Department of Commerce
University of Calcutta

Study Material

Cum

Lecture Notes

Paper: DSE.305A: Corporate Financial Accounting and Reporting (CFAR)

Only for the Students of M.Com. (Semester III)-2020

University of Calcutta

(Internal Circulation)

Corporate Financial Accounting and Reporting

(Paper DSE 305 A)

Lesson Plan for 2020 Academic Session

Module 1:

1. **Disclosure in Company Accounts (Chapter 1)**
2. **Valuation of Corporate Securities and Business (Chapter 2)**
3. **Segment Reporting (Chapter 4)**
4. **Accounting for Intangible Assets (Chapter 5)**
5. **Accounting for Impairment of Assets (Chapter 6)**

Module 2:

1. **Consolidated Financial Statements of Group Companies (Chapter 7)**
2. **Accounting for Liquidation of Companies (Chapter 9)**
3. **Accounting and Reporting of Financial Instruments (Chapter 10)**
4. **Emerging Issues in Financial Accounting and Reporting (Chapter 12)**

Note: The contents and coverage may vary from year to year

Module 1

Chapter 1: Disclosure in Company Accounts

Contributor: Dr. Swapan Sarkar

Topic 1: Structure of Financial Statements of a Company

- **Meaning of General-Purpose Financial Statements**

These are financial statements which are prepared without considering the specific needs of particular user. So, their use is 'General' and can be used by anyone. As per Ind AS 1, the general-purpose financial statements are those financial statements intended to meet the needs of the user who are not in a position to require an entity to prepare reports tailored to their particular information needs.

- **Objective of Financial Statements**

The objective of the financial statements is to provide information useful to a wide range of users in making economic decision about:

(a) Financial position
(b) Financial performance
(c) Cash flows
(d) Results as to how the resources of the entity was managed by the management.

- **Components of Financial Statements**

(a) A Balance Sheet
(b) Statement of Profit and Loss
(c) Cash Flow Statement
(d) Statement of Changes in Equity
(e) Notes to Accounts

- **Structure of Balance Sheet and Statement of Profit and Loss**

(a) Balance Sheet as per Schedule III (Part I) of Companies Act 2013
(b) Statement of Profit and Loss as per Schedule III (Part II) of Companies Act 2013

(***Please Follow the Class Presentation***)

Note: The structure to be followed in this respect is as per Companies (Accounting Standard) Rules 2015.

Topic 2: Disclosure Through Notes to Accounts

Classification of Items of Assets and Liabilities as Current or Non-current

Current assets

An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

Note: The term 'non-current' shall include tangible, intangible and financial assets of long-term nature.

Note: The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading and the *current portion of non-current financial assets*.

Current liabilities

An entity shall classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Note: An entity shall classify all other liabilities as non-current.

Note: Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in Ind AS 109, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other nontrade payables. Financial liabilities that provide financing on a long-term basis (i.e. are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities.

An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

(a) the original term was for a period longer than twelve months, and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue.

If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example,

there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Numerical Problems on Current and Non-current Classification

Problem 1

On 1st May, 2019 B.S. Ltd took a loan from State Bank of India for Rs. 40,00,000. This is due to be repaid in 16 equal installments at three monthly intervals. The first repayment was due on 1st August 2018. All payment to date have been made on due date. How should the outstanding balance on 31st march 2020 be reported in the Balance Sheet at that date? (Ignore interest)

Solution:

Principal amount payable per instalment = Rs.4000000 ÷ 16 = Rs.250000

Instalment paid during 2019-20 = Rs.250000 × 3 = Rs.750000 (on 1/8/19, 1/11/19, 1/2/20)

Instalments payable during 2020-21 = Rs.250000 × 4 = Rs.1000000

Instalments to be paid during 2021-22 and onwards = Rs.250000 × 9 = Rs.2250000

Amount outstanding on 31.03.2020

Total amount of loan = Rs.4000000

Paid during the year 2019-20 = Rs.750000

Outstanding loan on 31.03.2020 = Rs. (4000000-750000) = Rs.3250000

In the Balance Sheet as on 31.03.2020, Rs.1000000 is to be shown as Current Liabilities as it is payable within a period of 12 months from the reporting date (31.03.2020) and the remaining Rs.2250000 is to be shown as non-current liabilities as the same is payable after a period of 12 months from the reporting date.

Problem 2

On 1st April, 2017 S. A. Co. Ltd. acquired a Vehicle at a cost of Rs. 78,60,000 for carrying its staff from railway station to factory office. The purchase was financed through a six year finance lease. Under the lease, an initial payment of Rs.18,20,000 was made on 1st April, 2017. Five further payments of Rs. 18,20,000 are to be paid on 1st April each year, commencing 1st April, 2018.

S A Co. Ltd. used the sum of digit method to allocate interest to accounting periods. How should the total lease liability (showing current and non-current) be reported in the financial statement on 31st March, 2019?

Solution:

Total lease payment to be made (6 x 1820000) = Rs.10920000

Cost of the bus = Rs.7860000

Total interest = Rs. (10920000 – 7860000) = Rs.3060000

The above interest should be allocated in sum of the years' digit method i.e. in the ratio of 5:4:3:2:1.

So, Interest payable for 2017-18 = Rs.3060000 x 5/15 = Rs.1020000

And Interest payable for 2018-19 = Rs.3060000 x 4/15 = Rs.816000 and so on.

Calculation of lease liability on 31.03.2019

Particulars	Amount (Rs.)

Cost of the bus	7860000
Less. Initial payment on 1.4.2017	1820000
Outstanding on 1.4.2017	6040000
Add. Interest for 2017-18	1020000
Outstanding on 31.03.2018	7060000
Less. Paid on 1.4.2018	1820000
Outstanding on 1.4.2018	5240000
Add. Interest for 2018-19	816000
Outstanding on 31.03.2019	6056000

Of the above amount Rs.1820000 is payable on 1.4.2019. Hence, in the Balance Sheet on 31.03.2019, the instalment amount of Rs.1820000 will be shown as Current Liabilities and the remaining Rs. (6056000 – 1820000) = Rs.4236000 will be shown as Non-current Liabilities.

Problem 3

While preparing the Balance Sheet as on 31.03.2017, the Accountant of ABC Ltd. is confused regarding classification of following Trade Payables into current and non-current.

Sl. No.	Amount due (Rs.)	Due from	To be settled on
1	3,10,000	01.04.2016	18.05.2017
2	1,80,000	01.06.2016	15.09.2018
3	40,000	01.08.2016	15.07.2018
4	15,000	01.01.2017	30.04.2018
5	2,30,000	06.03.2017	05.07.2018
6	1,08,000	15.03.2017	31.12.2017

The normal operating cycle of the company is 15 months. Advice the Accountant on classification with reason.

Solution:

Classification of Trade Payables as Current and Non-current Liabilities

Sl. No.	Amount Due (Rs.)	Date of settlement	Cut of period based on operating cycle	Whether due within the cut of date	Whether Current or non-current
1	3,10,000	18.05.2017	30.06.2018	Before	Current Liabilities
2	1,80,000	15.09.2018	30.06.2018	After	Non-current Liabilities
3	40,000	15.07.2018	30.06.2018	After	Non-current Liabilities
4	15,000	30.04.2018	30.06.2018	Before	Current Liabilities
5	2,30,000	05.07.2018	30.06.2018	After	Non-current Liabilities
6	1,08,000	31.12.2017	30.06.2018	Before	Current Liabilities

Note: An item of liability is considered as a current liability is the same is due to be settled within the normal operating cycle.

Additional Practice Problem:

Year 2017, Q No. 4(b);

Year 2018, Q No. 4(b)

Preparation of Depreciation Schedule in the Notes to Accounts Section:

Problem 1:

On 1st April 2017, the details of Non-current assets of XYZ Ltd. were as follows:

Assets	Cost (Rs.)	Accumulated Depreciation (Rs.)
Land	200,00,000	Nil
Building	90,00,000	8,40,000
Equipment	162,58,500	42,10,500
Motor Vehicles	13,50,300	5,47,220
Total	466,08,800	55,97,720

The company's depreciation policy is:

1. Depreciation will be charged proportionately under time basis i.e. on any asset purchased during the year, depreciation will be from the date of purchase up to the year end and for any asset sold during the year, depreciation will be charged from the opening date up to the date of sale.
2. The rate of depreciation will be:
   (a) Land — Nil
   (b) Building @ 2% p.a. on straight line basis.
   (c) Equipment @ 20% p.a. on straight line basis.
   (d) Motor Vehicles @ 25% p.a. reducing balance basis.

During the year ending on 31st March, 2018, the following transactions relating to non-current assets took place:

(i) The directors decided to re-value the land and an independent valuation report stated that the value of land should be Rs. 240,00,000 on 31stMarch, 2018.

(ii) A motor vehicle was sold for Rs. 41,000 on 30.09.17. Its original cost was Rs. 128,000. The accumulated depreciation on 1st April, 2017 was Rs. 74000.

(iii) Equipment was bought for Rs. 10,30,000 on 31.12.2017.

Required:

(i) Calculate the total depreciation chargeable to Statement of Profit and Loss for the year ended on 31st March, 2018 in respect of non-current assets;

(ii) Calculate the value of non-current assets showing gross block, depreciation and net block which should be represented in the Balance Sheet as at 31st March, 2018.

Solution:

(i) Calculation for depreciation:

Particulars	Amount (Rs.)
(a) Land	Nil
(b) Building (9000000 x 2%)	180000

(c) Equipment (162,58,500 x 20% + 1030000 x 20% x 3/12)			3303200
(d) Motor Vehicle			
Cost as on 1.4.2017		1350300	
Less. Sold		128000	
		1222300	
Less. Accumulated Depreciation			
As on 1.4.2017	547220		
Less. Acc. Dep. on asset sold	74000		
		473220	
		749080	
Depreciation for the year			
[749080 x 25% + (128000-74000) x 25% x 6/12]			194020
			3677220

Note: Loss on sale of Motor Vehicle = w.d.v. – sale proceeds = (128000-74000) – 41000 = Rs.13000. (to be charged to Statement of Profit and Loss)

(ii) Calculation for the value of non-current assets (figures in Rs.)

Tangible Assets	Gross block				Depreciation				Net Block
	On 1.4.2017	Additions	Deductions	On 31.03.2018	On 1.4.2017	For the year	Adjustment	Up to 31.03.2018	On 31.03.2018
Land	200,00,000	4000000	-	24000000	-	-	-	-	24000000
Buildings	90,00,000	-	-	9000000	840000	180000	-	1020000	7980000
Equipment	162,58,500	1030000	-	17288500	4210500	3303200	-	7513700	9774800
Motor Vehicles	13,50,300	-	128000	1222300	547220	194020	74000	667240	555060
	466,08,800	5030000	128000	51510800	55,97,720	3677220	74000	9200940	42309860

Additional Practice Problem:

Year 2018, Q No. 4(a)

Declaration of dividend out of Reserves

According to Section 123(1) read with Companies (Declaration and Payment of Dividend) Rules 2017, in the event of inadequacy or absence of profits in any year, a company may declare dividend out of free reserves subject to the fulfillment of the following conditions:

(a) The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year:

However, this rule will not be applicable to a company, which has not declared any dividend in each of the three preceding financial year.

(b) The total amount to be drawn from such accumulated profits shall not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

(c) The amount so drawn shall first be utilized to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.

(d) The balance of reserves after such withdrawal shall not fall below fifteen per cent of its paid-up share capital as appearing in the latest audited financial statement.

(e) No company shall declare dividend unless carried over previous losses and depreciation not provided in previous year are set off against profit of the company of the current year. The loss or depreciation, whichever is less, in previous years is set off against the profit of the company for the year for which dividend is declared or paid.

Note: The profits must be calculated after charging depreciation as per Schedule II of Companies Act 2013.

Problem 1

The directors of S Ltd. have decided to propose 12% equity dividend for the financial year ended on 31.03.2017. the current year's profit of the company seems to be inadequate and hence the directors have decided to utilize the balance standing at the credit of Free Reserves for this purpose subject to the conditions specified in relevant Companies Rules 2017 for this purpose. The following information is furnished for this purpose:

Particulars	Amount (Rs.)
Capital Reserve as on 1.4.2016	1000000
Capital Redemption Reserve as on 1.4.2016	1500000
Revaluation Reserve as on 1.4.2016	600000
Dividend Equalization reserve as on 1.4.2016	2600000
Net profit for the year ended 31.3.2017	400000

20000, 8% Preference Share Capital of Rs.100 each fully paid up	2000000
1000000 Equity shares of Rs.10 each fully paid up	10000000
Average rate of dividend during the last five years	18%

Offer your suggestion, based on the relevant Companies Rules 2017, as to how much amount can be withdrawn from the free reserves in order to pay the equity dividend.

Solution:

Free Reserves for the purpose of withdrawn from reserves for declaration of dividend = Dividend Equalization Reserves = Rs.2600000.

(a) Since, the equity dividend proposed (i.e. 12%) is lower than the average rate of dividend for the last three years, the rate is permissible. The amount required = 12% of 10000000 – (400000 – 8% of 2000000) = Rs.960000

(b) Amount to be drawn from accumulated profits is subject to a maximum limit of one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement. So, the amount available
= (10000000 + 2000000 +2600000) x 1/10 = Rs.14600000 x 1/10 = Rs.1460000

(c) The balance of reserves after such withdrawal shall not fall below fifteen per cent of its paid-up share capital as appearing in the latest audited financial statement. So, the maximum amount that can be drawn as per this condition = 2600000 – 15% of (10000000 + 2000000) = Rs. 800000.

So, the amount that can be withdrawn (lower of the three) = Rs.800000

The dividend that will be ultimately paid = Rs. [800000 + (400000 – 8% of 2000000)] = Rs.1040000 i.e. 10.4%.

Additional Practice Problem:

On 1st April, 2013 the Balance Sheet of R Chemical Ltd. Included the following amounts:

Assets	Cost (Rs.)	Accumulated Depreciation (Rs.)
Land	50,00,000	Nil
Building	35,00,000	8,50,000
Plant and Machinery	27,80,000	12,60,000

Total	112,80,000	21,10,000

The directors had decided previously to revalue land and buildings. In the year to 31st March, 2014 the directors estimated that the value of land had increased by Rs. 5,00,000 and the value of buildings had increased by Rs. 2,00,000. They also estimated that the remaining useful life of the buildings is 40 years.

Buildings are depreciated on straight line basis, Plant and Machinery is depreciated at a rate of 25% p.a. on reducing balance basis.

During the year to 31st March, 2014, a machinery was purchased for Rs. 7,05,000 and additional buildings were purchased at a cost of Rs. 13,40,000. The useful life of the additional building is estimated to be 40 years.

It is the policy of the company to charge full year's depreciation on purchase of PPE.

You are required to

(a) Calculate the total charge for depreciation for the year ended 31st March, 2014 and

(b) Calculate total value of the PPE to be reported in the Balance Sheet as at 31st March, 2014.

Additional Practice Problem

Year 2017, Q No. 4(a)

Module 1; Chapter 6: Impairment of Assets (IND AS 36)

Contributor: CS Atanu Pramanick

Objective

The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

Scope

This Standard shall be applied in accounting for the impairment of all assets, other than:

(a) inventories (see Ind AS 2 Inventories);

(b) assets arising from construction contracts (see Ind AS 11 Construction Contracts);

(c) deferred tax assets (see Ind AS 12 Income Taxes);

(d) assets arising from employee benefits (see Ind AS 19 Employee Benefits);

(e) financial assets that are within the scope of Ind AS 39 Financial Instruments: Recognition and Measurement;

(f) biological assets related to agricultural activity that are measured at fair value less costs to sell (see Ind AS 41 Agriculture);

(g) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of Ind AS 104 Insurance Contracts; and

(h) non-current assets (or disposal groups) classified as held for sale in accordance with Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations.

This Standard applies to financial assets classified as:

(a) subsidiaries, as defined in Ind AS 27 Consolidated and Separate Financial Statements;

(b) associates, as defined in Ind AS 28 Investments in Associates; and

(c) joint ventures, as defined in Ind AS 31 Interests in Joint Ventures. For impairment of other financial assets, refer to Ind AS 39.

However, this Standard applies to assets that are carried at revalued amount (i.e. fair value) in accordance with other Indian Accounting Standards, such as the revaluation model in Ind AS 16 Property, Plant and Equipment.

Definitions

The following terms are used in this Standard with the meanings specified:

An **active market** is a market in which all the following conditions exist:

(a) the items traded within the market are homogeneous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Corporate assets are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.

Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the entity; or

(b) the number of production or similar units expected to be obtained from the asset by the entity.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Identifying an asset that may be impaired

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, an entity shall also:

(a) test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year.

(b) test goodwill acquired in a business combination for impairment annually.

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

(a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(d) the carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information

(e) evidence is available of obsolescence or physical damage of an asset.

(f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs,

plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

(g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

(h) for an investment in a subsidiary, joint venture or associate, the investor recognises a dividend from the investment and evidence is available that:

(i) the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or

(ii) the dividend exceeds the total comprehensive income of the subsidiary, joint venture or associate in the period the dividend is declared.

Note: Evidence from internal reporting that indicates that an asset may be impaired includes the existence of:

(a) cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;

(b) actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;

(c) a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset; or

(d) operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

Measuring recoverable amount

This Standard defines recoverable amount as the higher of an asset's or cash generating unit's fair value less costs of disposal and its value in use.

It is not always necessary to determine both an asset's fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

(a) Fair Value less Cost of Disposal:

The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

If there is no binding sale agreement but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal.

If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.

(b) Value in Use:

The following elements shall be reflected in the calculation of an asset's value in use:

(a) an estimate of the future cash flows the entity expects to derive from the asset;

(b) expectations about possible variations in the amount or timing of those future cash flows;

(c) the time value of money, represented by the current market risk-free rate of interest;

(d) the price for bearing the uncertainty inherent in the asset; and

(e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Estimating the value in use of an asset involves the following steps:

(a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and

(b) applying the appropriate discount rate to those future cash flows.

Estimates of future cash flows shall include:

(a) projections of cash inflows from the continuing use of the asset;

(b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

(c) net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:

(a) the time value of money; and

(b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognising and measuring an impairment loss

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in Ind AS 16).

An impairment loss on a non-revalued asset is recognised in profit or loss. However, an impairment loss on a revalued asset is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another Standard.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash Generating Units:

If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash generating unit to which the asset belongs.

Example: A mining entity owns a private railway to support its mining activities. The private railway could be sold only for scrap value and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the mine.

It is not possible to estimate the recoverable amount of the private railway because its value in use cannot be determined and is probably different from scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the private railway belongs, i.e. the mine as a whole.

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit:

(a) includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and

(b) does not include the carrying amount of any recognized liability, unless the recoverable amount of the cash generating unit cannot be determined without consideration of this liability.

Example: A company operates a mine in a country where legislation requires that the owner must restore the site on completion of its mining operations. The cost of restoration includes the replacement of the overburden, which must be removed before mining operations commence. A provision for the costs to replace the overburden was recognised as soon as the overburden was removed. The amount provided was recognised as part of the cost of the mine and is being depreciated over the mine's useful life. The carrying amount of the provision for restoration costs is Rs 500, which is equal to the present value of the restoration costs.

The entity is testing the mine for impairment. The cash-generating unit for the mine is the mine as a whole. The entity has received various offers to buy the mine at a price of around Rs 800. This price reflects the fact that the buyer will assume the obligation to restore the overburden. Disposal costs for the mine are negligible. The value in use of the mine is approximately Rs1,200, excluding restoration costs.

The carrying amount of the mine is Rs1,000. The cash-generating unit's fair value less costs to sell is Rs 800. This amount considers restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs and is estimated to be Rs 700 (Rs 1,200 less Rs 500). The carrying amount of the cash generating unit is Rs 500, which is the carrying amount of the mine (Rs 1,000) less the carrying amount of the provision for restoration costs (Rs 500). Therefore, the recoverable amount of the cash generating unit exceeds its carrying amount.

Allocating goodwill to cash-generating units

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. Goodwill does not generate cash flows independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units.

Cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognise the impairment loss.

The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.

Corporate assets

Corporate assets include group or divisional assets such as the building of a headquarters or a division of the entity, EDP equipment or a research centre. The structure of an entity determines whether an asset meets this Standard's definition of corporate assets for a particular cash-generating unit. The distinctive characteristics of corporate assets are that they do not generate cash inflows independently of other assets or groups of assets and their carrying amount cannot be fully attributed to the cash-generating unit under review.

101Because corporate assets do not generate separate cash inflows, the recoverable amount of an individual corporate asset cannot be determined unless management has decided to

dispose of the asset. As a consequence, if there is an indication that a corporate asset may be impaired, recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of this cash-generating unit or group of cash-generating units. Any impairment loss is recognised in accordance with this standard.

Impairment loss for a cash-generating unit

An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

(a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

(b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognised in accordance with

Reversing an impairment loss for an individual asset

A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another

Indian Accounting Standard (for example, the revaluation model in Ind AS 16). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Indian Accounting Standard.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversing an impairment loss for a cash-generating Unit

A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognized.

In allocating a reversal of an impairment loss for a cash generating unit, the carrying amount of an asset shall not be increased above the lower of:

(a) its recoverable amount (if determinable); and

(b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit, except for goodwill.

Reversing an impairment loss for goodwill

An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

Ind AS 38 *Intangible Assets* prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognised for the acquired goodwill.

Disclosure

An entity shall disclose the following for each class of assets:

(a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included.

(b)the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed.

(c)the amount of impairment losses on revalued assets recognised in other comprehensive income during the period.

(d)the amount of reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.

Problems and Solutions

Q.1. A Ltd. purchased an asset on 01.04.2010 for Rs.10000. Life of the asset is 10 years. Salvage value estimated is Rs.1000. On 31.03.2015 there are indications of impairment and so impairment testing is required. The company made the following estimates:

Year	2015-16	2016-17	2017-18	2018-19	2019-20
CF from Use (Rs.)	1200	1000	1000	800	1000

Fair value less cost of disposal is determined at Rs.4300. The company re-estimated the salvage value to Rs.500. Assume discounting factor 15%.

On 31.03.2015, calculate: (a) carrying amount, (b) recoverable amount (c) Impairment loss (d) Revised carrying amount (e) Revised depreciation for future years.

Solution:

Initial depreciation = (original cost – salvage value)/life of the asset
= (10000 -1000)/10 = Rs.900.
(a) Carrying amount of the asset on 31.03.2015 = Original cost – Accumulated depreciation = 10000 – (900×5 years) = Rs.5500.
(b) Recoverable Amount = higher of Value in use and Fair value less cost of disposal.
Value in use = PV of cash flows

Year	CF (Rs.)	PVIF (15%)	PV
2015-16	1200	0.869	1043
2016-17	1000	0.756	756
2017-18	1000	0.657	657
2018-19	800	0.571	457
2019-20	1000+500	0.497	746
			3659

Fair value less cost of disposal = Rs.4300 (given).
So Recoverable amount = Rs.4300
(c) Since carrying amount is higher than the recoverable amount, the asset is impaired. Impairment Loss = 5500-4300 = Rs.1200.
(d) Revised carrying amount = 5500 – 1200 = Rs.4300.
(e) Revised depreciation = (revised carrying amount – revised salvage value)/revised life = (4300 – 500)/5 = Rs.760.

Q.2. X Ltd. acquired an asset on 30.09.2015 for Rs.100 lakhs. The life of the asset was estimated at 5 years with a residual value of Rs.5 lakhs. On 31.03.2018 the company undertook an impairment test. It gave the following estimates:

Year	2018-19	2019-20	2020-21
CF (Rs. In lakhs)	12.5	12.3	12.0

The revised estimate of the residual value on 30.09.2020 stands at Rs.2 lakhs only. The fair value less cost of disposal is estimated at Rs.30 lakhs. Assume discounting factor 10% and that cash flow for the last year and salvage value will be realized only on 31.03.2021. On 31.03.2018 calculate the following: (a) carrying amount, (b) recoverable amount (c) Impairment loss (d) Revised carrying amount (e) Revised depreciation for future years.

Solution:
Initial depreciation = (original cost – salvage value)/life of the asset
= (100 -5)/5 = Rs.19 lakhs.
(a) Carrying amount of the asset on 31.03.2018 = Original cost – Accumulated depreciation = 100 – (19×2 years 6 months) = Rs.52.5 lakhs.
(b) Recoverable Amount = higher of Value in use and Fair value less cost of disposal.
Value in use = PV of cash flows

Year ended	CF (Rs.)	PVIF (10%)	PV

2018-19	12.5	0.909	11.3625
2019-20	12.3	0.826	10.1598
2020-21	12+2	0.751	10.514
			32.0363 = 32

Fair value less cost of disposal = Rs.30 (given).
So Recoverable amount = Rs.32
(c)Since carrying amount is higher than the recoverable amount, the asset is impaired. Impairment Loss = 52.5-32 = Rs.20.5 lakhs.
(d) Revised carrying amount = 52.5 – 20.5 = Rs.32 lakhs.
(e) Revised depreciation = (revised carrying amount – revised salvage value)/revised life
= (32 - 2)/2.5 = Rs.12 lakhs.

Q.3. On 01.04.2010 an asset was purchased for Rs.100 lakhs with an estimated life of 10 years and estimated salvage value of Rs.5 lakhs. On 31.03.2015 the asset was revalued to Rs.60 lakhs. Now on 31.03.2018 the asset is tested for impairment. Fair value less cost of disposal is Rs.25 lakhs. Estimated cash flows are Rs.16 and Rs.12 lakhs for the next two years. Revised salvage value is nil. Assume discounting factor 10%. Calculate (a) carrying amount and (b) Revised depreciation.

Solution:

Carrying amount after 5 years i.e. on 31.03.2015 = Original cost – Accumulated depreciation = $100 – (\frac{100-5}{10})\times5$ = Rs.52.5 lakhs

On 31.03.2015, it is revalued at Rs.60 lakhs. Revaluation Reserve = (60-52.5) = Rs.7.5 lakhs. So, revised carrying amount on 31.03.2015 is Rs.60 lakhs.

Revised depreciation from 2015-16 = (60 – 5)/5 = Rs.11 lakhs p.a.

Carrying amount on 31.03.2018 = Carrying amount on 31.03.2015 – Depreciation for 3 years = 60 – (11×3) = Rs.27 lakhs.

Recoverable amount on 31.03.2018 = Higher of Value in use and Fair value less cost of disposal.
Value in use = PV of Cash flows = 16×PVIF(10%,1)+12×PVIF(10%,2) = 16×0.909+12×0.826 = Rs.24.456 lakhs
Fair value less cost of disposal = Rs.25 lakhs (given). So, Recoverable amount = Rs.25 lakhs.
Impairment loss = (27 – 25) = Rs.2 lakhs.
Revised carrying amount = 27 – 2 = Rs.25 lakhs. This reduction in the value of asset should be adjusted against the Revaluation Reserve.
Revised depreciation = (25 – 0)/2 = Rs.12.5 lakhs.

Q.4. N Ltd. acquired plant on 01.04.2011 for Rs. 50 lakhs having 10 years useful life provides depreciation on straight-line basis with nil residual value. On 01.04.2016, N Ltd. revalued the plant at Rs. 29 lakhs against its book value of Rs. 25 lakhs and credited Rs. 4

lakhs to revaluation surplus. On 31.03.2018 the plant was impaired and its recoverable amount on this date was Rs. 13 lakhs. Calculate the impairment loss and how this loss should be treated in accounts.

Solution:

Assets as on 1.04.2011 Rs. 50 lakhs, useful life 10 years

Carrying amount of asset on 01.04.2016 = 50 – (50×5/10) = 25 lakhs.

Revalued on 01.04.2016 = 29 lakhs

Revaluation Reserve = (29-25) lakhs = 4 lakhs

Carrying amount before impairment test on 31.03.2018 = 29 – (29×2/5)= 17.4 lakhs

Recoverable amount on 31.03.2018 = 13 lakhs

So, Impairment loss = (17.4 – 13) lakhs = 4.4 lakhs

Impairment loss should be adjusted from the revaluation reserve (i.e 4 lakhs) created with the same asset and then the balance amount (0.4 lakhs) should be adjusted with Statement of Profit & Loss

Q. 5. G Ltd. purchased a machine on 01.01.2018 for Rs. 150 lakhs having useful life of 5 years. On 31.12.2019 its carrying amount is Rs. 90 lakhs, due to fire, in a factory, there is some damage to machinery but still it is working, its Fair value less cost of disposal on 31.12.2019 is Rs. 75 lakhs. The machine does not generate independent cash inflow from use. The smallest group of asset that includes this machine generates cash inflow largely independent of other assets, the carrying amount of group of assets to which this machine belongs is Rs. 500 lakhs and the recoverable amount of group of assets (cash-generating unit) to which this machine belongs is Rs. 520 lakhs. Whether the machine is required to be impaired?

Solution:

The machine does not generate independent cash inflow from use. So, for the purpose of the impairment testing CGU in which the machine relates needs to be considered. Here, in this problem carrying amount of the CGU to which the machine belongs is less than the recoverable amount of the CGU. There is no requirement of impairment of the particular machine.

Q.6. X Ltd. acquired a business on 31.03.2013 for Rs.7500 lakhs. Fair value of identifiable assets Rs.5000 Lakhs. The anticipated useful life of the asset is 8 years (with no salvage value). Goodwill is to be amortized over 5 years. X Ltd. undertook an impairment test on 31.03.2015. Fair value less cost of disposal is not determined and the cash flows are estimated as follows:

Year	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21

CF from Use (Rs.)	1000	1000	1000	800	700	500

Assume discounting factor 10% and calculate the revised carrying amount.

Solution:

Value of goodwill recognized on 31.03.2013 = P.C – Fair value of assets = 7500 – 5000 = Rs.2500 lakhs. The anticipated useful life of the asset is 8 years (with no salvage value). Goodwill is to be amortized over 5 years.

On 31.03.2015, carrying amount of assets = 5000 – $(\frac{5000-Nil}{8})$×2 = Rs.3750

On 31.03.2015, carrying amount of goodwill = 2500 – $(\frac{2500-Nil}{5})$×2 = Rs.1500

So, carrying amount of the CGU = 3750+1500 = Rs.5250 lakhs.

Recoverable Amount = higher of Value in use and Fair value less cost of disposal.
Value in use = PV of cash flows

Year	CF (Rs.)	PVIF (10%)	PV
2016	1000	0.909	909
2017	1000	0.826	826
2018	1000	0.751	751
2019	800	0.683	546
2020	700	0.621	434
2021	500	0.564	282
			3748

Fair value less cost of disposal = Not determined.
So Recoverable amount = Rs.3748
Since carrying amount is higher than the recoverable amount, the asset is impaired. Impairment Loss = 5250 – 3748 = Rs.1502 lakhs. This is to be written off first from goodwill and then from asset. Thus, goodwill to be written off = Rs.1500 lakhs and Asset to be written off = Rs. 2 lakhs.
Revised carrying amount of assets on 31.03.2015 = 3750 – 2 = Rs.3748
Revised depreciation = (3748 – nil)/6 = Rs.624.67 lakhs.

Q.7. A Ltd. acquired a business on 01.04.2015 for a purchase consideration of Rs.800lakhs. CGU X, Y, Z, P and Q were acquired having fair value of Rs.100, Rs.150, Rs.30, Rs.80, Rs.120 lakhs respectively. The life of the CGUs were 10 years and Goodwill is to be amortized over 5 years.

On 31.03.2018, A Ltd. undertook an impairment test. Cash flows were estimated as follows:

a) CGU of X and Y: Rs.25 lakhs p.a. for the balance number of years.
b) CGU of Z: Rs.5 lakhs p.a. for the balance number of years.
c) CGU of P and Q: Rs.20 lakhs p.a. for the balance number of years.

Discounting factor is 10% and PVIFA (10%,7) = 4.869.

Calculate revised value of goodwill and carrying amount of all CGUs and revised depreciation.

Solution:

Value of goodwill recognized on 01.04.2015 = 800 – (100+150+30+80+120) = Rs.320 lakhs.

Goodwill is amortized in 5 years.

Carrying amount of goodwill on 31.03.2018 = 320 – (320/5)×3 = Rs.128 lakhs. This is to be allocated to each CGU based on their initial fair value recognized.

So, goodwill to be allocated to different CGUs are:

X = 128× $\frac{100}{480}$ = 27; Y = 128× $\frac{150}{480}$ = 40; Z = 128× $\frac{30}{480}$ = 8; P = 128× $\frac{80}{480}$ = 21 and

Q = 128× $\frac{120}{480}$ = 32.

Revised carrying amount:

CGU	Initial Carrying amount of assets	Accumulated Dep.	Present carrying amount	G/W allocated	Total carrying amount	Recoverable Amount*	I/L
X	100	100×$\frac{3}{10}$ = 30	70	27	97	25×4.869 = 122 (app.)	Nil
Y	150	150×$\frac{3}{10}$ = 45	105	40	145	25×4.869 = 122 (app.)	23
Z	30	9	21	8	29	5×4.869 = 24 (app.)	5
P	80	24	56	21	77	20×4.869 = 97 (app.)	Nil
Q	120	36	84	32	116	20×4.869 = 97 (app.)	19

* Since FV less cost of disposal is not available, Recoverable amount = Value in use.

Revised carrying value of goodwill = 128 – (23+5+19) = Rs.81 lakhs.

Revised carrying value of CGUs: X = Rs. 70 lakhs,Y = Rs. 105 lakhs, Z = Rs. 21 lakhs, P = Rs. 56 lakhs, Q = Rs. 84 lakhs.

Revised depreciation: X = Rs. 10 lakhs,Y = Rs. 15 lakhs, Z = Rs. 3 lakhs, P = Rs. 8 lakhs, Q = Rs. 12 lakhs. (revised carrying amount ÷ 7 years)

Q.8. A Ltd. acquired a business on 31.03.2013 for a purchase consideration of Rs.500lakhs. CGU X, Y, and Z were acquired having fair value of Rs.200, Rs.200, Rs.80 lakhs respectively. On 31.03.2015, impairment test was undertaken. Recoverable amount of X, Y and Z were Rs.125, Rs.100, Rs.30 lakhs respectively. All assets have life of 5 years since acquisition. Calculate revised carrying amount of assets and revised depreciation.

Solution:

Value of goodwill recognized on 31.03.2013 = 500 – (200+200+80) = Rs.20 lakhs.

Carrying amount of asset on 31.03.2015

CGU	Initial carrying amount	Accumulated Depreciation	Carrying amount on 31.03.2015
X	200	(200/5)×2 = 80	120
Y	200	(200/5)×2 = 80	120
Z	80	(80/5)×2 = 32	48
	480		

Value of goodwill on 31.03.2015 = 20 – (20/5)×2 = Rs.12 lakhs.

Goodwill allocated to X = 12×200/480 = 5; to Y = 12×200/480 = 5 and to Z = 12×80/480 = 2

Revised carrying amount:

CGU	Carrying amount on 31.03.2015	G/W allocated	Total carrying amount	Recoverable Amount (given)	Impairment Loss
X	120	5	125	125	Nil
Y	120	5	125	100	25
Z	48	2	50	30	20

Revised carrying value of CGUs: X = Rs. 120 lakhs,Y = Rs. 100 lakhs, Z = Rs. 30 lakhs.

Revised depreciation: X = Rs. 40 lakhs,Y = Rs. 33.33 lakhs, Z = Rs. 10 lakhs. (revised carrying amount ÷ 3 years)

Goodwill allocated to Y and Z are written off in full. Carrying amount of goodwill = 12 – (5+2) = Rs.5 lakhs. Revised amortization on goodwill = 5/3 = Rs.1.7 lakhs.

Q.9. A Ltd. has three CGUs X, Y and Z having carrying amount of Rs.500, Rs.700 and Rs.800 lakhs respectively on 31.03.2018. The company has a head office building of Rs.300 lakhs and a R&D center of Rs.200 lakhs. Head office can be allocated but R&D center cannot be allocated to the CGUs. Due to technological changes, impairment tests have been done on 31.03.2018. Remaining useful life of X is 10 years and of Y and Z 20 years. X, Y and Z are depreciated by SLM. Fair value less cost of disposal is not realizable. Future expected cash flows from CGU X is Rs. 120 lakhs (5 years) and Rs.150 lakhs (5 years), from Y is Rs. 130 lakhs (5 years), Rs.150 lakhs (5 years) and Rs.80 lakhs (10 years) and from Z is Rs. 140 lakhs (5 years), Rs.120 lakhs (5 years) and Rs.100 lakhs (10 years). Future expected cash flows from A Ltd. as a whole is Rs. 350 lakhs (5 years) and Rs.400 lakhs (5 years), Rs.500 lakhs (10 years). Discounting rate 15% p.a. Annuity of 15%: 1-5 = 3.35, 6-10 = 1.664, and 11-20 = 1.234. Calculate impairment loss to be recognized in the financial statement and allocation of impairment loss. Calculate revised carrying amount of all CGUs.

Solution:

Since FV less cost of disposal is not available, Recoverable amount = Value in Use

Again, value in use = PV of Cash 3.35flows.

So, Recoverable amount of X = 120×3.35 + 150×1.1664 = Rs.652 lakhs.

So, Recoverable amount of Y = 130×3.35 + 150×1.1664 + 80×1.234 = Rs.784 lakhs.

So, Recoverable amount of Z = 140×3.35 + 120×1.1664 + 100×1.234 = Rs.792 lakhs.

So, Recoverable amount of A Ltd. = 350×3.35 + 400×1.1664 + 500×1.234 = Rs.2455 lakhs.

Break-up of H.O building:

CGU	Proportion (based on initial cost× no. of years)	Allocated H.O Building
X	500×10 = 5000	43 (i.e. 300×5000/35000)
Y	700×20 = 14000	120
Z	800×20 = 16000	137
	35000	300

Calculation for impairment loss:

CGU	Carrying amount	Allocated H.O Building	Total carrying amount	Recoverable Amount	I/L
X	500	43	543	652	Nil
Y	700	120	820	784	36
Z	800	137	937	792	145

Impairment loss of Y adjusted against CGU Asset = 36×700/820 = Rs.31 and H.O building = 36×120/820 = Rs.5 lakhs.

Impairment loss of Z adjusted against CGU Asset = 145×800/937 = Rs.124 and H.O building = 145×137/937 = Rs.21 lakhs.

Revised carrying amount before R&D adjustment: H.O building = 300 – (5+21) = Rs.274 lakhs; X = Rs.500 lakhs; Y = 700 – 31 = Rs.669 lakhs and Z = 800 – 124 = Rs.676 lakhs.

Impairment test on overall basis:

Carrying amount of H.O Building, X, Y, Z and R&D = 274+500+669+676+200 = Rs.2319 lakhs.

Recoverable amount = Rs.2455 lakhs.

Since carrying amount is lower than recoverable amount, the asset is not impaired.

So, final carrying amount: H.O building = Rs.274 lakhs; X = Rs.500 lakhs; Y = Rs.669 lakhs and Z = Rs.676 lakhs and R&D = Rs.200 lakhs.

Q.10. A Ltd. acquired a business on 31.03.2013 for Rs.8000 lakhs. The value of identifiable asset was Rs.6800 lakhs. Estimated life of the assets is 10 years and Goodwill is to be amortized in 5 years. Due to certain restrictions imposed by the Govt. the company undertook an impairment test and recoverable amount recognized on 31.03.2016 of Rs.4000 lakhs. In the year 2018, Govt. has lifted the restrictions and due to the same A Ltd. re-estimated the recoverable amount to Rs. 5000 lakhs on 31.03.2018. Calculate the impairment loss and reversal of impairment loss in 2018.

Solution:

Value of goodwill recognized on 31.03.2013 = P.C – Fair value of assets = 8000 – 6800 = Rs.1200 lakhs. The anticipated useful life of the asset is 10 years (with no salvage value). Goodwill is to be amortized over 5 years.

Impairment test on 31.03.2016:

Carrying amount of identifiable asset on 31.03.2016 = 6800 – (6800×3/10) = Rs.4760 lakhs.

Carrying amount goodwill on 31.03.2016 = 1200 –(1200×3/5) = Rs.480 lakhs.

Total carrying amount = 4760+480 = Rs.5240 lakhs.

Recoverable amount = Rs.4000 lakhs.

Impairment loss = 5240 – 4000 = Rs.1240 lakhs.

Impairment loss to be adjusted first from goodwill = Rs.480 lakhs and then from asset = (1240-480) = Rs.760 lakhs.

Revised carrying amount of asset = 4760 -760 = Rs.4000 lakhs. This is to be depreciated over remaining 7 years.

Impairment test on 31.03.2018:

Carrying amount of asset on 31.03.2018 = 4000 – (4000×2/7) = 4000 – 1143 = Rs.2857 lakhs.

Recoverable amount = Rs.5000 lakhs.

Reversal of impairment loss will be the lower of the following:

(a) Impairment loss written off earlier = Rs.1240 lakhs.

(b) Amount up to the Recoverable Amount = (5000 – 2857) = Rs.2143 lakhs.

(c) Amount up to the carrying amount that would have been had there been no impairment loss = 3400 – 2857 = Rs.543 lakhs

So, the impairment loss to be reversed = Rs.543 lakhs.

Note: Carrying amount that would have been = 6800 – (6800×5/10) = Rs.3400 lakhs.

References:

- Indian Accounting Standard (Ind AS) 36 – Impairment of Assets
  http://mca.gov.in/Ministry/pdf/INDAS36.pdf

Module 2

LIQUIDATION OF COMPANIES

Prof. Swagata Sen

Main Points Covered:

(i) Definition and types of Liquidation
(ii) Statement of Affairs and Liquidator's Final Statement of Accounts
(iii) Explanation of Priority Chart of Payment
(iv) Overriding preferential payments.
(v) Preparation of Liquidator's Final Statement of account
(vi) Preparation of Statement of Affairs

Introduction

A Company is an artificial person created by law. It comes into existence through a legal process. Hence, it should also come to an end through a legal procedure. Liquidation is the process in which a company's existence is brought to an end. It is also known as winding up.

Meaning of Liquidation

Liquidation or winding up of a company can simply be defined as "the process whereby its life is ended and its property is administered for the benefit of its creditors and members". An administrator, namely a Liquidator, is appointed and he takes control of the company, collects its assets and pays its debts. If after payment towards the creditors, there remains any surplus, the same is distributed among the members in accordance with their rights. In contrast, if there arises any deficit, the members contribute to the assets of the company subject to their maximum legal liability. After completion of such formalities, the company is dissolved and its name is removed from the Register of Companies.

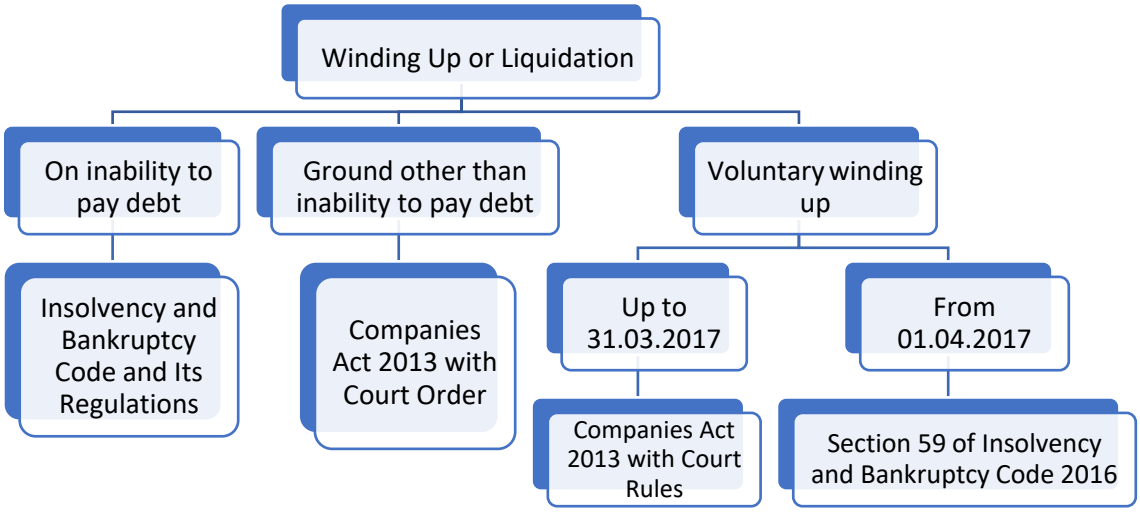
The Legal Framework of Liquidation or Winding Up in India

Prior to Companies Act 2013, liquidation procedure of companies was guided by Companies Act 1956. The new Companies Act 2013, incorporated in it, Chapter XX, Winding Up for liquidation of companies. The provisions were narrated in Section 270 to 365. However, enforcement of those sections were deferred and the provisions of the 1956 Act were continued even after the implementation of 2013 Act. The same went on until the Insolvency and Bankruptcy Code (IBC) was introduced in May 2016.

On 15.11.2016, Section 255 of the IBC was notified and by virtue of Section 255, the 2013 Act stands amended in accordance of schedule XI of the Code.

The Code, for the first time, introduced a definition of "winding up" in section 2 (94A) of Companies Cat 2013, whereby winding up means winding up under the Act or liquidation under the Code, thus harmonising both statutes. The Code also introduced ancillary changes to the Act.

Modes of Winding Up/Liquidation



- Winding Up by the Tribunal

As per Section 270of the Companies Act2013, the procedure for winding up of a company can be initiated either: (a) By the tribunal or, (b) Voluntary. However, section 304 of Companies Act has now been omitted and therefore Section 59of the Insolvency and Bankruptcy code2016isapplicable from 1/4/2017 to deal with Voluntary winding up cases. Moreover, the distinction between members' voluntary winding up and creditors' voluntary winding up has been eliminated.

As per section 271 of the Companies Act 2013, a company can be wound up by a tribunal in the following circumstances:

1. If the company has by special resolution resolved that the company be wound up by the tribunal.

2. If the company has acted against the interest of the integrity or morality of India, security of the state,orhas spoiled any kind of friendly relations with foreign or neighbouring countries.

3. If the company has not filed its financial statements or annual returns for preceding five consecutive financial years.

4. If the tribunal by any means finds that it is just and equitable that the company should be wound up.

5. If the company in any way is indulged in fraudulent activities or any other unlawful business, or any person or management connected with the formation of company is found guilty of fraud, or any kind of misconduct.

- Voluntary Winding Up

Chapter V of Part II of the Insolvency and Bankruptcy Code contains Section 59 that deals with voluntary liquidation. As per Section 59 of the Code, the voluntary liquidation process can only be initiated by a corporate person, which has not committed any default.

The company can be wound up voluntarily by the mutual agreement of members of the company, if: (i) The company passes a special resolution stating about the winding up of the company. (ii) The company in its general meeting passes a resolution for winding up as a result of expiry of the period of its duration as fixed by its Articles of Association or at the occurrence of any such event where the articles provide for dissolution of company.

Liquidator

The person appointed for conducting the liquidation proceedings of the company is called 'Liquidator'. Under IBC, "liquidator" means an insolvency professional appointed as a liquidator in accordance with the provisions of Chapter III or Chapter V of this Part, as the case may be. In case of Voluntary winding up an Insolvency Professional, the company must submit a statement of affairs to the liquidator. The general duties of the liquidator are to take into his custody all the property of the company and actionable claims and make the payments as per the order laid down in the Companies Act.

Statement of Affairs and Liquidator's Final Statement of Account

Liquidation involves preparation of two important statements namely Statement of Affairs and Liquidator's Final Statement of Account.

When the liquidator officially takes charge of the company from the BODs, the directors are required to communicate the present financial status of the company. Accordingly, apart from the Statement of Profit and Loss for the period ended on the liquidation and a balance sheet with carrying amount of assets and liabilities on the date of liquidation, they are also to prepare and submit a statement showing the estimated realisable value of assets and liabilities of the company under liquidation. The statement must also include the estimated Deficiency, if any. Such a statement is known as Statement of Affairs.

On the other hand, Liquidator's Final Statement of Account is a statement to be prepared by the liquidator with details regarding the actual realizations of assets and payment to creditors. The same will be submitted to the appointing authority of the liquidator.

Based on the above, the following distinctions of Statement of Affairs (SOA) and Liquidator's Final Statement of Account (LFSA) can be listed.

1. SOA is prepared by the Directors and submitted to the Liquidator whereas LFSA is prepared by the liquidator and submit to its appointing authority, may be a court also,
2. SOA is prepared based on estimated realisable value whereas LFSA contains the actual realised amount.
3. SOA is prepared based on the information on or around the date of liquidation whereas LFSA is prepared for the period ended on the last payment date.

Priority Chart for Payment towards Various Parties

While making payment towards various parties out of the amount realised from the assets of the company under liquidation, the liquidator is to abide by the following payment hierarchy. It is also known as the Priority Chart.

1. Secured creditors up to the amount available from the asset secured.
2. Cost of Liquidation
   a) Liquidator's remuneration
   b) Legal expenses
   c) Other expenses
3. Preferential Creditors
4. Debenture holders covered by floating charge on all assets
5. Unsecured creditors
6. Preference shareholders
7. Equity shareholders

Priority Chart Explained

1. Secured Creditors: Secured creditors refer to the liabilities against which some assets have been kept as pledge. The claim of secured creditors comprises of (i) principal amount of loan outstanding (ii) interest outstanding on secured loan up to the date of liquidation and (iii) lag period interest. Amount realised from the secured assets covers (i) and (ii) above. Hence, any amount realised from the secured assets will first be utilised to pay the principal amount of loan outstanding and interest outstanding up to the date of liquidation. Any surplus, remaining thereafter, will be utilised to pay off the other liabilities as per the priority chart. However, if there arises any deficit, the corresponding claim of the secured creditors will be considered as unsecured and will be treated accordingly.
   Lag period interest will be paid only if the company is solvent.
   Note:
   (a) Here, lag period interest refers to the interest due from the date of liquidation up to the date of payment of secured loan.
   (b) A company is considered solvent if sufficient amount remains available after paying off all the liabilities up to ordinary unsecured creditors.
   Example: Refer to class lecture.
2. Cost of Liquidation: Cost of liquidation comprises of the following –
   (i) Legal expenses like, drafting charges of legal documents, stamp duty etc.
   (ii) Liquidator's remuneration
   (iii) Other expenses like travelling expenses, printing and stationery, postage etc.
   Note: For details on liquidator's remuneration follow class lecture.
3. Preferential creditors: These are unsecured creditors who are paid in preference to others. As per Sec. 327 of the Companies Act, 2013, preferential creditors include the following:
   a) Due to Government: All revenues, taxes, cesses and rates due to the Central, State Government or to a local authority which have become due and payable within twelve months before the date of winding uporder.
   b) Salary and Wages Outstanding: All wages or salary including wages payable for time or piece work and salary earned wholly or in part by way of commission of any employee in respect of services rendered to the company and due for a period not exceeding four months within the twelve months immediately before the liquidation date, subject to the condition that the amount payable under this clause to any workman shall not exceed Rs. 20000 per claimant.
   c) All amounts due in respect of contribution payable during the twelve months under the Employees' State Insurance Act, 1948or any other law.
   d) Compensation due under Workmen's Compensation Act, 1923 in respect of death or disablement of any employee of the company.
   e) Any amount due to any employee from provident fund, pension fund, gratuity fund for the welfare of the employees maintained by the company.
   f) Accrued holiday remuneration becoming payable to the employee or in case of his death, to any other person in his right, on termination of his employment before, or by the effect of the winding up.
   g) The expenses of any investigation held in pursuance of Sec. 213 or 216 in so far as they are payable by the company.

Note: Here, the term 'workmen', in relation to a company, means the employees of the company, being workmen within the meaning of clause (s) of section 2 of the Industrial Disputes Act, 1947 (14 of 1947). **Hence, persons working in the managerial capacity are not workmen.**

Note: **Any loan from directors to pay off any preferential creditor also assumes the character of a preferential creditor.**

Note: Any commercial transaction with a govt. agency or government company is not treated preferential.

Example: Refer to class lecture.

4. Debenture holders covered by floating charge: The claim of debenture holders covered by floating charges on all assets comprises of (i) principal amount of loan outstanding (ii) interest outstanding on secured loan up to the date of liquidation and (iii) lag period interest. While the principal amount of loan and outstanding interest are normally payable if the amount is available, lag period interest is payable only if the company is solvent.

   Note: In case the debentures are secured, they shall be treated as secured creditors and paid accordingly.

   Example: Refer to class lecture.
5. Ordinary unsecured creditors: These are unsecured creditors other than preferential creditors. In case secured creditors are not fully covered by the realisation from secured assets, the remaining part is also included here. All the items under ordinary unsecured creditors have equal right and in case of inadequate funds, they are paid in proportion of their liabilities.
6. Preference shareholders' claim: The claim of preference shareholders comprises of (i) preference share capital and (ii) arrear preference dividend on cumulative preference shares. While preference share capital is normally payable, arrear preference dividend is payable only if the Article of Association of the company and the terms of issue of preference shares so provide.
7. Equity shareholders: Any surplus arising after making payment to preference shareholders in full will be available for equity shareholders also known as contributories (distribution of surplus to equity shareholders is termed as 'return to contributories'). If, however, the equity shares are partly paid and the amount realised from assets is not adequate to meet the liabilities and/ or preference shareholders, a call will be made to receive amount from the equity shareholders (this is termed as 'call on contributories').

Overriding Preferential Payments: As per Section 326 of Companies Act 2013, overriding preferential payments are to be paid in priority to all other debts as per the said Act. They include:

(a) Dues to workmen, and

(b) Debts due to secured creditors to the extent such debts rank to the security of every creditor shall be deemed to be subject *to paripassu* charge in favour of the workmen to the extent of workmen's portion therein.

Note: 'workmen's portion', in relation to the security of any secured creditor of a company, means the amount which bears to the value of the security the same proportion as the amount of the workmen's dues bears to the aggregate of the amount of workmen's dues and the amount of the debts due to the secured creditors.

Example: Refer to Class Lecture

Treatment when the liquidating company has both fully paid Equity Shares and Partly Paid Equity Shares:

The following steps have to be followed:

(i) Convert all partly paid shares into fully paid shares by making notional call on partly paid up shares

(ii) Calculate the deficiency regarding Equity Shareholders by deducting total value of fully paid shares from the funds available for Equity shareholders. Note that after notional call, all the shares are fully paid.

(iii) Calculate Deficiency or Loss per share by dividing total deficiency by No of Shares.

(iv) Now calculate the amount payable to each shareholder or amount to be further contributed by the shareholder and make entry at Liquidator's Final Statement of Accounts accordingly.

Illustration:

The Capital of a company consisted of :

(a) 10,000 Equity Shares of Rs. 10 each fully paid

(b) 10,000 Equity Shares of Rs. 10 each, Rs. 5 paid

Funds available for Equity shareholders after liquidation and after making payments to all other parties is Rs. 30,000

Solution: Calculation of Loss per Equity Share:

	Rs.
Funds available to Equity shareholders	30,000
Add: Notional Call on Partly paid up shares((Rs.5 x 10,000)	50,000
	80,000
Less Equity Share Capital (Rs.10 x 20,000)	2,00,000
Deficiency re. Equity Shareholders	1,20,0000
	……..
Loss per Share (1,20,000/ 20,000) =	**Rs. 6.**

So, Fully Paid Equity Sharehoders will get a refund of (10 – 6) = Rs. 4 per share

Partly Paid Equity Sharehoders will further contribute of (5 – 4) = Re. 1 per share

Liquidator's Final Statement of Accounts

Receipts	Rs.	Payments	Rs.
To balance b/d To Contribution from partly paid Equity Share holder (Re. 1 x 10,000)	30,000 10,000 --------- **40,000** ----------	By Fully paid Equity Shareholders (Rs.4x10,000)	40,000 ---------- **40,000** ----------

Comprehensive Problem No. 1

XYZ Ltd. went into voluntary liquidation on 31.03.2019. On that date the Trial Balance of the Company was as follows:

Trial Balance as on 31.03.2019

Debit Balances	Rs.	Credit Balances	Rs.
Good will	20000	10000, 6% Preference Shares of Rs. 100 fully paid	1000000
Land and Building	600000	5000 Equity shares of Rs.100 each, Rs.75 paid up	375000
Plant & Machinery	1150000	15,000 Equity Shares of Rs. 100 each, Rs. 60 paid up	900000
Stock	275000	5% Debentures of Rs. 100 each (Secured by floating charge on all assets of the company)	500000
Sundry Debtors	550000	Interest due on Debentures	25000
Cash at Bank	150000	Bank Overdraft (secured on Land and Building)	200000
Profit and Loss (Dr.)	800000	Taxes due to Govt.	25000
		Outstanding Salaries and wages	150000
		Trade Creditors	370000
	3545000		3545000

The liquidator is entitled to a remuneration of 5% on all assets realized and 1% on amount distributed among unsecured creditors other than preferential creditors.

The assets realized as follows: Rs.

Land and Building 600000

Plant and Machinery 1000000

Stock 300000

Sundry Debtors 400000

Outstanding salaries and wages include salaries payable to the Managing Director of the company Rs.30000.

Expenses of liquidation amounted to Rs.54750. Dividend on Preference Shares are in arrear for two years and to be paid in priority to the claims of equity shareholders as per the terms of issue.

All payments were made on 1.7.2016, excepting bank overdraft and taxes due to the Government were paid immediately after liquidation.

You are required to prepare Liquidator's Final Statement of accounts.

Solution to Problem 1.

Liquidator's Final Statement of Accounts

Date	Receipts	Rs.	Rs.	Date	Payments	Rs.	Rs.
2019				2019	By Cost of Liquidation:		
Apr 1	To balance b/d		1,50,000	Sep	a) Legal expenses		54,750
	To Realisation:			14	b) Liquidator's Remuneration:		
					i) 1% of Amount Realised (5% of 23,00,000)	1,15,000	
	Realistion of Secured Assets (L &B)	6,00,000			ii) 1% on Unsecured Shareholders other than Pref. Crs (1% of 4,00,000)	4,000	
	Less: Due to secured Crs. (Bank OD)	2,00,000	4,00,000				1,19,000
	Creditors						1,45,000
	Other Assets:				By Preferential Crs.		5,31,250
	Plant & Mach	10,00,000			By Debenture holders		4,00,000
	Stock	3,00,000			By Unsecured Crs.		
	Debtors	4,00,000	17,00,000		By Prference Share Holders:		
					Capital	1,00,000	
					Arrear Dividend for 2years (6000x2)	12,000	1,12,000
					By Equity Shareholders of Rs. 75 paid		2,78,250
					By Equity Shareholders of Rs. 60 paid		6,09,750
			22,50,000				**22,50,000**

Working Notes:

1. **Calculation of Unsecured Creditors other than Preferential Creditors**:

Trade Crs.	370,000
Add: O/S Salary to the Managing Director	30,000
	4,00,000

2. **Calculation of Preferential Creditors:**

O/S Salary & Wages		1,50,000
Less:	O/S Salary to the Managing Director	30,000
		1,20,000
Add:	Taxes due to Govt.	25,000
		1,45,000

3. **Amount payable to Debenture holders:**

Principal Amount	5,00,000
Add: Outstanding Interest on Debentures On the date of Liquidation	25,000
Add: Interest for the Lag Period Of 3 months from April to July	6,250
	1,31,250

4. **Calculation of Loss per Share:**

Total funds at Liquidator's disposal		22,50,000
Less; Payment upto Preference Share holders		13,62,000
		8,88,000
Add; Notional Call on partly paid up Equity Shares:		
(i)	On Rs. 75 paid up shares (25x 5,000)	1,25,000
(ii)	On Rs. 60paid up shares (40x1 5,000)	6,00,000
		16,13,000
Les; Equity Share Capital (now all are fully paid) (2,000x 100)		20,00,000
Deficiency re. Equity Share Holders		**3,87,000**

So, loss per Share = 387,000/ 20,000 = Rs. 19.35

5. **Calculation of amount to be refunded to Equity Share Holders:**

To Rs. 75 paid up shareholders [(Rs. 75 – Rs. 19.35)x 5,000]	Rs. 2,78,250
To Rs. 60 paid up shareholders [(Rs. 60 – Rs. 19.35)x 15,000]	Rs. 609,750
	Rs. 8,88,000

Comprehensive Problem No. 2

Badluck Ltd. went into voluntary liquidation on June 30, 2019. Its liabilities on that date were as bellow:

	(Rs.)
6% Debenture with floating charge on all assets of the co.	7,00,000
Int. o/s on Debentures	42,000
Sundry Creditors	8,43,500

The Capital of the co. consisted of:

6% pref. Share Capital of Rs. 10 each, fully paid	3,50,000
Equity Share of Rs. 100 each, Rs.90 Paid	6,30,000
Equity Share of Rs. 100 each, Rs.50 Paid	3,50,000

The asses realized as follows:

Date	Stock (Rs.)	Other Asset (Rs.)
July 15,2019	70,000	5,25,000
Aug 14,2019	70,000	4,90,000
Sept15,2019	1,40,000	5,25,000

The break up of Sundry Creditors is as follows:

	(Rs.)
Bank OD (with lien on stock)	1,75,000
Trade Crs.	5,25,000
Loan from a director to pay wages	35,000
PF dues to employees	105,000
ESI Premium due	3,500

The liquidator is entitled to 2% on amount realized from assets and to 25% on the saving which the equity shareholders would have from their maximum legal liability. The debenture holders as well as the bank waived interest after 30th June, 2014.

After reserving Rs.10,000 for liquidation expenses (which ultimately amounted Rs.5,600 and paid on Sept.30, 214) the liquidator distributed the cash among various parties according to their rights.

You are required to prepare Liquidator's Final Statement of Accounts.

Solution to Problem No. 2

Liquidator's Final Statement of Accounts

Date	Receipts	Rs.	Date	Payments	Rs.
2019 July 15	To Realisation: Stock Rs. 70,000 Less: Bank Loan (Secured) Rs. 70,000 Other Assets	 Nil 5,25,000	2019 July 15	By Cost of Liquidation: a) Legal expenses b) Liquidator's Remuneration: i) 2% of Amount Realised By Preferential Crs. By Debenture holders covered by floating charge By balance c/d	 …… 11,900 1,43,500 3,59,600 10,000
		5,25,000			**5,25,000**
2019 Aug 14	To balance b/d To Realisation: Stock Rs. 70,000 Less: Bank Loan (Secured) Rs. 28,975 Other Assets	10,000 Nil 4,90,000	2019 Aug 14	By Cost of Liquidation: a) Legal expenses b) Liquidator's Remuneration: i) 2% of Amount Realised By Debenture holders covered by floating charge By Unsecured Creditors: Trade Crs (15/16x 96,400) 90375 Bank Loan (1/16 x 96,400) 6,025 By balance c/d	 …… 11,200 3,82,400 96,400 10,000
		5,00,000			**5,00,000**

Liquidator's Final Statement of Accounts (Contd.)

Date	Receipts	Rs.	Date	Payments	Rs.
2019 Sep 14	To balance b/d	10,000	2019 Sep 14	By Cost of Liquidation:	
	To Realisation:			a) Legal expenses	5,600
	Stock Rs. 1,40,000			b) Liquidator's Remuneration:	13,300
	Less: Bank Loan			i) 2% of Amount Realised	52,500
	(Secured) Rs. 28,975	1,11025		ii) 25% on the savings of Equity Shareholders	4,34,625
	Other Assets	5,25000		(25/125x 2,62,500)	
	To Equity Shareholders of Rs. 50 paid	2,45,000		By Unsecured Creditors:	3,50,000
	[(85-50)x7,000]			Trade Crs (5,25,000 – 90,375)	35,000
		8,91,025		By Preference Shareholders	**891,025**
				By Equity Shareholders of Rs. 85 paid	
				[(90-85)x7,000]	

Workings

1) Preferential Creditors

Loan from a director to pay wages	35,000
PF dues to employees	1,05,000
ESI Premium due	3,500
	1,43,500

2) Payment of Unsecured Creditors on July 15,2014

Total Receipts	5,00,000
Less: Payment upto Debentureholders with floating charge & Balance Kept on hand	4,03,600
Balance to be utilized for payment of Trade Creditors & Uncovered Portion of Bank Loan ranked as Unsecured	96,400

Trade Crs. Outstanding 5,25,000

Bank Loan Outstanding 35,000

Total 5,60,000

Ratio of Trade Crs and Bank Loan is 15:1

So, Payment of Bank Loan = 1/16 X 96,400 = Rs. 6,025

Payement of Trade Crs. 15/16 X 96,400 = Rs. 90,375

3) Calculation of Loss Per Equity Share and Liquidator's remuneration on the savings of Equity Shareholders (Sept 15,2014)

	Rs.
Total receipts before considering Uncalled amount on partly paid shares	6,46,025
Less: Payments upto Unsecured Crs before charging liquidator's Remuneration on the savings of the Equity Shareholders	4,53,525
	1,92,500
Add: Notional Call on partly paid Equity Shares:	
On Rs. 90 paid shares (7,000 x10)	70,000
On Rs. 50 paid shares (7,000 x50)	3,50,000
	6,12,500
Less: Preference Shareholders' claims	

	3,50,000
Gross saving of Equity share holders	2,62,500
Less: Liquidator's Remuneration (25/125 X 2,62,500)	52,500
Net Saving of Equity share holders	2,10,000
Less; Equity Share Capital (14,000 X100)	14,00,000
Total Deficiency re Equity Share Holders	**11,90,000**

Loss Per Share 11,90,000/14,000 = 85

Preparation of Statement of Affairs and Deficiency Account

Comprehensive Problem No.3

The following particulars were extracted from the books of X Ltd. as on March 31, 2019 on which date a winding up order was made :

Equity Share Capital : 2,000 Shares of Rs.100 each, Rs.50 paid up 1,00,000

6% Preference Share Capital : 2,000 Shares of Rs.100 each fully paid 2,00,000

6% First Mortgage Debentures, secured by a floating charge on the whole of the assets of the company, exclusive of the uncalled capital 1,50,000

Fully Secured Creditors (value of securities, Rs.35,000) 30,000

Partly Secured Creditors (value of securities, Rs.10,00) 20,000

Preferential Creditors 6,000

Unsecured Creditors 70,000

Bills Payable 1,00,000

Bank Overdraft 10,000

Bills Receivable in hand 15,000

Bills Discounted (one bill for Rs.10,000 known to be bad) 40,000

Book Debts:

Good 10,000

Doubtful (estimated to produce 40%) 7,000

Bad 6,000

Land & Building (estimated to produce Rs,1,00,000) 1,50,000

Stock-in-trade (estimated to produce Rs.40,000) 50,000

Machinery, Tools etc, (estimated to produce Rs.2,000) 5,000

Cash in hand 2,100

Prepare Statement of Affairs and Deficiency Account

Solution to Problem No. 3

In order to find out P&L Debit Balance as on March 31, 2019 the following Trial Balance is prepared:

Debit Balances	Rs.	Credit Balances	Rs.
Land & Building	1,50,000	Equity Share Capital 1,00,000	1,00,000
Machinery, Tools ete.	5,000	6% Pref. Share Capital	2,00,000
Investments:		6% Mortgage Debentures	1,50,000
A	35,000	Fully Secured Creditors	30,000
B	10,000	Partly Secured Creditors	20,000
Stock-in-trade	50,000	Preferential Creditors	6,000
Book Debts	23,000	Unsecured Creditors	70,000
Bills Receivable	15,000	Bills Payable	1,00,000
Cash in hand	2,100	Bank Overdraft	10,000
Profit & Loss *(Balancing fig.)*	3,95,900		----------
	----------		6,86,000
	6,86,000		……
	……..		

X Ltd, (in liquidation) Statement of Affairs
as on March 31, 2019

	Rs.
Assets not specifically Pledged (as per list A):	
Cash in hand	2,100
Land & Building	1,00,000
Machinery, Tools etc.	2,000
Stock-in-trade	40,000

Book Debts						
Bills Receivable						12,800
						15,000
						1,71,900
Assets specifically pledged (as per list B):						
	(A) Estimated Realizable Value (Rs)		(B) Due to Secured Creditors (Rs.)	(C) Deficiency ranked as Unsecured (Rs.)	(D) Surplus Carried to last Col. (Rs.)	
Investments	35,000		30,000	……	5,000	
Investments	10,000		20,000	10,000	……	
	45,000		50,0000	10,000	5,000	
		Estimated surplus from assets specifically pledged				5,000
	Estimated total assets available for Preferential Creditors, Debenture-holders secured by a floating charge and unsecured creditors					1,76,900
	Summary of Gross:					
	Gross realisable value of assets specifically pledged		45,000			
	Other assets		1,71,900			
Gross Assets			2,16,900			
Gross Liabilities						
Rs.						
40,000	Secured Creditors (as per list B) to the extent to which claims are estimated to be covered by assets specifically pledged					
6,000	Preferential Creditors (as per list C)					6,000
	Estimated balance of assets available for Debenture holders secured by a floating charge an unsecured creditors					1,70,900
1,50,000	Debenture-holders secured by a floating charge : (as per list D)					1,50,000
	Estimated Surplus re. Debenture holders c/f					20,900
	b/f					20,900
Unsecured Creditors (as per list E) :						
10,000	Unsecured balance of partly secured creditors				10,000	
70,000	Unsecured Creditors				70,000	
1,00,000	Bills Payable				1,00,000	
10,000	Bank Overdraft				10,000	
10,000	Bills Discounted				10,000	2,00,000
3,96,000						
	Estimated Deficiency re. Unsecured Creditors					179,100

Issued and Called up Capital :	
2,000 6% Pref. Shares of Rs. 100 each fully paid (as per list F)	2,00,000
2,000 Equity Shares of Rs. 100 each, Rs, 50 paid up (as per list G)	1,00,000
Estimated deficiency as regards members (as per list H)	**479,100**

List H-Deficiency Account

	Rs.
A. Items contributing to deficiency (or reducing surplus) :	
1. Excess of capital and liabilities over assets on 1.4.2002 (at least 3 years before the date of winding up order)	NA
2. Net dividends and bonuses declared during the period from 1.4.2002 to 31.3.2005	NA
3. Net trading losses after charging depreciation, taxation, interest on Debentures, etc. for the same period	3,95,900
4. Losses other than trading losses	Nil
5. Estimated losses now written off or for which provision has been made for the purpose of preparing the statement :	50,000
Land & Building (1,50,000 — 1,00,000)	3,000
Machinery, Tools ete. (5,000 — 2,000)	10,000
Stock-in-trade (50,000 — 40,000)	10,200
Book Debts (23,000 — 12,800)	10,000
Bills Discounted	Nil
6. Other items contributing to deficiency	----------
Total (A)	4,79,100
B. Items reducing deficiency (or contributing to surplus) :	
7. Excess of assets over capital and liabilities on 1.4.2002	Nil
8. Net trading profits after charging depreciation, taxation, interest on Debentures, etc. during the period from 1.4.2002 to 31.3.2005	Nil
9. Profits and income other than trading profits during the same period	Ni
10. Other items reducing deficiency	Nil
11.	
Total (B)	Nil
Deficiency 3 as : shown by the Statement of Affairs Total (A — (B)	**4,79,100**

Assignments

Problem no. 1.

X Ltd. went into voluntary liquidation on 31.03.2019. On that date the Trial Balance of the Company was as follows:

Trial Balance as on 31.03.2019

Debit Balances	Rs.	Credit Balances	Rs.
Fixed Assets	3,00000	30,000 Equity shares of Rs.10 each, fully paid	3,00,000
Current Assets	1,20,000	10% Debentures of Rs. 100 each (Secured by floating charge on all assets of the company)	1,50,000
P/L Account	2,40000	Sundry creditors	2,10,000
	6,60000		6,60,000

Sundry creditors include Preferential creditors of Rs. 60,000. It also includes a creditor of Rs. 30,000 which is secured on Machinery and the book value of Machinery is also Rs. 30,000.

Liquidation expenses were Rs. 6,000. The Liquidator is to receive a remuneration of 2.5 %on funds distributed among unsecured creditors.

You are required to prepare Liquidator's Final statement of Accounts under the following cases:

(i) Fixed Assets other than Machinery realized Rs. 30,000 and Current Assets realized Rs. Rs. 60,000. Secured Creditors are being paid off immediately after Liquidation.
All payments were made on September 30, 2019.

(ii) Fixed Assets other than Machinery realized Rs. 2, 10,000 and Current Assets realized Rs. Rs. 60,000. Machinery realized Rs. 27,000. Secured Creditors are being paid off immediately after Liquidation.
All other payments were made on September 30, 2019.

(iii) All assets are worth their book values. Secured Creditors are being paid off immediately after Liquidation. Secured Creditors are being paid off immediately after Liquidation.
All other payments were made on September 30, 2019.
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(iv) Fixed Assets other than Machinery realized Rs. 6, 00,000 and Current Assets realized Rs. Rs. 2, 10,000. Machinery realized Rs. 27,000.
All other payments were made on September 30, 2019.

Problem no. 2

6. Unfortunate Ltd. went into voluntary liquidation on April 1, 2015. Its liabilities on that date were as follows:

	(Rs.)
6% Debenture with floating charge on all assets of the co.	1, 00,000
Int. o/s on Debentures	6,000
Loan secured by hypothecation of Stock	40,000
Sundry Creditors	1,09,500
The Capital of the co. consisted of:	
6% Non-Cumulative Preference Share Capital of Rs. 10 each, fully paid	2,00,000
Equity Share of Rs. 10 each, Rs.9 Paid	90,000
Equity Share of Rs. 10 each, Rs.5 Paid	50,000

The asses realized as follows:

Stock	Rs. 30,000
Other Assets (excluding Cash)	Rs 4, 00,000

The company had a liquid cash balance on April 1, 2015 of Rs. 30,000

The break-up of Sundry Creditors is as follows:

	(Rs.)
Trade Creditors	80,000
Creditors for salary and wages	15,000

Liability for Workmen's Compensation	2,000
Due to Govt. for taxes	10,000
Due to Govt. on account of Purchases and Other Facilities	2,500

The liquidator is entitled to 2% on amount realized from assets other than cash and to 2% on the amount distributed among unsecured creditors other than preferential creditors.

All assets were realized and payments were made on October 1, 2016.

You are required to prepare Liquidator's Final Statement of Accounts.

Problem no. 3.

X Ltd. was ordered to be wound up on March 31st, 2019 on which date its summarised balance sheet was as follows:

X Ltd. went into voluntary liquidation on 31.03.2019. On that date the Trial Balance of the Company was as follows:

Trial Balance as on 31.03.2019

Debit Balances	Rs.	Credit Balances	Rs.
Good will	1,00,000	10000, Equity Shares of Rs. 100 fully paid	10,00,000
Building	3,50,000	5% Debentures of Rs. 100 each (Secured by floating charge on all assets of the company)	1,60,000
Plant	5,50,000	Interest due on Debentures	4,000
Fixtures	23,000	Bank Overdraft (secured on Stock)	25,000
Stock	38,000	Sundry Creditors	36,000
Debtors	25,000		
Cash	500		
P?L Account	1,38,500		
	1225000		12,25,000

The amounts estimated to be realised are : Goodwill 1,000; Building 3,00,000; Plant 5,25,000; Fixtures 10,000; Stock 31,000; Debtors 20,000.

Creditors included

(i) outstanding wages Rs.12,000

(ii) Rent for godown Rs. 3,000

(iii) Income-tax deducted out of salaries of employees Rs.1,000
and Directors Fees 500

In addition it is estimated that the company would have to pay 5,000 as compensation to an employee for injuries suffered by him which was contingent liability not accepted by the company.

Prepare a statement of Affairs as on 31.03.2019