

**MOCK TEST PAPER - 1**  
**INTERMEDIATE (NEW) : GROUP – II**  
**PAPER – 5: ADVANCED ACCOUNTING**  
**SUGGESTED ANSWERS/HINTS**

1. (a) As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

Annuity Factor (Year 1 to Year 5)	3.36 (approx.)
Present Value of minimum lease payments (Rs.3 lakhs each year)	Rs.10.08 lakhs (approx.)

Thus present value of minimum lease payments is Rs.10.08 lakhs and the fair value of the machine is Rs. 30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for five years. Therefore, lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

- (b) A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29.

The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprise can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

- (c) As per AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one document of contract.

Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS 7.

(d) As per AS 9 “Revenue Recognition”, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

**Case (i):** 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 3,00,000 (75% of Rs. 4,00,000) for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

**Case (ii):** The sale is complete but delivery has been postponed at buyer’s request. Fashion Ltd. should recognize the entire sale of Rs.1,95,000 for the year ended 31<sup>st</sup> March, 2017.

**Case (iii):** In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs. 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31<sup>st</sup> March, 2017 in the books of Fashion Ltd.

2. (a)

**Z Ltd.**

**Journal Entries**

	Dr. Rs.	Cr. Rs.
Bank A/c <span style="float: right;">Dr.</span> To Share Application A/c (Application money received on firm applications for 140,000 shares each @ Rs. 2.50 per share from D, E & F)	10,50,000	10,50,000
D <span style="float: right;">Dr.</span> E <span style="float: right;">Dr.</span> F <span style="float: right;">Dr.</span> Share Application A/c <span style="float: right;">Dr.</span> To Share Capital A/c (Allotment of shares to underwriters - 1,40,000 to D; 1,40,000 to E and 3,29,000 to F; application and allotment money credited to share capital)	2,80,000 2,80,000 11,30,500 10,50,000	27,40,500
Underwriting Commission A/c <span style="float: right;">Dr.</span> To D To E To F (Amount of underwriting commission payable to D, E and F @ 5% on the amount of shares underwritten.)	22,50,000	7,50,000 7,50,000 7,50,000
Bank A/c <span style="float: right;">Dr.</span>	3,80,500	

To F (Amount received from F on shares allotted less underwriting commission)		3,80,500
D	Dr.	4,70,000
E	Dr.	4,70,000
To Bank A/c (Amount paid to D & E in final settlement of underwriting commission due less amount payable on shares allotted payable by them.)		9,40,000

**Working Notes:**

**(1) Calculation of Liability of Underwriters**

	D	E	F
Gross Liability (No. of shares)	15,00,000	15,00,000	15,00,000
Less: Marked Applications (excluding firm underwriting)	<u>(12,75,000)</u>	<u>(13,50,000)</u>	<u>(10,50,000)</u>
	2,25,000	1,50,000	4,50,000
Less: Unmarked Applications (equally)	<u>(72,000)</u>	<u>(72,000)</u>	<u>(72,000)</u>
	1,53,000	78,000	3,78,000
Less: Firm Underwriting	<u>(1,40,000)</u>	<u>(1,40,000)</u>	<u>(1,40,000)</u>
	13,000	(62,000)	2,38,000
Surplus of E distributed between D & F equally	<u>(31,000)</u>	<u>62,000</u>	<u>(31,000)</u>
	(18,000)	-	2,07,000
Surplus of D allocated to F totally	<u>18,000</u>	—	<u>(18,000)</u>
Net Liability, excluding Firm Underwriting	-	-	1,89,000
Add: Firm underwriting	<u>1,40,000</u>	<u>1,40,000</u>	<u>1,40,000</u>
Total liability of underwriters	<u>1,40,000</u>	<u>1,40,000</u>	<u>3,29,000</u>

**(2) Calculation of Amounts Payable by Underwriters**

	D	E	F
Liability (No. of shares)	1,40,000	1,40,000	3,29,000
Amount payable @ Rs. 4.50 per share	6,30,000	6,30,000	14,80,500
Less: Amount paid on Firm Applications of 1,40,000 each @ Rs. 2.50*	<u>(3,50,000)</u>	<u>(3,50,000)</u>	<u>(3,50,000)</u>
Balance payable	2,80,000	2,80,000	11,30,500
Underwriting Commission Receivable	<u>7,50,000</u>	<u>7,50,000</u>	<u>7,50,000</u>
Amount Paid	4,70,000	4,70,000	—
Amount received by the Co.	—	—	<u>3,80,500</u>

\* Underwriters had already paid the application money on these shares.

**(b) Statement determining the maximum number of shares to be bought back**

**Number of shares (in crores)**

Particulars	When loan fund is	
	Rs. 3,200 crores	Rs. 6,000 crores
Shares Outstanding Test (W.N.1)	30	30

Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
<b>Maximum number of shares that can be bought back [least of the above]</b>	24	Nil

**Journal Entries for the Buy Back**  
(applicable only when loan fund is Rs.3,200 crores)

		Rs. in crores	
		Debit	Credit
(a)	Equity share buyback account Dr. To Bank account (Being payment for buy back of 24 crores equity shares of Rs. 10 each @ Rs. 30 per share)	720	720
(b)	Equity share capital account Dr. Premium Payable on buyback account Dr. To Equity share buyback account (Being cancellation of shares bought back)	240 480	720
	Securities Premium account Dr. General Reserve / Profit & Loss A/c Dr. To Premium Payable on buyback account (Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)	400 80	480
(c)	General Reserve / Profit & Loss A/c Dr. To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)	240	240

**Working Notes:**

**1. Shares Outstanding Test**

<i>Particulars</i>	<i>(Shares in crores)</i>
Number of shares outstanding	120
25% of the shares outstanding	30

**2. Resources Test**

<i>Particulars</i>	
Paid up capital (Rs. in crores)	1,200
Free reserves (Rs. in crores) (1,080 + 400 +200)	<u>1,680</u>
Shareholders' funds (Rs. in crores)	<u>2,880</u>
25% of Shareholders fund (Rs. in crores)	Rs. 720 crores
Buy back price per share	Rs. 30
Number of shares that can be bought back	24 crores shares

**3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back**

	Particulars	When loan fund is	
		Rs. 3,200 crores	Rs. 6,000 crores
(a)	Loan funds (Rs.)	3,200	6,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (Rs.)	2,880	2,880
(d)	Future equity shareholders fund (Rs.) (see W.N.4)	2,560 (2,880-320)	N.A.
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	960	Nil
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share	32 crore shares	Nil
	As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

3. (a)

**Books of P Ltd.**

**Journal Entries**

		<i>Dr.</i>	<i>Cr.</i>
		<i>(Rs. in Lacs)</i>	<i>(Rs. in Lacs)</i>
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 – 50*)			775
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000

(Purchase consideration discharged in the form of equity shares)

Profit & loss A/c	Dr.	1	
To Bank A/c			1

(Liquidation expenses paid by P Ltd.)

Liability for 12% Debentures A/c	Dr.	1,000	
To 13% Debentures A/c			1,000

(12% debentures discharged by issue of 13% debentures)

Bills Payable A/c	Dr.	80	
To Bills Receivable A/c			80

(Cancellation of mutual owing on account of bills)

**Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)**

Particulars	Notes	Rs. (in lakhs)
<b>Equity and Liabilities</b>		
<b>1 Shareholders' funds</b>		
A Share capital	1	24,000
B Reserves and Surplus	2	16,654
<b>2 Non-current liabilities</b>		
A Long-term borrowings	3	1,000
<b>3 Current liabilities</b>		
A Trade Payables (1,543 + 40)		1,583
B Short-term provisions		2,532
<b>Total</b>		<b>45,769</b>
<b>Assets</b>		
<b>1 Non-current assets</b>		
A Fixed assets		
Tangible assets	4	29,004
<b>2 Current assets</b>		
A Inventories		11,903
B Trade receivables		3,140
C Cash and cash equivalents		1,722
<b>Total</b>		<b>45,769</b>

**Notes to accounts**

	Rs.
<b>1. Share Capital</b>	
Equity share capital	
Authorised, issued, subscribed and paid up	

24 crores equity shares of Rs. 10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	<u>24,000</u>
<b>Total</b>	<b><u>24,000</u></b>
<b>2. Reserves and Surplus</b>	
General Reserve	9,700
Securities Premium	3,000
Foreign Project Reserve	310
Profit and Loss Account	<u>3,644</u>
<b>Total</b>	<b><u>16,654</u></b>
<b>3. Long-term borrowings</b>	
Secured	
13% Debentures	1,000
<b>4. Tangible assets</b>	
Land & Buildings	6,000
Plant & Machinery	19,000
Furniture & Fittings	<u>4,004</u>
<b>Total</b>	<b><u>29,004</u></b>

**Working Note:**

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

$$\text{Purchase consideration} = \text{Rs. } 6,000 \text{ lacs} \times \frac{3}{2} = \text{Rs. } 9,000 \text{ lacs.}$$

\* Cost of issue of debenture adjusted against P & L Account of V Ltd.

- (b) Section 326 of the Companies Act, 2013 talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a pari passu change in favor of the workman to the extent of their portion.

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realized} \times \text{Workman's Dues}}{\text{Workman's Dues} + \text{Secured Loan}}$$

$$\begin{aligned} \text{Workman's Share to Secured Asset} &= \frac{4,00,00,000 \times 1,25,00,000}{1,25,00,000 + 5,00,00,000} \\ &= 4,00,00,000 \times 1/5 \\ &= 80,00,000 \end{aligned}$$

Amount available to secured creditor is Rs. 400 Lakhs – 80 Lakhs = 320 Lakhs

Hence, no amount is available for payment of unsecured creditors.

4. (a)

**TOP Bank Limited**

**Profit and Loss Account for the year ended 31<sup>st</sup> March, 2017**

	<i>Schedule</i>	<i>Year ended 31.03.2017</i>
		<i>(Rs. in '000s)</i>
<b>I. Income:</b>		
Interest earned	13	5923.18
Other income	14	<u>728.00</u>
Total		<u>6,651.18</u>
<b>II. Expenditure</b>		
Interest expended	15	3259.92
Operating expenses	16	768.46
Provisions and contingencies (960+210+900)		<u>2,070.00</u>
Total		<u>6,098.38</u>
<b>III. Profits/Losses</b>		
Net profit for the year		552.80
Profit brought forward		nil
		<u>552.80</u>
<b>IV. Appropriations</b>		
Transfer to statutory reserve (25%)		138.20
Balance carried over to balance sheet		<u>414.60</u>
		<u>552.80</u>

		<i>Year ended 31.3. 2017</i>
		<i>(Rs. in '000s)</i>
	<b>Schedule 13 – Interest Earned</b>	
I.	Interest/discount on advances/bills (Refer W.N.)	<u>5923.18</u>
		<u>5923.18</u>
	<b>Schedule 14 – Other Income</b>	
I.	Commission, exchange and brokerage	304
II.	Profit on sale of investments	320
III.	Rent received	<u>104</u>
		<u>728</u>
	<b>Schedule 15 – Interest Expended</b>	
I.	Interests paid on deposits	<u>3259.92</u>
	<b>Schedule 16 – Operating Expenses</b>	
I.	Payment to and provisions for employees	320
II.	Rent and taxes	144
III.	Depreciation on bank's properties	48



IV.	Director's fee, allowances and expenses	48
V.	Auditors' fee	28
VI.	Law (statutory) charges	44
VII.	Postage and telegrams	96.46
VIII.	Preliminary expenses	<u>40</u>
		<u>768.46</u>

**Working Note:**

	(Rs. in '000s)
Interest/discount	5,929.18
Add: Rebate on bills discounted on 31.3. 2016	19.00
Less: Rebate on bills discounted on 31.3. 2017	<u>( 25.00)</u>
	<u>5,923.18</u>

**(b) (i) Net Premium earned**

		Rs. In lakhs
Premium from direct business received	4,400	
Add: Receivable as 31.03.18	189	
Less: Receivable as on 01.04.2017	<u>(220)</u>	4,369
Add: Premium on re-insurance accepted	376	
Add: Receivable as on 31.03.18	16	
Less: Receivable as on 01.04.2017	<u>(18)</u>	<u>374</u>
		4,743
Less: Premium on re-insurance ceded	305	
Add: Payable as on 31.03.18	9	
Less: Payable as on 01.04.17	<u>(14)</u>	<u>(300)</u>
Net Premium earned		<u>4,443</u>

**(ii) Net Claims incurred**

		Rs. In lakhs
Claims paid on direct business		3,450
Add: Reinsurance	277	
Add: Reinsurance outstanding as 31.03.18	6	
Less: Reinsurance outstanding as on 01.04.2017	<u>(8)</u>	275
Less: Claims Received from re-insurance	101	
Add: Receivable as on 31.03.18	19	
Less: Receivable as on 01.04.2017	<u>(20)</u>	<u>100</u>
		3,625
Add: Outstanding direct claims at the end of the year		<u>48</u>
		<u>3,673</u>
Less: Outstanding Claims at the beginning of the year		<u>(45)</u>
Net Claims Incurred		<u>3,628</u>

**5. (a) Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd.  
for the year ended on 31st March, 2017**

<i>Particulars</i>	<i>Note No.</i>	<i>Rs. in Lacs</i>
I. Revenue from operations	1	<u>11,730</u>
II. Total revenue		<u>11,730</u>
III. Expenses		
Cost of Material purchased/Consumed	3	2,360
Changes of Inventories of finished goods	2	(2,392)
Employee benefit expense	4	1,900
Finance cost	6	300
Depreciation and amortization expense	7	300
Other expenses	5	<u>1,070</u>
Total expenses		<u>3,538</u>
IV. Profit before Tax(II-III)		8,192
V. Tax Expenses	8	<u>2,800</u>
VI. Profit After Tax		<u>5,392</u>
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		5,392
Dividend paid		
Hello Ltd.	2,400	
Sun Ltd.	<u>300</u>	
	2,700	
Less: Share of Hello Ltd. in dividend of Sun Ltd.		
80% of Rs. 300 lacs	<u>(240)</u>	<u>(2,460)</u>
Profit to be transferred to consolidated balance sheet		<u>2,932</u>

**Notes to Accounts**

		<i>Rs. in Lacs</i>	<i>Rs. in Lacs</i>
1.	Revenue from Operations		
	Sales and other income		
	Hello Ltd.	10,000	
	Sun Ltd.	<u>2,000</u>	
		12,000	
	Less: Inter-company Sales	(240)	
	Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	
	Commission received by Sun Ltd. from Hello Ltd.	<u>(20)</u>	11,730
2.	Increase in Inventory		
	Hello Ltd.	2,000	
	Sun Ltd.	<u>400</u>	
		2,400	
	Less: Unrealized profits Rs. 48 lacs × $\frac{20}{120}$	<u>(8)</u>	<u>2,392</u>
			<u>14,122</u>

3.	Cost of Material purchased/consumed		
	Hello Ltd.	1,600	
	Sun Ltd.	<u>400</u>	
		2,000	
	Less: Purchases by Sun Ltd. from Hello Ltd.	<u>(240)</u>	1,760
	Direct Expenses		
	Hello Ltd.	400	
	Sun Ltd.	<u>200</u>	<u>600</u>
			<u>2,360</u>
4.	Employee benefits and expenses		
	Wages and Salaries:		
	Hello Ltd.	1,600	
	Sun Ltd.	<u>300</u>	<u>1,900</u>
5.	Other Expenses		
	Administrative Expenses		
	Hello Ltd.	400	
	Sun Ltd.	<u>200</u>	
		600	
	Less: Consultancy fees received by Hello Ltd. from Sun Ltd.	<u>(10)</u>	590
	Selling and Distribution Expenses:		
	Hello Ltd.	400	
	Sun Ltd.	<u>100</u>	
		500	
	Less: Commission received from Sun Ltd. from Hello Ltd.	<u>(20)</u>	<u>480</u>
			<u>1,070</u>
6.	Finance Cost		
	Interest:		
	Hello Ltd.	200	
	Sun Ltd.	<u>100</u>	<u>300</u>
7.	Depreciation and Amortization		
	Depreciation:		
	Hello Ltd.	200	
	Sun Ltd.	<u>100</u>	<u>300</u>
8.	Provision for tax		
	Hello Ltd.	2,400	
	Sun Ltd.	<u>400</u>	<u>2,800</u>

**Note:** Since the amount of dividend received by Hello Ltd. for the year 2015-2016 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings (which is also not given).

(b)

	Rs.
Profit for equity fund after current cost adjustment	1,72,000
Current cost of capital employed (by Equity approach)	10,40,000
Value of Goodwill by Equity Approach	

Capitalized value of Profit as per equity approach = $\frac{1,72,000}{15.60} \times 100$	11,02,564
Less: Capital employed as per equity approach	<u>(10,40,000)</u>
Value of Goodwill	<u>62,564</u>

6. (a) In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realisation should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non-current asset. Hence, company must classify such an investment as a non-current asset, unless it expects to sell the preference shares or the equity shares on conversion and realise cash within 12 months.

**Or**

As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

- (i) that the enterprise, pursuant to a **single plan**, is:
- (1) disposing of substantially in its entirety,
  - (2) disposing of piecemeal, or
  - (3) terminating through abandonment; and
- (ii) that represents a separate **major line** of business or geographical area of operations; and
- (iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation

**(b) In the books of Company**

**Journal Entries**

Date	Particulars	Dr. Rs.	Cr. Rs.
1-3-X2	Bank A/c <span style="float: right;">Dr.</span>	2,40,000	
	Employees compensation expenses A/c <span style="float: right;">Dr.</span> <div style="text-align: right; padding-left: 20px;">To Equity Share Capital A/c</div> <div style="text-align: right; padding-left: 20px;">To Securities Premium A/c</div> (Being allotment to employees 4,800 shares of Rs. 10 each at a premium of Rs. 130 at an exercise price of Rs. 50 each)	4,32,000	48,000 6,24,000
31-3-	Profit and Loss account <span style="float: right;">Dr.</span> <div style="text-align: right; padding-left: 20px;">To Employees compensation expenses A/c</div> (Being transfer of employees compensation expenses)	4,32,000	4,32,000

**Working Note:**

1. Employee Compensation Expenses = Discount between Market Price and option price = Rs. 140 – Rs. 50 = Rs. 90 per share = Rs. 90 x 4,800 = Rs. 4,32,000 in total.
2. The Employees Compensation Expense is transferred to Securities Premium Account.

3. Securities Premium Account = Rs. 50 – Rs. 10 = Rs. 40 per share + Rs. 90 per share on account of discount of option price over market price = Rs. 130 per share = Rs. 130 x 4,800 = Rs. 6, 24,000 in total.
- (c) Eight Schedule of the SEBI (Mutual Fund) Regulations, 1996 states the Investment Valuation Norms for traded securities. The significant norms can be explained as:
- (i) The securities shall be valued at the last quoted closing price on the recognized stock exchange.
  - (ii) When the securities are traded on more than one recognised stock exchange, the securities shall be valued at the last quoted closing price on the stock exchange where the security is principally traded. It would be left to the asset management company to select the appropriate stock exchange, but the reasons for the selection should be recorded in writing. There should however be no objection for all scrips being valued at the prices quoted on the stock exchange where a majority in value of the investments is principally traded.
  - (iii) Once a stock exchange has been selected for valuation of a particular security, reasons for change of the exchange shall be recorded in writing by the asset management company.
  - (iv) When on a particular valuation day, a security has not been traded on the selected stock exchange, the value at which it is traded on another stock exchange may be used.
  - (v) When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than sixty days prior to the valuation date.

**(d) Computation of capital employed**

	(Rs. in lakhs)			
		31.3.17		31.3.18
Total Assets as per Balance Sheet		38,00		40,40
Less: Non-trade Investments		<u>(75)</u>		<u>(1,50)</u>
		37,25		38,90
Less: Outside Liabilities:				
12% Debentures	2,00		2,00	
18% Term Loan	3,00		3,20	
Cash Credit	1,20		80	
Trade payables	70		60	
Tax Provision	<u>30</u>	<u>7,20</u>	<u>40</u>	<u>7,00</u>
Capital employed		<u>30,05</u>		<u>31,90</u>

$$\text{Average capital employed} = \frac{30,05 \text{ lakhs} + 31,90 \text{ lakhs}}{2} = \text{Rs. } 3,097.5 \text{ lakhs.}$$