Turnover (Times)	2	?	?
ROI(%)	?	?	20%
Residual Income (EVA) (₹)	?	?	2,40,000

(Hint : Economic Valued Added (EVA) = Net Income – COC)

Q.3. Chandrababha Ltd. is considering a capital project with the given information :

Investment Outlay	10,000		
Project Life	5 years	Tax rate	40%
Annual Revenues	8,000	Debt Equity ratio	3:2
Annual costs (Excluding depreciation, interest & taxes)	4,000	Cost of equity	20%
Depreciation method	Straight line	Cost of debt (post tax)	8%

Calculate EVA of the project over its life.

Q.4. From the following data pertaining to Ojha Ltd. for the year ended 31st March 2010, you are required to calculate the missing figures :

Sales Value	₹ 20,00,000
Income	₹ 4,00,000
Average Investment	₹ 5,00,000
Sales Margin (%)	?
Capital Turnover (times)	?
R.O.I. (%)	?
Economic Value Added (₹)	?
Weighted Average Cost of Capital	8%

Q.5. Profit before tax of Ishant Ltd. with 1,25,000 equity shares outstanding is ₹ 5,00,000. Further, it has 50,000 10% Preference Shares of ₹ 10 each as a part of its share capital. The current share price in the stock market is ₹ 18 per share. Calculate the Earnings Per Share and the Price-Earning Ratio. Assume tax rate @ 30%

Q.6. Calculate EVA from the following data for the year ended 31st March 2003.

Average Debt (₹ Crs.)	50
Average equity (₹ Crs.)	2766
Cost of debt (Post Tax)	7.72%
Cost of equity	16.54%
Profit after tax, before exceptional item	15.41
Interest	5

Q.7. Calculate EVA from the following data for the year ended 31st March 2010:

Average Debt	₹ 25 Crores
Average Equity	₹ 2,500 Crores
Cost of debt	8%
Cost of Equity	15%
Profit after tax	₹ 12 Crores
Interest	₹ 4 Crores

ESOP AND SWEAT EQUITY

Q.8. C Ltd. grants 100 stock options to each of its 1,000 employees on 1.4.2005 for ₹ 20, depending upon the employees at the time of vesting of options. The market price of the share is ₹ 50. These options will vest at the end of year 1 if the earning of Choice Ltd. increases 16%, or it will vest at the end of the year 2 if the average earning of two years increases by 13%, or lastly it will vest at the end of the third year if the average earning of 3 years will increase by 10%. 5,000 unvested options lapsed on 31.3.2006. 4,000 unvested options lapsed on 31.3.2007 and finally 3,500 unvested options lapsed on 31.3.2008.

Following is the earning of Choice Ltd.

	Year ended on Earning (in %)
31.3.2006	14%
31.3.2007	10%
31.3.2008	7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life.

Pass Journal entries for the above.

Q.9. A company has its share capital divided into shares of ₹ 10 each. On 1st April 2007 it granted 10,000 employees stock options at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 15th December, 2007 and 16th March, 2008. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year.

- Q.10.** CHI Ltd. grants 1,000 employees stock options on 1.4.2004 at ₹ 40, when the market price is ₹ 160. The vesting period is 2½ years and the maximum exercise period is one year. 200 unvested options lapse on 1.5.2006. 700 options are exercised on 30.6.2007. 100 vested options lapse at the end of the exercise period.
Pass Journal Entries giving suitable narrations.

AS – 17 SEGMENT REPORTING

- Q.11.** Cock Ltd. furnishes the following data regarding its six segments for the year ended 31st March 2010:

Segments	P	Q	R	S	T	U	Total
Segment Assets	300	620	80	60	80	60	1200
Segment results	50	(190)	10	10	(10)	30	(100)
Segment revenue	40	80	30	20	20	10	200

Identify the reportable segment and advise the management of cock ltd. keeping in view of the provisions of accounting standard 17 on segment reporting as issued by ICAI.

AS – 22 DEFERRED TAX

Deferred Tax Asset v/s Deferred Tax Liabilities – (DTA v/s DTL) :

- (1) **Accounting Income > Taxable Income** : Create DTL.
- (2) **Accounting Income < Taxable Income** : Reversal of DTL or Creation of DTA s.t PRUDENCE
- (3) **Accounting Income = Taxable Income** : Neither DTA nor DTL
- (4) **Accounting Loss = Taxable Loss** : Create DTA subject to PRUDENCE
- (5) Recognition of Deferred Tax Asset.

DTA Arising due to	Basis of Recognition
Unabsorbed Business & Depreciation Loss	Virtual Certainty (Judgment) & Convincing Evidence (Fact) ASI 9
Other than above	Reasonable Certainty

Check List :

1. Verify whether there is a difference between accounting income and taxable income.
2. Is the difference a timing difference, comprising of :
 - (a) Depreciation
 - (b) Section 43B.
 - (c) Deferred revenue expense partly appearing in Balance Sheet.
 - (d) Preliminary expenses u/s 35D.
 - (e) Income credited in P&L statement, taxable in subsequent years.
 - (f) Provision for doubtful debts / advances.
 - (g) Voluntary retirement schemes.
 - (h) Lease income.
 - (i) Diminution in value of investments other than temporary.

3. Is the difference a permanent difference comprising of :
 - (a) Scientific research expenditure (weighted deduction).
 - (b) Penalty for infringement of law.
 - (c) Dividend income (if non-taxable).
 - (d) Donations to trusts u/s 80-G.
4. Verify whether reasonable certainty of future taxable income exists when deferred tax asset is recognized.
5. Also verify whether virtual certainty supported by convincing evidence of future taxable income exists when deferred tax asset is recognized for carried forward loss or unabsorbed depreciation.
6. Verify whether unrecognized deferred tax asset is reviewed at each balance sheet date.
7. Also verify whether recognized deferred tax asset is reviewed at each balance sheet date.
8. Verify whether deferred tax asset / liability is measured using tax rates.
 - (a) That are enacted, or
 - (b) Substantively enacted (if tax rates announced though budget) by the balance sheet date.
9. Verify whether deferred tax asset / liability is created at minimum alternate tax (MAT) rate or at normal tax rate.
10. Is current tax (advance tax vis-a-vis tax provision) netted year to year basis for presentation in balance sheet and not in totality?
11. Also verify whether deferred tax asset and liability is presented in financial statement as under :
 - (a) DTA / DTL disclosed separately from current tax.
 - (b) DTA / DTL disclosed separately from current assets and current liabilities in the balance sheet.
 - (c) Break up of DTA-DTL into major components of balance disclosed in notes to accounts.
 - (d) The nature of evidence supporting the recognition of DTA disclosed when DTA comprises of unabsorbed depreciation or carried forward loss.

Q.12. From the following details pertaining to Harbhajan Ltd. for the year ended 31st March 2010, calculate the deferred tax asset/ liability as per accounting standard 22 issued by Institute of Chartered Accountants of India and the amount to be debited to profit & loss account for the year ended 31st March, 2010 :

Profit as shown by the financial accounts	₹ 9,00,000
Profit as calculated as per the provision of Income tax act 1961	₹ 90,000
Income tax rate applicable is 30%.	

Q.13. Peacock Ltd. furnishes the following data for the year ended 31st March, 2010 :

- (a) Depreciation provided as per accounting records amounted to ₹ 10 Lac whereas the depreciation provided as per tax records, under the block of assets amounted to ₹ 17.50 lakhs.
- (b) Unamortised preliminary expenditure as per tax records amounted to ₹ 1,40,000.
- (c) The income tax rate applied is 40% and there is adequate evidence of future profit sufficiency. How much DTA / DTL should be recognized as transition adjustment as per AS-22 as issued by ICAI.

Q.14. From the following information for Refund Ltd. the year ended 31st March, 2011, calculate the deferred tax asset / liability as per AS-22.

Accounting Profit	₹ 30,00,000
Book Profit as per MAT (Minimum Alternate Tax)	₹ 27,00,000
Profit as per Income Tax Act	₹ 300,000
Tax Rate	35%
MAT Rate	10%

AS – 30 RECOGNITION AND MEASUREMENT

Introduction :

Financial Instrument is a document which has a monetary value. Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial instrument includes wide spectrum of assets and liabilities of entities and contrary to popular impression is not limited to investments or merely capital market instruments and drafts, cheques, promissory notes and bill of exchange. It includes within its ambit - receivables, payables, debentures, bonds, etc.

Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement, issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. This Accounting Standard will become mandatory in respect of accounting periods commencing on or after 1-4- 2011 for all commercial, industrial and business entities except to a Small and Medium-sized Entity, as defined below :

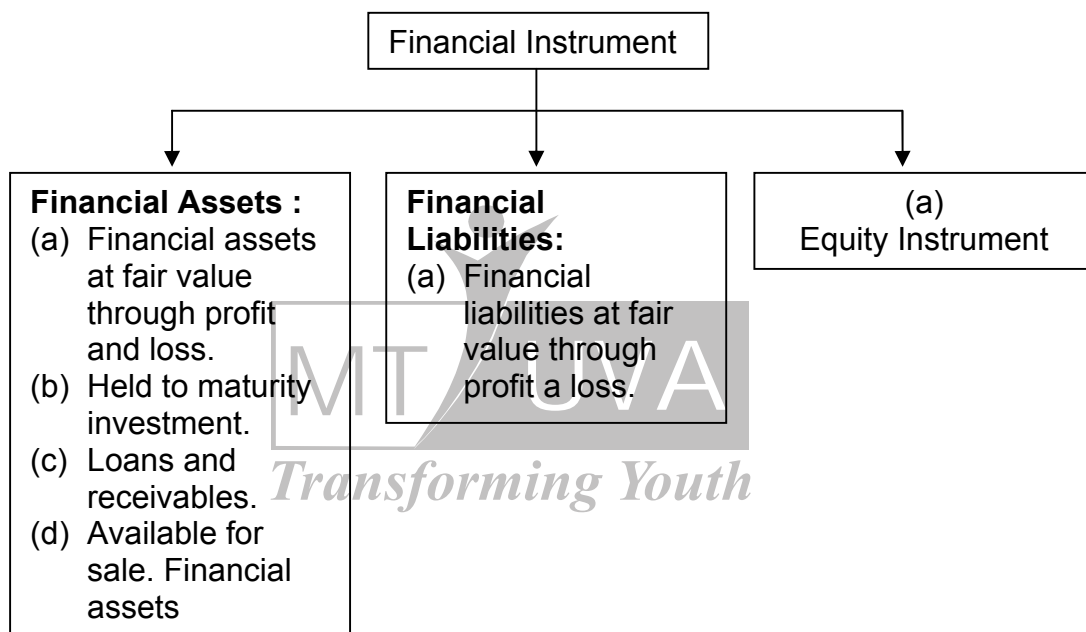
- (1) Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- (2) Which is not a bank (including co-operative bank), financial institution or any entity carrying on insurance business;
- (3) Whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
- (4) Which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and
- (5) Which is not a holding or subsidiary entity of an entity which is not a small and medium-sized entity.

Objective :

- (1) Objective of this accounting standard is to prescribe the principles for recognising and measuring the financial assets and financial liabilities. The principles for presentations of financial assets and financial liabilities in the financial statements are prescribed in AS-31 "Financial Instruments: Presentation". Another accounting standard namely "Financial Instruments: Disclosure" (AS-32) prescribes the requirements for disclosing the information about the financial instruments through notes and policies to the financial statements.
- (2) The objective of this Standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.
- (3) Requirements for presenting information about financial instruments are in Accounting Standard (AS) 31, Financial Instruments: Presentation.
- (4) Requirements for disclosing information about financial instruments are in Accounting Standard (AS) 32, Financial Instruments: Disclosures

- (5) Applicability of Accounting Standard: Application w.e.f. accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. It will be mandatory on or after 1-4-2011 for all commercial, industrial and business entities except to a Small and Medium-sized Entity.
- (6) The objective of this accounting standard is to establish principles for recognising and measuring, financial assets, financial liabilities and some contracts to buy or sell non-financial items.
- (7) The requirements for presenting information about financial instruments are in Accounting Standard (AS) - 31, Financial Instruments: Presentation. The requirements for disclosing information about financial instruments are in Accounting Standard (AS) - 32, Financial Instruments: Disclosures.

Classification of Financial Instrument :



1. Financial Asset or Financial Liability :

A financial asset or financial liability is classified as held for trading if it is : i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument. (b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. Accounting Standard (AS) – 32, Financial Instruments: Disclosures, requires the entity to provide disclosures about financial assets and financial liabilities it has designated as at fair value through profit or loss, including how it has satisfied these conditions.

2. Held-to-maturity investments :

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than: (a) those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that meet the definition of loans and receivables; and (c) those that the entity designates as available for sale.

3. Loans and receivables :

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than :

- (a) Those that the entity intends to sell immediately or in the near term, which should be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) Those that the entity upon initial recognition designates as available for sale; or
- (c) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which should be classified as available for sale.
- (d) Available-for-sale financial assets : Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (i) loans and receivables, (ii) held-to-maturity investments, or (iii) financial assets at fair value through profit or loss.

4. Financial guarantee contract :

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Categories of Financial Assets :

Category	Definition
Financial assets at fair value through profit or loss	<ul style="list-style-type: none"> Financial assets held for trading Derivatives, unless accounted for as hedges Financial assets designated to this category under the fair value option
Loans & receivables	<ul style="list-style-type: none"> Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market
Held-to-maturity investments	<ul style="list-style-type: none"> Non-derivative financial assets with fixed or determinable Payments and fixed maturity that the entity has the positive intent and ability to hold to maturity
Available-for-sale financial assets	<ul style="list-style-type: none"> All financial assets that are not classified in another category are classified as available-for-sale Any financial asset designated to this category on initial recognition

Categories of Financial Liabilities :

Category	Definition
Financial liabilities at fair value through profit or loss	<ul style="list-style-type: none"> Financial liabilities held for trading Financial liability designated as at fair value through profit or loss on initial recognition (fair value option)
Other financial liabilities-at amortised cost	<ul style="list-style-type: none"> All financial liabilities that are not classified at fair value through profit or loss

Features of AS-30 :

1. The AS 30 is a complex standard and its main objective is to establish principles for recognizing and measuring financial instruments whose definition encompass most items of financial assets, financial liabilities in an entity's balance sheet. It deals with recognition/de-recognition and measurement of financial instruments as also derivatives and hedge accounting.

2. AS 30 uses a mixed measurement model. Some assets and liabilities are valued at Fair Value and others on cost basis. The concept of fair value is central to the standard as also the concept of symmetry.
3. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.
4. The standard stipulates measurement of assets and liabilities at fair value unless otherwise stated. Rationale for fair value stems from the fact that for financial instruments the most relevant information is the amount that could be realized from disposal. Subsequent measurement of financial assets depends upon their classification at initial recognition into any of the four categories.
 - (a) Financial assets at fair value through P&L (held for trading).
 - (b) Held to maturity investments.
 - (c) Loans and receivables.
 - (d) Available for sale financial assetsSubsequent measurement of financial liabilities classified under fair value through P&L is at fair value and the resulting gains / losses are recognized in the statement of profit and loss.

All other financial liabilities are to be measured at amortised cost using the effective interest method.

5. The standard also stipulates restrictions on reclassification between categories. No reclassification of a financial instrument into or out of the category fair value through profit and loss is permitted. The standard however prescribes certain exceptional circumstances under which reclassification between 'held to maturity' and 'available for sale' categories are permitted.
6. The requirement regarding impairment and uncollectability of financial assets constitute an important and significant part of AS 30. Conceptually at each balance sheet date, an entity should assess whether there is any objective evidence that a financial asset or group of financial assets is impaired and if so it should determine the amount of impairment loss and provide for the same.
7. Asset is defined as a resource controlled by an entity having future economic benefit. Two key ingredients in this definition are resource controlled by an entity and future economic benefit associated with it. If the entity loses control or future economic benefit ceases, there is impairment and it has to be provided. These areas will have significant impact on the financial statements of banks, since they are currently following 90-day delinquency norms for recognition of NPAs and provisioning.
8. The standard also stipulates the criteria to qualify for hedge accounting and the recognition and measurement of gains and losses for different types of hedging relationships such as fair value hedges, cash flow hedges and hedge of a net investment in a non-integral foreign operation. Derivatives will be recorded on the balance sheet at fair values and changes in their fair values will be reflected in the profit & loss account unless stringent hedge accounting criteria are satisfied.

TERM LOAN AND PROJECT APPRAISAL

Q.15. Prepare an amortization schedule from the following information, assuming that the amount payable is an equated annual installment. Amount Borrowed ₹ 24,000 Annuity Rate = 4.111. Compound Annual Interest 12%; Repayment period 6 Years.

Q.16. Find out Loan payments per annum for the following :

- Cost of Equipment : ₹ 50 lakhs
- Borrowing rate : 15%
- Term of Loan : 5 years
- (a) Principal is payable in equal investment over the period of five years.
- (b) Amount of Loan is payable equally over the period of five years.

Prepare a table showing principle & interest payments and the total payable over period of 5 years.

Q.17. Management of Zaheer Ltd. has two investment proposals. It is in a dilemma as to which project it should choose, as the funds available are sufficient to finance only one of the project. The details of the projects are :

Project X - Initial Cash Outlay ₹ 20 lakhs and present value of Cash Inflows ₹ 40,00,000.

Project Y – Initial Cash Outlay ₹ 8,00,000 and Present Value of Cash Inflows ₹ 20 lakhs.

Advise the management of Zaheer Ltd. as to which of the project it should choose based on Net present Value Method and Profitability Index Method. Which method should be preferred in case the results under both the answers conflict.

Q.18. Daffodils Ltd. is considering investment in a machine. It has an option to buy either Machine A or Machine B.

Machine A has a cost of ₹ 4 lakhs. The estimated life of the machine can be taken as five years and the salvage value ₹ 30,000. The estimated profit after tax for the five years are ₹ 30,000, ₹ 40,000, ₹ 70,000, ₹ 60,000 and ₹ 80,000.

Machine B has a cost of ₹ 6 lakhs. The estimated life of this machine can also be taken as five years. The estimated profit after tax for the five years are ₹ 1,00,000, ₹ 80,000, ₹ 20,000, ₹ 60,000 and ₹ 50,000.

You are required to calculate the Accounting Rate of Return (based on average investment) and advise the company which machine to buy. Tax rate may be assumed at 30%.

Q.19. Lily Ltd. intends to invest in a project where-in the capital investment would be to the extent of ₹ 5,000 lakhs depreciable equally over five years. The tax rate applicable to the company is 30%. It is considering of availing a five year term loan from DB Bank Ltd. to the extent of 70% of the project cost. The principal amount of this loan would be repayable equally along-with interest payable on reducing balance. The interest rate would be 9% per annum. The projected earnings before interest and tax for the next five years are - ₹ 1120 lakhs, ₹ 1260 lakhs, ₹ 1400 lakhs, ₹ 1470 lakhs and ₹ 1610 lakhs.

You are required to calculate the debt service coverage ratio and interest coverage ratio for the above project of the first three years only.

Q.20. Orchid Ltd. purchased an equipment costing ₹ 25 lakhs with an estimated life of five years. This equipment was leased to L & T for five years, the lease rental payable varies from year to year. The amount payable at the end of every year is – Year I ₹ 5,87,500. Year II ₹ 6,52,500, equipment at the end of its useful life is ₹ 20,200. Ascertain the rate of return to Orchid Ltd. by considering the discounting factors of 16% and 18% only (the present value factor to be taken for three digits) and the following formula :

Rate of Return = Lower discounting factor +

$$\left(\frac{\text{NPV @ Lower Factor}}{\text{PV@ Lower Factor} - \text{PV @ Higher Factor}} \right) \times (\text{Higher Factor} - \text{Lower Factor})$$

Q.21. Sparrow Ltd. has a project (having life of five years) in wings which would cost ₹ 50 lakhs. Compute the profitability index of the project when the cost of capital is 12%. The cash flows expected to generate from the project for the five years are ₹ 20,00,000, ₹ 16,00,000, ₹ 18,00,000, ₹ 12,00,000 and ₹ 14,00,000. The project cost would be depreciated on straight line basis having no scrap value.

Q.22. Eagle Ltd. is setting up a new project for manufacturing two products :

Product A - 30 lakhs Kgs. and Product B – 50 lakhs Kgs.

The cost of the project after capitalizing interest and preoperative expenses are as under :

	(₹ in lakhs)
Land & Site Development	52
Building	68
Plant & Machinery	580
Other Fixed Assets	24
Preliminary Expenses	6
Total	730
Means of Finance	
Equity Share Capital	250
Term Loan (@ 17.5%)	480
Total	730

Assumptions :

- Capacity utilization of both the products is 50%, 60%, for first and second year and 70% for third year onward.
- Raw Material requirement for Product A is ₹ 60 per Kg and for Product B ₹ 160 per Kg.
- Total Cost of power is ₹ 60 lakhs in first year with an increase of 10% thereafter every year.
- Repairs and maintenance ₹ 100 lakhs per year.
- Administration Expenses of ₹ 80 lakhs in first year with an increase of 10% thereafter every year.
- Salaries and Wages are estimated at ₹ 200 lakhs in first year with an increase of 20% thereafter every year.
- Selling Expenses are estimated at 10% of sales.
- Selling Price for each product is estimated at ₹ 80 and ₹ 240 for Product A and B respectively.
- Depreciation is to be charged @ 5% on Building, @ 10% on Plant & Machinery and @ 15% on other assets.
- Term loan are repayable over 5 years in equal instalments commencing from second year.
- All expenses are to remain constant for this purpose of appraisal except interest on Term Loan from third year onward.

From the above prepare a cost and profitability statement for 5 years and repayment of Term Loan Schedule for all the years.

Q.23. Darshan Ltd. is considering a project with an initial outlay of ₹ 1,00,000 comprising of machinery worth ₹ 75,000 and balance towards working capital exclusively for this project 25,000. The entire amount can be borrowed at a rate of 12% p.a. The machinery can be used for 5 years at the end of which there is salvage value of ₹ 10,000. It can be assumed that the machinery is depreciation on Straight Line method basis @ 20% p.a. for tax purpose; the tax rate being 35%.

Evaluate whether the project is viable under NPV method. Also calculate the pay-back period and briefly recommend for the project given the following annual sales and expenses.

Annual Sales - ₹ 2,00,000

Expenses excluding depreciation ₹ 20,000.

Q.24. Blue Diamond Ltd. furnishes the following information of proposed set-up at Nashik.

Tax Rate is 30%

Expected ROI @ 25%

Depreciation per annum ₹ 325

Term Loan required ₹ 5,000 lakhs.

Interest Rate @ 12%

Tenure of Loan = 5 years repayable with installment and interest at the end of each year.

Tax holiday for first 5 years. The cost of proposed project and the means of finance are as follows :

Proposed Project	(₹ in lakhs)
Cost of Project :	
Plant & Machinery	4,500
Factory Building	1,500
Margin Money for working capital	3,000
Total	6,300
Means of Finance :	
Additional Equity Share capital	1,000
Retained Earnings	300
Term Loan	5,000
Total	6,300

DTA / DTL

Q.25. From the following information for Jallianwala Baug Ltd. for the year ended 31st March, 2009, calculate the deferred tax asset / liability as per AS-22.

Accounting Profit	₹ 70,00,000
Book Profit as per MAT (Minimum Alternate Tax)	₹ 28,00,000
Profit as per income Tax Act	₹ 14,00,000
Tax Rate	30%
MAT Rate	10%

Q.26. From the following information of Amazing Zeal Ltd. for the year ended 31st March, 2009, calculate the deferred tax asset / liability as per AS-22.

Accounting Profit	₹ 90,00,000
Book Profit as per MAT (Minimum Alternate Tax)	₹ 39,00,000
Profit as per income Tax Act	₹ 12,00,000
Tax Rate	30%
MAT Rate	10%

Q.27. From the following information for Elation Ltd. for the year ended 31st March, 2009, calculate the deferred tax asset / liability as per AS-22.

Accounting Profit	₹ 55,00,000
Book Profit as per MAT (Minimum Alternate Tax)	₹ 23,00,000
Profit as per income Tax Act	₹ 13,00,000
Tax Rate	30%
MAT Rate	10%

Q.28. From the following information for Mimosa Ltd. for the year ended 31st March, 2009, calculate the deferred tax asset/liability as per AS-22.

Accounting Profit	₹ 60,00,000
Book Profit as per MAT (Minimum Alternate Tax)	₹ 99,00,000
Profit as per income Tax Act	₹ 21,00,000
Tax Rate	30%
MAT Rate	10%

PROJECT REPORT

Case Study 2 :

Mr. Chawte, GM of FICOM, a Financial Institution, was in relaxed mood. Just thought of having a walk around went out grabbed peanuts to munch. As he was about to throw the wrapping paper in dust bin, he noticed something! The paper was a part of old flash report of FICOM's appraisal process. Only partial data was visible. GM could make out that the report was of Chemexperts Ltd. of Nasik, a manufacturer of bulk drugs and whose directors were IIT Gold Medalist. Total loan sanctioned was ₹ 1200 lacs@13% rate of interest of reducing balance, against the total cost of the project at ₹ 1850 lacs. Principal amount to be repaid in 24 equal quarterly installments. Loan sanctioned against the security of Plant and Machinery, collateral security of RBI Bonds and Personal Guarantee of the directors. You are required to list any eight items of the flash report

Case Study 3 :

You are approached by a Financial Institution to appraise the following project :

Name of the Borrower : Blue Lines Chemicals Private Limited

Proposed loan is taken to set up a chemical unit for processing industrial waste into a marketable product XYZ. The product has a demand for 50,000 Litres, The processing costs include variable cost ₹ 5 per Litre and fixed cost (excluding depreciation) ₹ 30,000 per year. Advertising expenses are also expected to be ₹ 20,000 per year.

XYZ can be sold at ₹ 10 per Litres. Raw Material (Industrial Waste) is available at ₹ 1 per Litre. The Capital Cost of Chemical Unit is ₹ 7,50,000. The company has applied for a loan of ₹ 6,00,000 for a term of 10 years that is over the life of the asset. The promoters of this company are young, dynamic and highly qualified people but are doing the venture for the first time. The Promoters are unable to provide any collateral security for the loan except Personal Guarantee of their parents. They have thought of this project after market research. The said research has stated in the risk factors about invasion of South Korea in Chemical Market and drastic reduction in Selling Price of similar products. The above unit is a SSI unit and its average tax rate is 20%. Interest Rate is 12% p.a. Loan is repayable equally in 10 annual installments along with interest at the end of each year. You are required to :

Questions :

1. Give the Cash flow generated by the above project for the first 3 years only.
2. Calculate the Debt Service Coverage ratio for the above 3 years.
3. Prepare Flash Report presenting the above information to the Financial Institution

Case Study 4 :

Mr. Anil Sane wishes to start a Manufacturing Unit from his ancestral factory premises. He has ₹ 1,05,200 in his bank account. His parents have promised to gift him ₹ 3,50,000. He has estimated the project cost at ₹ 18,00,000 of which machinery will be ₹ 15,25,000 and the remaining amount will be for furniture and fittings. The bank finance is available to the extent of 80% of the project cost. He expects first year's sales at ₹ 40,00,000 with the annual increase of 20% every year over previous year. The cost of sales will be 80% of sales. The rate of interest on loan will be 10% on reducing balance method. The loan is repayable @ ₹ 300000 at the end of every year. He charges depreciation @ 20% on his fixed assets under straight line and his other overheads for three years are ₹ 240000, ₹ 300000 and ₹ 360000 per year respectively. You are required to prepare the Projected Profit and Loss account and Projected Balance Sheet for the first 3 years of operations to be presented to the bankers, assuming that the first year is also a full year of 12 months activities and rate of income tax is flat @ 30%

Also find out any five plus points of the above loan proposal from Banker's Point of View.

Case Study 5 :

Mr. Hemendra Dane is carrying out retail business in electronic items. After observing trade practices, he has decided to start a small scale manufacturing unit to produce electrical fittings. His Balance Sheet as on 31-3-2007, before starting manufacturing activities, is as under :

Liabilities	₹	Assets	₹
Capital	5,55,500	Furniture	40,000
		Computer	60,000
		Investments	1,50,000
		Fixed Deposits with bank	2,00,000
		Cash and Bank balance	1,05,500
	5,55,500		5,55,500

In order to carry out new activity he will take factory premises on rental basis @ ₹ 10,000 p.m. from 1.9.2007 and from 1.4.2008 the rent will be ₹ 15,000 p.m. He is confident of setting up manufacturing unit by 30.8.2007 and start manufacturing and selling from 1st September 2007.

The cost of machineries will be ₹ 10,00,000 for which he will be approaching Bank of Baroda for term loan of ₹ 8,00,000, balance being his own contribution. The loan repayment will start from 1.4.2008, in the quarterly installment of ₹ 50,000 payable on 1st April, 1st July, 1st October and 1st January every year.

He will have no income in financial year 2007-08 till setting up of the unit i.e. upto 30-8-2007. Thereafter he expects his Sales to be ₹ 80,000 p.m. from 1-9-2007 to 31-3-2008 and afterwards every year ₹ 18,00,000 with yearly increment of 10% over previous year.

His cost structure will remain more or less unchanged upto 31-3-2010 and Cost break up on Sales will be: Direct Cost @ 40%, Office Overheads 20%; Selling and Distribution 5%, Depreciation will be charged on all fixed assets @ 10% under W.D.V. (full year's depreciation even if the assets are used for a part of the year) and interest for first year ending 31-3-2008 will be ₹ 59,000 and thereafter it will be at ₹ 70,000, ₹ 54,000 and ₹ 43,000 respectively for subsequent years.

You are required to prepare Projected Statement of Profit and Loss for the financial years 2007-08 08-09 and 2009-10.

Case study 8 :

Blue diamond Ltd. furnishes the following information of proposed set up at Nasik. Tax Rate is 30%; Expected ROI @ 25%; Depreciation per annum is ₹ 325 Lakhs; Term Loan required ₹ 5000 Lakhs; Interest Rate @ 12%. Term of Loan = 5 years repayable with installment and interest at the end of each year. Tax holiday for first 5 years. The cost of proposed project and means of finance are as follows :

Table 1 :**(₹ in Lakhs)**

Cost of Project	₹	Means of Finance	₹
Plant & Machinery	4500	Additional equity capital	1000
Factory Building	1500	Retained earnings	300
Margin money for working capital	300	Term Loan	5000
Total	6300	Total	6300

Finance Manager of the financial institution has requested you to:

- (a) Prepare a flash Report from the point of view of the term loan lending institution.
- (b) Evaluate the project profitability in the next 8 years
- (c) Calculate the following ratios
 - (i) Debt service coverage ratio.
 - (ii) Interest coverage ratio.

