

Module

Illustration 1

Coupon Rate = MKT Int Rate
12% = 12%

Fair Value = Day 1 Tr. Price
↓
SOL.

Fh → Book

J.E.

Day 1 ClB Ak Da SOL

TD Fh SOL.

Extra
FV = PV of FCF @ MKT Rate of Int
↓
Day 1
↳ Int → 6L x AF of 10yrs @ 12%
6L x 5.650
Principle SOL x DF @ 12% of 10yrs. SOL

LAT → Loan Amortization table

yr	Opn	MKT Int @ 12%	Repayment	ClB.
1	SOL	6L	(6L)	SOL
2	SOL	6L	(6L)	SOL
3	SOL	6L	(6L)	SOL
4	SOL	6L	-	56L
5	56L	6.72L	-	62.72L
6	62.72	7.52640	-	70.24640
7	70.24640	8.42957	-	78.67597
8	78.67597	9.44112	-	<u>88.11709</u> → Book Value.

Addition Amt → 90,00,000 (-) 8811709

= 188291

Extra

Extra

J.E.

FL 8811709
 PIL 188291
 TO CIB 90,00,000

illus 7

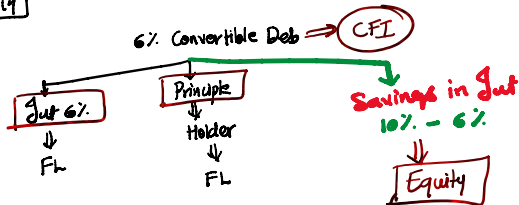
1st Mar FA 10K
 TO CIB 10K.

PIL (Tr. Cost) 200
 TO CIB 200

3rd Mar

FA 2000
 TO PIL [Fair Value Gain] 2000

Q14



2 steps → CFI

Step 1 → Cash flows

4r Cash inflow/outflow
 0 30L → inflow → x
 1-4 → Int (1.8 L p.a.)
 4th yr → Pr (33L)
 ↓
 30L + 10% Prem

Step 2 → Fair Value of FL:

PV of FCF @ Market Rate Interest

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PV of FCF @ Market Rate Interest

Int → $1.8L \times AF \text{ of } 4\% \text{ @ } 10\% = 570576$
 $\times 3.1698$

Princp → $33 \times DF \text{ of } 4^{\text{th}} \text{ yr @ } 10\% = 2253944$

FV of FL on Day 1. 2824520

Step 3 → Value of Equity

= 30L (-) 2824520 ←

= 175480

J.E.

ClB Alc Dr. 30,00,000

TD FL [loan] 2824520

TD Equity [Res] 175480

Illust. 19

Step 1

Cash flows

→ coupon payment

Because only simple int

yr	Opn	Int Accrued @ 4%	Estimated Cash Flows		CLB [Principle]
			Principle	Int	
1	10L	40K	2L	-	8L
2	8L	32K	2L	-	6L
3	6L	24K	2L	-	4L
4	4L	16K	2L	-	2L
5	2L	8K	2L	-	-
6	-	-	-	60K	-
7	-	-	-	60K	-

Total Int Acc = 120000

24%

Repaid in 6th & 7th yr.

Step 2

Fair Value of FA

→ D.F @

yr	C.F	DF @ 8%
1	2L	
2	2L	
...	...	

→ 798542

4r	CIT	
1	2L	} → 798542 (+)
2	2L	
3	2L	
4	2L	
5	2L	
6	60k	} → 72819
7	60k	
		PV <u>871362.</u>

J.E.

1-4-15 FA A/c DR 871362.
 Prepaid EBF 128638 → Because the reason for giving subsidized loan is Employer/Employee Relationship.
 To CB 10,00,000

Step 3 Loan Amort. Table [For FA]

Yr	Opn	Int @ MKT rate 8%	Repayment recd.	Cls.
1	871362	69709	(2,00,000)	74107
2				
7				

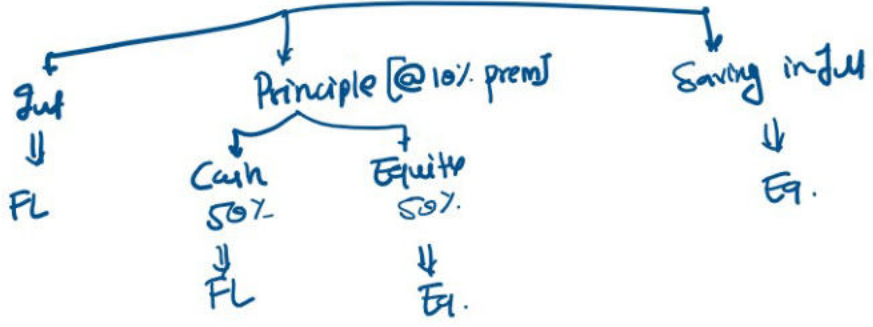
J.E.
 21-3-15 Int
 FA A/c DR 69709
 To Int Income 69709
 CPIS.
 CB A/c 200000
 TO FA 200000

For EBF each yr → Refer Note in Module.

Q20 → Jump → H.W.

Q21

Extra → DO NOT prepare in Exam.
 6% Conv Deb



→ Mandatory cash

Step 1 → Cash flows → Mandatory cash

4yr cash flows.
 0 50L - inflows. ×
 1-4 Int [Comp] (3Lp.a) → outflow.

4th yr Principle → ~~50L + 10%~~
 25L + 10% = (27.5 L) → outflow

Step 2 FV of FL

PV of P/F @ MKT rate

3L × AF of 4yrs @ 10% = 3L × 3.17
 27.5L × D.F of 4th yr @ 10% = 27.5L × 0.68
2821000

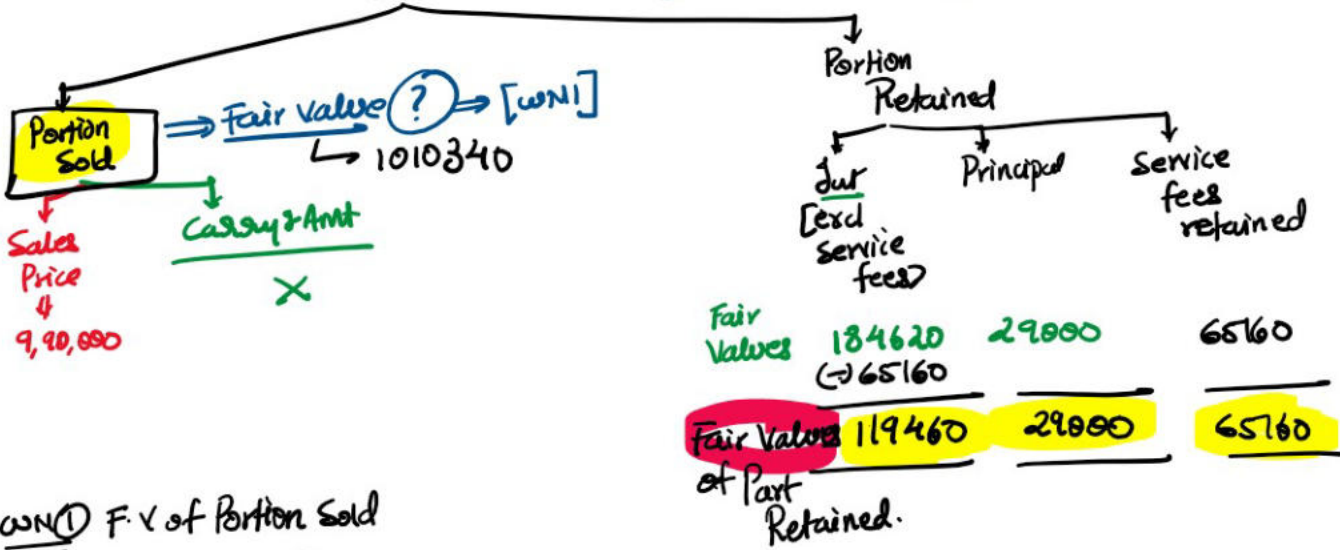
Step 3 Equity Comp

50L - 2821000
 = 2179000

J.E C/B AC DR 50L
 TO FL 2821000
 TO EQ 2179000

Q11 - De-Recognition

FA ⇒ 10 Lakhs. [Fair Value = 12 239 60]



WNI F.V of Portion Sold

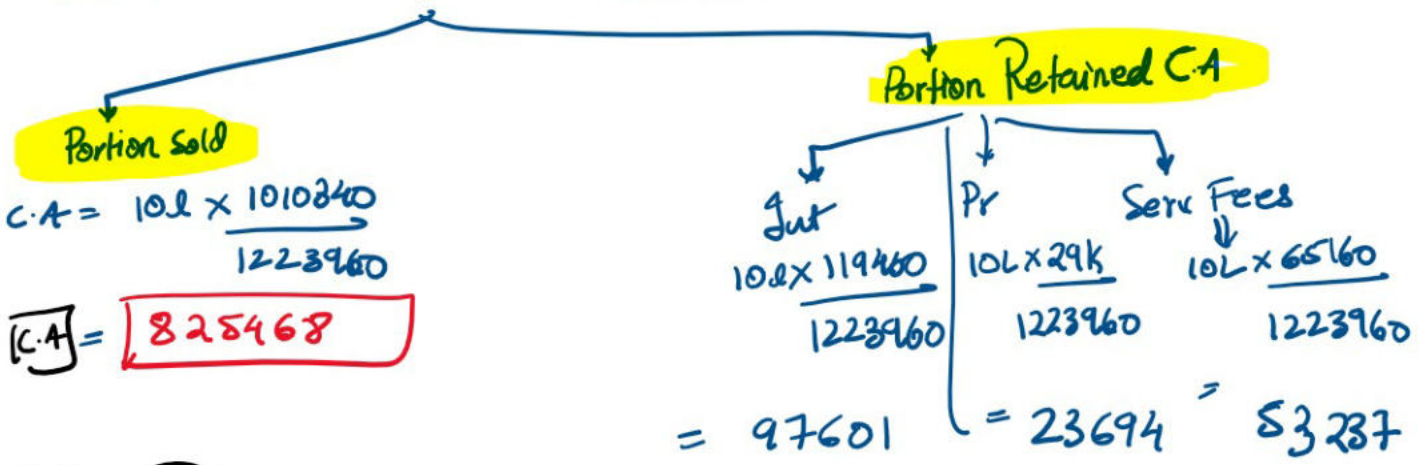
WN 1 F.V of Portion Sold

... can Retained.

Total F.V \rightarrow F.V of Retained Portion

= 1010340

Allocation of carry^o Amt [in the ratio of Fair Value]



J.E. - Sale

CIB \rightarrow	990000
TO FA [C.A.]	825468
TO Gain	164532

OR

CIB	ALC	D ₃	990000
<u>FA [Retained]</u>			
Int	D ₃	97601	} C.A.
Pr	D ₃	23694	
Serv Fees	D ₃	53237	
TO FA [Full]	10L.		
TO P/L			164532

In exam

RTP

Q14. → S.Hd. issuer → Sub
 H.Hd. Holding Co. → Parent.

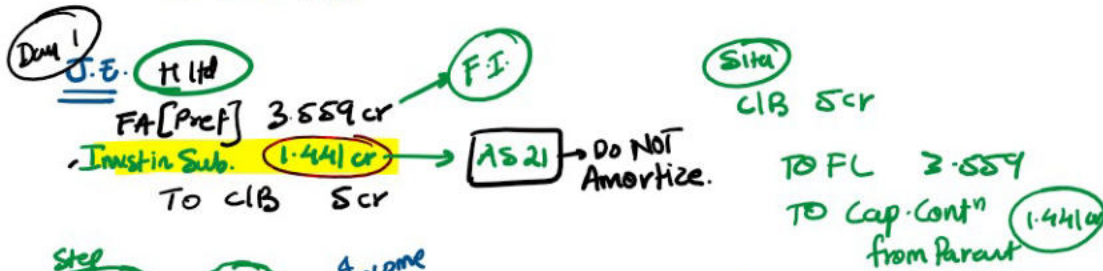
FA

Step 1 Cash flows [H.Hd.]

4r
 0 (Scr → outflow)
 1-3
 3rd. - 0.001% → Ignore [immaterial]
 Scr → inflow.

Step 2 FV of FA

PV of FCF @ Market Rate
 5 cr x DF @ 12% of 3rd yr
 = 3.559 cr.



Step	LAT	FFA	Income	Repayment (Rec'd)	ClB.
4r		Opn			
1	3.559		0.42708	-	3.98608
2	3.18608		0.4783	-	4.4644
3	4.6444		0.5357	-	5
3rd				(5cr)	<u>NIL</u>

J.E.

Jan 21 → Part per
 Q1 c

Step 1 Cash flows

4r	Inflow
0	GL → inflow
1-5	(54K p.a.) } outflow
5th yr	(6L) →

1-5 5th yr (6L) → outflow

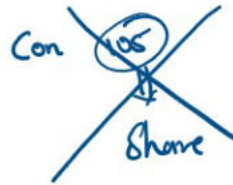
Step 2 Fl of FL

PV of FCF

54K x AF of 5th yr @ 13% = 169930
 6L x DF of 5th yr @ 13% = 326656
 FL 515586

Step 3 Eq

6L - 515586
 = 84414



Day 1 J.E. → 1.4.16.

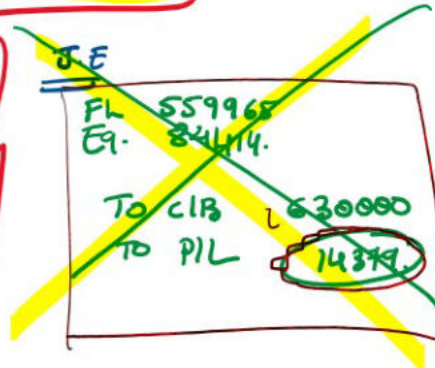
CIB 6L

TO FL 515586
 TO Eq. 84414 → This value remains same each

Settlement on 01.04.19 ⇒ Paid 630000

Liab [FL]
 ↓
 WND
 559965

Eq
 84414



WND LAT

yr	opn	Int @ 13%	Repayment	CIB.
31-3-17	515586	67026	(54000)	528612
31-3-17	528612	68720	(54000)	543331
31-3-19	543331	70633	(54000)	<u>559965</u>

On 01.04.19.

Allocation of consideration paid [630000]

btw FL & Eq.





New Fair Value of FL on date of Settlement.

PV of Remaining future cash flows @ New Market Rate on 1.4.19

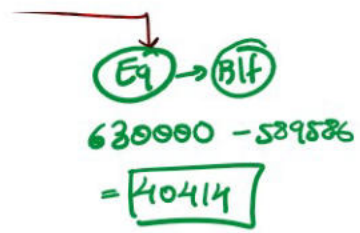
$$31.3.20 \quad 54000 \times \frac{1}{1.10}$$

$$31.3.21 \quad 54000 + 6L \times \frac{1}{(1.10)^2}$$

= 589586

J.E

FL [C.A]	589965
PL	29621
TO CB	589586



Eq → BIF

$$630000 - 529586 = \boxed{40414}$$

J.E Eq [C.A] 84414

TO CB	20414
TO Res	44000

Nov 2020
↓
Q/c

Step 1 Cash flows

yr	Cash flow
0	20L → inflow
1-6	Div (1.6L p.a.) → outflow
6th yr Pr	NIL → Equity

Step 2
FV of FC

$$1.6L \times 4.2305 = 676886$$

Step 3

$$Eq \quad 20L - 676886 = \boxed{1323114}$$

Day 1 J.E

CB	20L
TO FL	676886.
TO Eq	1323114

$\boxed{\text{Tr. Cost}} \Rightarrow 20L \times 5\% = \boxed{100000}$ [in the ratio FL & Eq.]

FL $12 \times \frac{676886}{20L}$ <hr style="width: 50%; margin: 0 auto;"/> 33844	Eq. $12 \times \frac{1323114}{20L}$ <hr style="width: 50%; margin: 0 auto;"/> 66156
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J.E.

FL [Tr. Cost]	33844
Eq. [Tr. Cost]	66156
DCIB	100000

Rev Values of

1) FL = $676886 - 33844 = 643042$
 2) Eq = $1323114 - 66156 = 1256958$