Solution:1

Debtors Account

Particulars	Rs.	Particulars	Rs.
Opening balance	110,000	Cash received	60,000
Credit Sales (Bal Fig.)	220,000	Closing balance	270,000
Total	**330,000**	Total	**330,000**

Income Statement

For the year ending 31st December 2007

Particulars	Rs.	Rs.
Sales:		
Credit sales	220,000	
Cash sales	280,000	**500,000**
Less: CGS:		**145,000**
Gross Profit		**355,000**
Less: operating expenses		50,000
Earning before interest and tax		305,000
Less: **Financial charges:**		
Interest on debenture	5,000	
Preferred dividend	15,000	2,0000
Earning before tax		285,000
Less: tax @ 35%		99,750
Earning after interest and tax		**185,250**

Right shared offer to the share holder= 20,000/5 * 1 = 4,000 shares

Theoretical ex-right price per share

Number of shares held @ Market price	5 x Rs. 6	30
Number of shares offered @ Offer price	1 x Rs.4	4
Theoretical price of 6 shares		34

Theoretical ex-right price per share 34/6 =

=Rs. 5.67/share

Bonus element:

Total amount received from right issue = 4 * 4,000 = Rs. 16,000

Consideration element = 16,000/5.67 = 2824 shares

Bonus Element = 4,000- 2,824 = 1,176 shares

Schedule of weighted average number of shares outstanding during the year

	2006	**2007**
Opening balance	20,000	20,000
Rights issue		
Bonus element	1,176	1,176
Consideration/resource element		
2,824x 6/12		1,412
Weighted average	21,176	22,588

Earning per share =

2006 = 155,000/21,176   = **Rs. 7.32**

2007 = 185,250 / 22588 = **Rs. 8.20**

Solution: 2

1)

In order to capitalize the borrowing costs, a weighted-average cost of funds borrowed is computed:

$$= \frac{(1000,000 * 7/100) + (1500,000 * 6/100) + (900,000 * 8/100) \quad * 100}{3400,000}$$

$$= \frac{70,000 + 90,000 + 72,000 \quad * 100}{3400,000}$$

$$\frac{232,000 \quad *100}{3400,000}$$

= **6.82% per annum**

2)

Total borrowing cost

= Rs.3.4 million × 6.82 % per annum × 3 years

= Rs. 695,640

3)

Borrowing costs to be capitalized **= Interest expense – investment income [resulting** from investment of idle funds]

= Rs 695,640- Rs. 60,000

= Rs. 635, 640