PART – II

1. (a) On 1st April, 2023, Green Limited started the construction of an Office Building (qualified asset). The land under the building is regarded as a separate asset and is not a part of qualifying asset. 7

For the purpose of construction of building, the company raised a specific loan of ₹ 14 lakhs from a Bank at an interest rate of 12% per annum. An interest income of ₹ 15,000 was earned on this loan while it was held in anticipation of payments.

The company's other outstanding loans on 1st April, 2023 were as follows :

Amount of Loan	Rate of Interest per annum
₹ 20,00,000	15%
₹ 30,00,000	8%

The construction of building started on 1st April, 2023 and was completed on 31st January, 2024 when it was ready for its intended use. Up to the date of completion of the building, the following payments were made to the contractor:

Payment date	Amount in ₹
1st April, 2023	4,00,000
1st August, 2023	10,00,000
1st December, 2023	25,00,000
31st January, 2024	5,00,000

The life of building is estimated to be 20 years and depreciation is calculated on straight line method.

You are required to :

(i) Calculate the amount of borrowing cost to be capitalized.

(ii) Pass initial journal entry to recognise the cost of building.

(iii) Depreciation on building for the year ending 31st March, 2024.

(iv) Carrying value of building on 31st March, 2024.

(b) Well Wear Limited is a Textile Manufacturing Company and engaged in the production of Polyester (P) and Nylon (N). While manufacturing the main products, a by-product Fiber (F) is also produced. Details of the cost of production are as under : 7

Purchase of Raw Material for manufacturing process of 30,000 units	₹ 3,50,000
Wages paid	₹ 1,60,000
Fixed overheads	₹ 1,20,000
Variable overheads	₹ 60,000
Output :	
Polyester (P)	12,500 Units
Nylon (N)	10,000 Units
Fiber (F)	3,200 Units
Closing Inventory :	
Polyester (P)	1,600 Units
Nylon (N)	400 Units

Average market price of Polyester and Nylon is ₹ 100 and ₹ 60 per unit respectively, by-product Fiber is sold @ ₹ 40 per unit. There is a profit of ₹ 8,000 on sale of by-product after incurring separate processing expenses of ₹ 10,000 and packing charges of ₹ 9,000. ₹ 5,000 was realized from sale of scrap.

On the basis of the above information, you are required to compute the value of closing inventory of Polyester and Nylon.

2. Following is the summarized Balance Sheets of Z Limited as on 31st March, 2024 : 14

Particulars	(₹)
EQUITY AND LIABILITIES:	
Share Capital	
Equity shares of ₹ 100 each	60,00,000
8% Preference shares of ₹ 100 each	21,00,000
10% Debentures of ₹ 100 each	18,00,000
Trade Payables	16,80,000
Total	**1,15,80,000**
ASSETS :	
Goodwill	81,000
Property, Plant and Equipment	72,00,000
Trade Receivables	13,75,000
Inventories	9,80,000
Cash at Bank	1,33,000
Own Debentures (Nominal value of ₹ 6 lakhs)	5,76,000
Profit and Loss A/c	12,35,000
Total	**1,15,80,000**

On 1st April, 2024, court approved the following reconstruction scheme for Z Limited :

(i) Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. After sub-division, equity share capital will be reduced by 40%.

(ii) Preference share dividends are in arrear for last 4 years. Preference shareholders agreed to waive 75% of their dividend claim and accept payment for the balance.

(iii) Own debentures of ₹ 2,40,000 (nominal value) were sold at ₹ 98 cum interest and remaining own debentures were cancelled.

(iv) Debenture holders of ₹ 6,00,000 agreed to accept one machinery of book value of ₹ 9,00,000 in full settlement.

(v) Remaining Property, Plant and Equipment were valued at ₹ 60,00,000.

(vi) Trade Payables, Trade Receivables and Inventories were valued at ₹ 15,00,000; ₹ 13,00,000 and ₹ 9,44,000 respectively. Goodwill and Profit and Loss Account (Debit balance) are to be written off.

(vii) Company paid ₹ 60,000 as penalty to avoid capital commitments of ₹ 12 lakhs.

(viii) Interest on 10% Debentures is paid every year on 31st March.

You are required to :

(1) Pass necessary journal entries in the books of Z Limited to implement the above schemes.

(2) Prepare Capital Reduction Account.

(3) Prepare Bank Account

3\. (a) Constructions Limited is engaged in the business of constructing Flyovers and Railway over bridges. It obtained a contract from Railway Authorities to construct a railway over bridge for ₹ 400 crores. The construction of the railway over bridge is expected to be completed in 4 years. 7

At the outset of the contract, it was estimated that the total costs to be incurred will be ₹ 370 crores but by the end of year 1, this estimate stands revised to ₹ 375 crores.

During year 3, the Construction Limited has requested for a variation in the contract which is approved by Railway Authorities and accordingly the total contract value will increase by ₹ 10 crores and costs will increase by ₹ 7 crores.

The Constructions Limited decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs. Contract costs incurred at the end of each year is:

Year 1 : ₹ 98.8 crores

Year 2 : ₹ 202.4 crores

Year 3 : ₹ 310 crores (including unused material of 3 crores)

Year 4 : ₹ 382 crores

You are required to :

(i) Calculate stage of completion of contract for each year

(ii) Profit to be recognised for each year.

(b) The following information is provided for Aarambh Limited : 7

Particulars	31st March 2023 (₹)	31st March 2024 (₹)
Profit and Loss a/c	5,400 (Dr.)	37,800
Provision for Taxation	2,21,400	1,35,000
General Reserve	54,000	81,000
12% Debentures	1,18,800	2,91,600
Trade Payables	1,29,600	1,18,800
8% Current Investments	54,000	1,08,000
Property, plant and equipment (Gross)	3,99,600	3,99,600
Accumulated Depreciation	1,29,600	1,62,000
Trade Receivables (Gross)	81,000	2,61,360
Provision for Doubtful Debts	27,000	54,000
Inventories	1,35,000	81,000
Cash and Cash Equivalents	5,400	30,240

Additional information :

(i) Income tax provided during the year ₹ 1,62,000.

(ii) New debentures have been issued at the end of current financial year.

(iii) New investments have been acquired at the end of the current financial year.

You are required to calculate net Cash Flow from Operating Activities.

4. Intelligent Limited and Diligent Limited are carrying their business independently for last two years. Following financial information in respect of both the companies as at 31st March, 2024 has been given to you : 14

Particulars	Intelligent Limited (₹)	Diligent Limited (₹)
Equity Share Capital of ₹ 100 each	12,00,000	10,00,000
8% Preference shares of ₹ 100 each	3,00,000	2,00,000
Trade Payables	12,00,000	4,00,000
Retirement Gratuity Fund (Long Term)	3,00,000	2,00,000
Profit and Loss Account		
Opening balance	4,50,000	2,50,000
Profit for the current year	2,50,000	1,50,000
Land and Buildings	10,00,000	8,00,000
Plant and Machinery	10,00,000	6,00,000
Inventories	7,00,000	4,00,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	4,00,000	1,00,000

On 1st April, 2024, both the companies agreed to amalgamate and form a new company 'Genius Limited' with an authorized capital of ₹ 40,00,000 divided into 30,000 equity shares of ₹ 100 each and 10,000 8% preference shares of ₹ 100 each.

The amalgamation has to be carried out on the basis of following agreement :

(1) Assets of both the companies were to be revalued as follows :

Particulars	Intelligent Limited (₹)	Diligent Limited (₹)
Land and Buildings	11,00,000	8,50,000
Plant and Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000

(2) Trade payables of Intelligent Limited includes ₹ 1,00,000 due to Diligent Ltd. and the Trade receivables of Diligent Limited shows ₹ 1,00,000 receivables from Intelligent Limited.

(3) The purchase consideration is to be discharged in the following manner :

(i) Issue 22,000 Equity Shares of ₹ 100 each fully paid up in the proportion of the sum of their profitability in the preceding two financial years.

(ii) Preference shareholders of both companies are issued equivalent number of 10% Preference Shares of ₹ 100 each of Genius Limited at a price of ₹ 125 per share.

(iii) 12% debentures of ₹ 100 each in Genius Limited at par to provide an income equivalent to 10% return on the basis of net assets in their respective business as on 1st April, 2024 after revaluation of assets.

You are required to :

(a) Compute the amount of Shares & Debentures to be issued to Intelligent Limited and Diligent Limited.

(b) Prepare a Balance Sheet of Genius Limited showing the position immediately after amalgamation.

5. The Balance Sheets of Art Limited and Craft Limited as on 31st March 2024 are as below : 14

Particulars	Note No	Art Limited (₹)	Craft Limited (₹)
I. Equity and Liabilities			
a. Shareholder's Fund			
i. Share Capital	1	6,50,000	4,00,000
ii. Reserve & Surplus	2	3,12,000	2,48,000
b. Current Liabilities			
i. Trade Payables		1,45,000	92,000
ii. Short term borrowings	3	70,000	–
		11,77,000	**7,40,000**
II. Assets			
a. Non-current Assets			
i. Property, Plant & Equipment	4	4,21,000	3,60,000
ii. Non-current investment	5	4,32,000	–
b. Current Assets			
i. Inventories		1,66,000	2,05,000
ii. Trade Receivables		1,33,500	1,68,300
iii. Cash & Cash equivalent	6	24,500	6,700
		11,77,000	**7,40,000**

Notes to Accounts :

		Art Limited (₹)	Craft Limited (₹)
1	Share capital		
	6,500 shares of ₹ 100 each	6,50,000	–
	4,000 shares of ₹ 100 each fully paid-up	–	4,00,000
	Total	6,50,000	4,00,000
2	Reserves and Surplus		
	General Reserve	1,20,000	40,000
	Profit and Loss account	1,92,000	2,08,000
	Total	3,12,000	2,48,000
3	Short term borrowings		
	Bank Overdraft	70,000	–
4	Property Plant & Equipment		
	Land & Building	1,90,000	1,35,000
	Plant & Machinery	2,31,000	2,25,000
	Total	4,21,000	3,60,000
5	Non-current investments		
	Investment in Craft Limited (Cost)	4,32,000	–
6	Cash & Cash equivalents		
	Cash	24,500	6,700

Additional information :

(i) Art Limited acquired 3,200 ordinary shares of Craft Limited on 1st October, 2023. The Reserve & Surplus and Profit & Loss Account of Craft Limited showed a credit balance of ₹ 40,000 and ₹ 58,700 respectively as on 1st April, 2023.

(ii) The Plant & Machinery of Craft Limited which stood at ₹ 2,50,000 as on 1st April, 2023 was considered worth ₹ 2,20,000 on the date of acquisition. The depreciation on Plant & Machinery is calculated @ 10% p.a. on the basis of useful life. The revaluation of Plant & Machinery is to be considered at the time of consolidation.

(iii) Craft Limited deducts 1% from Trade Receivables as a general provision against doubtful debts. This policy is not followed by Art Limited.

(iv) On 31st March 2024, Craft Limited's inventory includes goods which it had purchased from Art Limited for ₹ 1,03,500 which made a profit of 15% on cost price.

You are required to prepare a consolidated Balance Sheet as on 31st March 2024.

6. (a) Colour Limited leased a Machine to Red Limited on 1st April, 2021 on the following terms : 4

Cost of the machine	₹ 18,00,000
Lease term	3 years
Fair market value of the machine	₹ 18,00,000
Unguaranteed residual value as on 31.3.2024	₹ 2,00,000
Internal rate of return	12%

Other information :

The expected useful life of the machine is 5 years. The machine will revert to Colour Limited on termination of the lease. The lease payment is to be made at the end of each year in 3 equal parts.

The present value of ₹ 1 due at the end of 3rd year at 12% rate of interest is ₹ 0.7118. The present value of annuity of ₹ 1 due at the end of 3rd year at 12% IRR is ₹ 2.4018.

You are required to analyze whether lease constitutes finance lease. Also calculate unearned finance income, if any.

OR

(a) On 1st April 2023, ABC Limited has given the following information : **4**

	₹
50,000 equity shares of ₹ 100 each (₹ 80 paid up by all shareholders)	40,00,000
2,00,000, 8% Preference shares of ₹ 10 each	20,00,000
10,000, 12% Debentures of ₹ 100 each	10,00,000
(Each debenture is convertible into 3 equity shares of ₹ 100 each)	

On 1st July 2023, the remaining ₹ 20 was called up and paid by all the shareholders except one shareholder holding 10,000 equity shares. During the year 2023-24 the company had a profit after tax of ₹ 3,44,000. Tax rate is 30%.

You are required to compute Basic and Diluted EPS.

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(b) Following information are available in respect of Z Limited as on 31st March, 2024 4

1. Equity shares of ₹ 100 each ₹ 500 lakhs
2. General Reserve ₹ 100 lakhs
3. Loss for the year ending 31st March, 2024 ₹ 5 lakhs

Due to absence of profits during the year 2023-24, the management recommends to declare dividend of 10% on equity share capital out of general reserve.

The rates of equity dividend for the last 5 years immediately preceding the year 2023-24 are as follows :

2022-23	2021-22	2020-21	2019-20	2018-19
12%	14%	10%	10%	7%

As an accountant of the company, you are required to suggest whether the recommendation of the management is justified ? If you do not agree, then suggest the rate of dividend.

(c) Smart Limited is an Indian Company and has its Branch at New York. The following balances in respect of Smart Limited's USA Branch office are provided : 6

(i) Debit Balances (in USD)

Expenditure (excluding Depreciation)	:	1,03,095
Cash & bank balances	:	2,175
Debtors	:	7,365
Fixed Assets (Gross)	:	34,200
(Rate of Depreciation on Fixed Assets: 20%)		
Inventory- Stock 'P'	:	5,520
Inventory- Stock 'Q'	:	1,035

(ii) Credit Balances (in USD)	:	1,32,000
Incomes	:	15,570
Creditors	:	5,820
HO Control a/c		

The following additional information is provided :

(1) The average exchange rate during the above financial year was 1 USD = ₹ 56.

(2) The fixed assets were purchased when the exchange rate was 1 USD = ₹ 55.

(3) The closing exchange rate on reporting date is 1 USD = ₹ 58.

(4) Stock item 'P' is valued at cost of USD 5,520, purchased when the exchange rate was ₹ 56.50. The present net realizable value of this item is ₹ 2,85,000.

(5) Stock item 'Q' is carried at net realizable value of USD 1,035, but its cost in USD is 1,065. It was purchased when exchange rate was 1 USD = ₹ 53.

(6) Branch Control Account as per HO books was ₹ 2,66,265.

You are required to show how it will be reflected in the books of Head Office in the form of Trial Balance, if the USA Branch Office is classified as an integral Foreign Operation.