Theoretical Questions

1. What are current and long term liabilities?
2. How long term liabilities differ from the other sources of funds?
3. Explain some of the popular sources of current liabilities.
4. What are the contingent liabilities?
5. Explain the accounting treatment of the contingent liabilities?
6. What is the accounting treatment of the loss on the issue of debentures?
7. What is amortisation of debenture loss?
8. What is operating lease?
9. How operating lease differ from financing lease?
10. Examine the treatment of depreciation in the case of leasing?
11. What is sale and lease back?
12. What are deep discount bonds?
13. What is difference between bonds and shares?
14. Under what circumstances lease is called a finance lease?
15. What is unearned revenue?
16. What are current liabilities?
17. Name some of the important current liabilities
18. Distinguish between short-term loan and creditors
19. What are bills payable?
20. What are different types of debentures?
21. Explain the impact of issue of debentures on the accounting equation.
22. Explain the treatment of loss on issue of debentures.
23. Explain the difference between finance lease and operating lease.

Numericals

1. A ltd had creditors for Rs. 10,000 on its balance sheet (as on 31st March 2005). It entered into an agreement with the creditors as follows: Pay cash Rs. 2500 immediately and the balance in the form a bills payable with an rate of interest of 12%. Show the impact of the above transactions on the accounting equation of Altd.
2. A ltd issued 12% 10,000 debentures of 100 at par to be redeemed at a premium of 20% after 5 years. Show the accounting treatment of the above transaction.
3. On 10th January 2005 A ltd receives 100,000 loan by signing a 90-day bills payable. Find the accrued interest on the date of balance sheet preparation (31st March 2005). Explain the impact of the repayment of the bill, on the due date, on the financial statements.
4. Refer to the above problem. Explain the impact on the financial statements, if the A ltd. was not able to honor the bills payable on the due date.
5. AB ltd. issued 1,000 12% debentures of Rs.100 at a premium of 10% on 1st April 2003. Debentures are redeemable at a premium of 20% in five equal installments from the end of the second year. Show the accounting equation and the financial statements.

6. AB ltd. issued 1,000 12% debentures of Rs.100 at a par on 1st April 2003. Debentures are redeemable at a premium of 20% in five equal installments from the end of the first year. Show the accounting equation and the financial statements.
7. AB ltd. issued 5,000 10% debentures of Rs.100 at a par on 1st April 2003. Debentures are redeemable at a premium of 20%. Show the accounting equation and the financial statements in the following cases:
   - After five years the debentures converted into equity shares of Rs.10 at premium of 50.
   - After five years the debentures converted into new debenture of Rs.100 at premium of 50.
   - After five years the debentures converted into equity shares of Rs. 5 at premium of 4.50.
8. Altd started business with a capital of Rs. 25,000 on 1st April 2005. Acquired stock of goods for Rs. 45,000 on credit and acquired a plant on lease. Lease payment was Rs 12500 per annum. 12% Interest rate was considered for determining the lease rent. The period of lease was 5 years.
   Required:
   - Assume the lease to be a finance lease and show the financial statements for the lease period.
   - Assume the lease to be an operating lease and show the financial statements for the lease period.
9. Show the impact on the accounting equation and the financial statements. Altd has capital of 50,000 and issues 1,000 10% bonds of 100 at premium of 10% and redeemed as follows:
   - At par
   - At Discount of 10%
   - At Premium of 20%

Real Life Questions

1. Examine the balance sheet of the following two companies
   - Infosys
   - Tata Steel

   Comment on the financing decisions.
2. Refer to the financial statements of Tata Steel and compute the following:
   - Tata Steel's ability to meet its interest obligations.
   - Percentage of debt financing.
   - Current liabilities as a percentage of total sources
   - Composition of current liabilities
3. What evidence can you identify that the Satyam Computers has temporary differences between profit reported to the tax authorities and the shareholders?

4. Visit the web-site of the following companies: Tata Steel/ SAIL/Essar Steel
   - Comment on the current liabilities
   - Examine whether the current assets are more or less than the current liabilities.
   - Find the interest coverage ratio
   - What % of the assets are funded by: LTL, Current Liabilities
5. During the month of July 2003Hindustan Lever mandated HSBC Securities and Capital Markets to buy out the debentures allotted to its shareholders in a recent bonus issue. HSBC India has offered to buy debentures with a face value of Rs 6 each for Rs 6.23.

   This was part of Hindustan Lever's early exit option for its retail shareholders, who would otherwise have to wait 18 months for the debentures to mature.

   HSBC India will buy debentures worth a maximum amount of Rs 300 crore (Rs 3 billion).

   The shareholders have another exit option by which they can sell their bonus debenture units either on the National Stock Exchange or on the Bombay Stock Exchange.

   According to Hindustan Lever executives, the units will be listed in the next few days.

   The HSBC offer, which opens on July 18 and continues till August 1, is only for retail debenture-holders and not for financial institutions, mutual funds, foreign institutional investors, corporate bodies and non-resident Indians.

   "The benefit to retail shareholders is that they will be able to cash in on the payout upfront, rather than having to wait for 18 months," a company executive told *Business Standard*.

   The debentures bear a 9 per cent coupon rate, which is high considering the current low interest rates.

   HSBC will take the debentures on its own books. The yield for the bank works out to 8.66 per cent a year.

   Hindustan Lever allotted 2.2 billion secured, fully-paid, redeemable, non-convertible debentures aggregating Rs 1,320.74 crore (Rs 13.21 billion) to its shareholders in a bonus issue, in the ratio of one debenture for every share of Re 1 held.

Required:

- What did HSBC offer to purchase the debentures from the retail debenture-holders?
- Examine the impact on the financial statements of HLL.
- Examine the impact on the financial statements of HSBC.
- Explain the impact in the hands of Mr. X a holder of 100 debentures.

6. During September 2006, the board of Glenmark Pharma-ceuticals Ltd has approved the conversion of debentures issued to CDC Financial Services (Mauritius) Ltd and South Asia Regional Fund into equity shares, at a price of Rs 305.42 per share. This has resulted in allotment of 818,557 equity shares each to CDC Financial Services and South Asia Regional Fund. In addition, the conversion also resulted in dilution of the promoter's stake to 54.59 per cent from 63 per cent, a Glenmark release said.

   CDC's stake post-conversion will go up to 14.36 per cent. CDC had around 0.26 per cent stake in Glenmark before conversion, which they had bought from the market, sources said.
   The company at its recently concluded annual general meeting (AGM) stated that the debentures will be converted at a price range between Rs 295 to Rs 315 per share.
   The Glenmark scrip at the Stock Exchange, Mumbai opened at Rs 399.90 and touched a high of Rs 409.95 to close at Rs 393.45, registering a 1.61 per cent decline.
   CDC had subscribed to the debentures last year, when the Glenmark scrip hovered at around Rs 250.
   As a result of the conversion of debentures into equity, the paid up equity share capital of Glenmark will increase from Rs 10.19 crore to Rs 11.83 crore and the reserves and surplus from Rs 132.39 crore to Rs 180.75 crore.
   The secured debt of the company shall stand reduce to Rs 69.35 crore from Rs 119.35 crore, improving the debt equity ratio.
   The company's secured loan had increased to Rs 119.35 crore during 2002-03, mainly due to the convertible debentures of Rs 50 crore from CDC apart from a term loan of Rs 20 crore.
   The company, however, had repaid non-convertible debentures amounting to Rs 31 crore out of Rs 45 crore during the said year.

   Required: Explain the impact of the above decisions on the financial statements of all a companies involved