CA-INTERMEDIATE

ACCOUNTING

GROUP-1

MODULE-2

NEW COURSE

BY:

CA.PARVEEN JINDAL

B.COM (H), F.C.A, M.B.A.(FINANCE)

C.A. RANK HOLDER

(DIPLOMA IN IFRS:ACCA LONDON)

MEMBER OF ACCOUNTING STANDARD BOARD OF ICAI 2012-13

PUBLISHED BY:

PARVEEN JINDAL'S CLASSES PVT. LTD.

1/41, First Floor, Lalita Park, Vikas Marg, Next Building to Gurudwara

Metro Pillar No. 23, Laxmi Nagar, DELHI - 110092

Mobile No. : 9871272725, 9312281275, Ph. : 011-64995777, 65668111

WEBSITE: caparveenjindal.com

EMAIL: caparveenjindal@gmail.com

PRICE:NOT FOR SALE (ONLY FOR PRIVATE CIRCULATION)

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EMAIL: caparveenjindal@gmail.com

Dedicated to

BABA VISHAN PURI JI MAHARAJ

BABA LAKSHMAN PURI JI MAHARAJ

CONTENTS

REDEMPTION OF DEBENTURES

(Amended: Share Capital & Debentures Rules 2019)

TYPES OF DEBENTURES

1. **Security**

   (a) **Secured Debentures:** These debentures are secured by a charge upon some or all assets of the company. There are two types of charges: (i) Fixed Charge and (ii) Floating charge. Fixed charge is a mortgage on specific assets. These assets cannot be sold without the consent of the debenture holders. The sale proceeds of these assets are utilized first for repaying debenture holders. A floating charge generally covers all the assets of the company including future one.

   (b) Unsecured or "naked debentures". These debentures are not secured by any charge upon any assets. A company merely promises to pay interest on due dates and to repay the amount due on maturity date. These types of debentures are very risky from the view-point of investors.

2. **Convertibility:**

   (a) Convertible debentures: These are debentures which will be converted into equity shares (either at par or premium or discount) after a certain period of time from the date of its issue. These debentures may be fully or partly convertible. In future, these debenture holders get a chance to become the shareholders of the company.

   (b) Non- convertible Debentures: These are debentures which cannot be converted into shares in future as per the terms of issue, these debentures are repaid.

3. **Permanence:**

   (a) Redeemable debentures: these debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.

   (b) Irredeemable debentures: These debentures are not repayable during the life time of the company. These are also called perpetual debentures. These are repaid only at the time of liquidation.

4. **Negotiability:**

   (a) Registered Debentures: These debentures are payable to a registered holder whose name, address and particulars of holding recorded in the register of Debenture holders. They are not easily transferable. The provisions of section 108 to 111 of the Companies Act 1956 are to be complied with for effecting transfer of these debentures. Debenture interest is paid either to the order of registered holder as expressed in the warrant issued by the company or the bearer of the interest coupons.

(b) Bearer Debentures: These debentures are transferable by delivery. These are negotiable instruments payable to the bearer. No record is kept by the company in respect of the holders of such debentures.

5. Priority

(a) First Mortgage Debentures: These debentures are payable first out of the property charged.

(b) Second mortgage debentures: These debentures are payable after satisfying the first mortgage debentures. Recording the issue of Debentures:

METHODS TO REDEEM DEBENTURES

- Redemption in Instalments
- By purchasing in the open market
- By conversion
- By payment at the end of a specified period (lump sum)

Debenture Redemption Reserve

A company issuing debentures is required to create a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilized by the company except for redemption of debentures. Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they shall fall due for payment.

Adequacy of Debenture Redemption Reserve (DRR)

Ministry of Corporate Affrays has made the following clarification on adequacy of Debenture- Redemption Reserve (DRR) vide Circular no. 04/2013 dated 11 February 2013:-

		Adequacy of Debenture Redemption Reserve (DRR)
(i)	For debentures issued by All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures.	No DRR is required

(ii)	For other Financial Institutions (FII) within the meaning given in the Companies Act.	No DRR is Required
(iii)	For debentures issued by NBFCs registered with the RBI.	No DRR is required
(iv)	For debentures issued by LISTED companies including manufacturing and infrastructure companies.	No DRR is required
(v)	For Unlisted Companies	10% DRR of Outstanding balance

Liability of the Company to Create Debenture Redemption Reserve

Section 71 (4) in the Companies Act 2013 covers the requirement of creating the Debenture Redemption Reserve. The Section 71 states as follows:

(1) Where a company issues debentures under this section, it shall create a debenture redemption reserve account out of its profits which are available for destruction of dividend every year until such debentures are redeemed.

(2) The amounts credited to the debenture redemption reserve shall not be utllsed by the company except for the purpose aforesaid.

(3) The company referred to in sub-section (1) shall pay interest and redeem the debentures in accordance with the terms and conditions of their issue.

(4) Where a company fails to redeem the debentures on the date of maturity or fails to pay the interest on debentures when they fall due, the Tribunal may, on the application of any or all the holders of debentures or debenture trustee shall, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal interest due thereon

Investment of Debenture Redemption Reserve (DRR) Amount

Every company required to create/maintain DRR shall before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following in any one or more of the following methods, namely:

(a) In deposits with any-scheduled bank Free from charge or lien;

(b) In unencumbered securities of the Central Government or of any State Government;

(c) In unencumbered securities mentioned in clauses (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882;

(d) in unencumbered bonds issued by any other company which is notified under clause (f) I of section 20 of the Indian Trusts Act, 1882;

The amount deposited or invested, as the case may be, above shall not be utilized for any purpose other than for the repayment of debentures maturing during the year referred to above, provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15 per cent of the amount of debentures maturing during the 31,) day of March of that year.

REDEMPTION IN LUMPSUM AFTER A CERTAIN PERIOD

QUESTION NO 1

(REDEMPTION OF DEBENTURES PLUS PREFERENCE SHARES)

ICAI Limited a trading company decided that the value of its building could be used to provide additional working capital. The Balance Sheet of the company as on 31st March 2020 was as under:

Liabilities	Rs.	Assets		Rs.
Paid up capital:		**Fixed assets:**		
10,000 equity shares of		Building at cost	2,00,000	
Rs.10 each	1,00,000	Less depreciation	40,000	1,60,000
5,000 12 % Redeemable				
preference shares of		Furniture at cost	90,000	
Rs.10 each	50,000	Less depreciation	30,000	60,000
Share premium account	5,000			
Profit and Loss account	70,000	Current assets,		
Secured loans		loans and advances		
12 % Debentures	70,000	Stock		58,000
Current liabilities		Debtors		52,000
Creditors	40,000	Bank		5,000
	3,35,000			**3,35,000**

Depreciation on building has been provided at 2 % per annum on cost.The following action was taken on 31.3.2020:

(i) The building was sold for Rs.2,20,000 to another company who leased it back to X Limited for 21 years at annual rent of Rs.16,000.

(ii) 12 % Debentures were discharged at a premium of 10 %.

(iii) Preference shares were redeemed at a premium of 10 %. The directors expect that the profit of the company will further increase by Rs.20,000 for the coming year due to change in working capital.

(a) Draft the journal entries necessary to record the above transactions.

(b) Calculate the effect of future annual profits (before taxation) available for distribution to equity shareholders. Calculate the additional pre-tax increase in earnings per share.

(HINT: IGNORE THE REQUIREMENTS OF DRI IN THE GIVEN PROBLEM)

QUESTION NO 2 (REDEMPTION PLUS BONUS SHARES)

The Balance Sheet of a Limited Company on 31st January, 2020 read as under:

	Rs.		Rs.
Share Capital:		Freehold property	1,15,000
Authorised:			
30,000 Equity shares of Rs.10 each	3,00,000	Stock	1,35,000
Issued and Subscribed:		Debtors	75,000
20,000 Equity shares of Rs.10 each fully Paid	2,00,000	Cash	30,000
Profit and loss Account	1,20,000	Balance at Bank	2,20,000
12% Debentures	1,20,000		
Creditors	1,35,000		
	5,75,000		5,75,000

At the Annual General Meeting it was resolved:

(a) To issue one bonus share for every four shares held

(b) To give existing shareholders the option to purchase one Rs.10 share at Rs.15 for every four shares hold prior to the bonus distribution, this option being taken up by all the shareholders.

(c) To repay the debenture at a premium of 3 percent. Give the necessary Journal Entries

(HINT: IGNORE THE REQUIREMENTS OF DRI IN THE GIVEN PROBLEM)

REDEMPTION BY CONVERSION

The terms of issue may give an option to the Debentures holders to get their existing Debentures converted into shares or new Debentures. Even if the terms of issue do not provide, the company can also give such an option to its Debentures holders. In case, the Debentures holders exercise their option, the journal entry will be as follows:

Debentures (old) A/c Dr.

To Debentures (new)/ or share capital a/c

(CALCULATION OF NEW DEBENTURES OR NEW SHARES WILL BE ISSUED AT MARKET PRICE PREVAILING ON DATE OF ISSUE OF SUCH SECURITIES)

QUESTION NO 3

A company issues 15% 1,000 Debentures of Rs.100 each at 10% discount redeemable after a period of five years. According to the terms and conditions of issue these Debentures were redeemable at a premium of 5%. The Debentures holders had also the option at the time of redemption to get converted 20% of their holdings into equity shares of Rs.10 each at a pre determined price of Rs.20 per share and the balance in cash. Holders of Debentures of Rs.80,000 preferred to get their Debentures redeemed in cash only while the rest opted for getting Debentures converted into equity shares as per terms of issue.

Pass the necessary journal entries.

QUESTION NO 4

A Limited issued 4,000 6% Debentures of Rs.100 each at Rs.105. the Debentures holders had the option of converting within one year, Debentures into 8% participating preference shares of Rs.100 each at Rs.125. At the end of the 1st year the interest on Debentures was outstanding. Holders of 200 Debentures decided to take advantage of the option. Give journal entries.

QUESTION NO 5

(MANDATORY CONVERSION MIXED WITH UNDERWRITING)

ICAI Limited recently made a public issue in respect of which the following information is available;

(a) No. of partly convertible Debentures issued 2,00,000 face value and issue price Rs.100 per Debenture.

(b) Convertible portion per Debentures 60%, date of conversion on expiry of 6 months from the date of closing of issue.

(c) Date of closure of subscription lists 1.5.2020, date of allotment 1.6.2020, rate of interest on Debentures 15% payable from the date of allotment, value of equity share for the purpose of conversion Rs.60 (face value Rs.10)

(d) Underwriting commission 2%.

(e) No. of Debentures applied for 1,50,000.

(f) Interest payable on Debentures half yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March 2021 (including cash and bank entries).

QUESTION NO 6 (MULTIPLE CONVERSION OPTIONS)

On 1st January 2015 ICAI Limited issued 10,000 fifteen years Debentures of Rs.100 each bearing interest at 10 % p.a. One of the conditions of issue was that the company could redeem the Debentures by giving six months notice at any time after 5 years at a premium of 4 %, either by payment in cash or by allotment of preference shares and/or other Debentures at the option of the Debenture holders.

On 1st April 2020 the company gave notice to the Debenture holder of its intention to redeem the Debentures on 1st October 2020 either by payment in cash or by allotment of 11 % preference shares of Rs.100 each at Rs.130 per share or 11 % second Debentures of Rs.100 at Rs.96 per debenture.

Holders of 4,000 Debentures accepted the offer of the preference shares; holders of 4,800 Debentures accepted the offer of the 11 % second Debentures and the rest demanded cash on 1st October 2020.

Give the journal entries to give effect to the above as of 1st October 2020.

QUESTION NO 7

The summarized Balance Sheet of Convertible Limited as on 30th June,2020, stood as follows :-

Liabilities	**Rs.**
Share Capital: 5,00,000 equity shares of Rs.10 each fully paid	50,00,000
General Reserve	90,00,000
Profit & Loss Account	10,00,000
Debenture Redemption Reserve	10,00,000
13.5% Convertible Debentures	
1,00,000 Debentures of Rs.100 each	1,00,00,000
Other loans	65,00,000
Current Liabilities and provisions	1,25,00,000
	4,50,00,000

Assets:

Fixed Assets (at cost less depreciation)	1,60,00,000
Debenture Redemption Fund investments	15,00,000
Cash and Bank balances	75,00,000
Other Current Assets	2,00,00,000
	4,50,00,000

The debentures are due for redemption on 1st July, 2020 the terms of issue of debentures provided they were redeemable at a premium of 5% and also conferred option to the debenture-holders to convert 20% of their holding into equity shares at a predetermined price of Rs.15.75 per share and the payment in cash.

Assuming that:-

(i) Except for 100debentureholders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion;

(ii) The investments sold at par on same date and

(iii) All the transactions are put through, without any lag, on 1st July 2020.

Redraft the Balance Sheet of the company as on 1st July, 2020 after giving affect to the redemption. Show your calculations on respect of the number of equity shares to be allotted and the cash payment necessary.

REDEMPTION BY OPEN MARKET:OWN DEBENTURES

QUESTION NO 8

A company has outstanding 12% Debentures of Rs.1lakh on 1 January 2020. The company pays interest on 30 June and 31 December. It purchases Debentures of Rs.10,000 for cancellation on 1 May 2020 @ Rs.102 cum- interest. It further purchases for redemption Debentures of Rs.20,000 on 1 September 2020 at Rs.95 ex-interest. You are required to pass the necessary journal entries in the books of the company (including those of interest) for 2020.

QUESTION NO 9

Indebted Limited issued 10% Debentures at par foe Rs.8lakhs on 1 January, 2017. Interest was payable half yearly on 30 June and 31 December every year. Under the terms of the trust deed, the Debentures are redeemable at par (after three years of issue) by the company purchasing them in the open market and canceling them with a minimum redemption of Rs.80,000 every year. In case, there was a short fall in redemption by the company by open market operations the shortfall would be made good by the company by payment on the last day of the accounting year to the trustees who would draw lots and redeem the Debentures. The company purchased its own Debentures for cancellation as under:

(a) 30 September, 2020 Rs. 1,00,000 at Rs.98 cum interest.

(b) 31 May, 2021 Rs. 60,000 at Rs.95 ex interest

(c) 31 July, 2022 Rs. 90,000 at Rs.96 cum interest

The company carried out its obligations under the deed. Prepare the following ledger accounts for the calendar years 2020,2021 and 2022.

(1) Debentures account.

(2) Debentures redemption account and

Debentures interest account. Ignore taxation.

QUESTION 10

On January , Rama Ltd., had outstanding in its books 500 Debentures of Rs 100 each interest at 6% per annum. In accordance with the powers in the deed, the directors acquired in the open market Debentures for immediate cancellation as follows:

March 1 Rs 5,000 at 98.00 (cum interest)

Aug. 1 Rs 10,000 at 100.25 (cum interest)

Dec. 15 Rs 2,500 at 98.50 (ex-interest)

Debenture interest is payable half-yearly, on 30th June and 31st Dec.

Show ledger accounts of Debentures, Debenture interest and profit or loss on cancellation, ignoring income-tax.

QUESTION 11 (INTEREST ACCRUED)

Sencom Limited issued Rs 1,50,000 5% Debentures on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase debentures in the open market for cancellation thereof. The following purchases were made during the year ended 31st December, 2020 and the cancellation were made on the following 31st March: 1st March Rs 25,000 nominal value purchased for Rs 24, 725 ex-interest. 1st September Rs 20,000 nominal value purchased for Rs 20, 125 cum-interest.

You are required to draw up the following accounts up to the date of cancellation:

(i) Debentures Account;

(ii) Own Debenture Investment Account; and

(iii) Debenture Interest Account

Ignore taxation and make calculations to the nearest rupee.

QUESTION 12

On 1st April, 20X1, in MK Ltd.'s (unlisted company other than AIFI Banking company, NBFC and HFC) ledger, 9% debentures appeared with an opening balance of ` 50,00,000 divided into 50,000 fully paid debentures of ` 100 each issued at par.

Interest on debentures was paid half-yearly on 30th of September and 31st March every year.

On 31.5.20X1, the company purchased 8,000 debentures of its own @ ₹ 98 (ex-interest) per debenture. On same day, it cancelled the debentures acquired.

You are required to prepare necessary ledger accounts (excluding bank A/c).

QUESTION 13

The following balances appeared in the books of a company (unlisted company other than AIFI, banking company, NBFC and HFC) as on December 31, 20X1: 6% Mortgage 10,000 debentures of ` 100 each; Debenture redemption reserve (for redemption of debentures) ₹ 50,000; Investments in deposits with a scheduled bank, free from any charge or line 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹ 9,00,000.

The Interest on debentures had been paid up to December 31, 20X1.

On February 28, 20X2 the investment were realised at par and the debentures were paid off at 101, together with accrued interest.

Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.

QUESTION 14

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-20X1:

(i) 12% Debentures ₹ 7,50,000

(ii) Balances of DRR ₹ 25,000

(iii) DRR Investment 1,12,500 represented by 10% ₹ 1,125 Secured Bonds of the Government of India of 100 each.

Annual contribution to the DRR was made on 31st March every Year. On 31-3-20X2, balance at bank was ₹ 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 20X2:

(1) Debentures Account

(2) DRR Account

(3) DRR Investment Account

(4) Bank Account

(5) Debenture Holders Account.

QUESTION 15

YZ Ltd (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 16,000, 12% debentures of ` 100 each outstanding as on 1st April, 20X1 redeemable on 31st March, 20X2.

On 1 April 20X1, the following balance appeared in the books of accounts- investment in 2,000 9% secured Govt. bonds of ₹ 100 each. DRR is ₹ 1,00,000. Interest on investments is received yearly at the end of financial year.

2,000 own debentures were purchased on 31st march 20X2 at an average price of ₹ 99 and cancelled on the same date.

On 31st March, 20X2, the investment were realised at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31st march 20X:

(1) 12% Debentures Account

(2) Debenture Redemption Reserve Account

(3) Debenture Redemption Investments Account.

NOTES

CASH FLOW STATEMENTS

QUESTION NO 1

The financial position of ABC Ltd. on 1st April 2001 and 31.3.2002 was as follows:

Liabilities	1.4.2001	31.03.2002	Assets	1.4.2001	31.03.2002
Current liabilities	72,000	82,000	Cash	8,000	7,200
Loan from associated company	—	40,000	Debtors	70,000	76,800
			Stock	50,000	44,000
			Land	40,000	60,000
Loan from bank	60,000	50,000	Building	1,00,000	1,10,000
Capital and reserves	2,96,000	2,98,000	Machinery	2,14,000	2,44,000
			Provision for dep.	(54,000)	(72,000)
	4,28,000	4,70,000		4,28,000	4,70,000

During the year ₹ 52,000 were paid as dividends, prepare cash flow statement as per AS-3.

QUESTION NO 2

Particulars	2000	2001
Liabilities:		
Share capital	3,00,000	3,50,000
Share premium	—	30,000
General reserve	45,000	65,000
Profit and loss account	30,000	80,800
6% Debentures	—	70,000
Sundry creditors	85,000	90,700
Provision for taxation	22,500	40,500
Proposed dividend	30,000	35,000
	5,12,500	7,62,000

Particulars	2000	2001
Assets:		
Land and Building	2,30,000	3,90,000
Machinery	85,400	1,40,000
Furniture	5,500	6,500
Stock	82,400	95,700
Sundry debtors	75,000	85,500
Bank	34,200	44,300
	5,12,500	7,62,000

Additional information:

Depreciation written off during the year:

Land and Building	60,000
Plant and Machinery	50,000
Furniture	1,200

You are required to prepare a Cash Flow Statement.

QUESTION NO 3

From the following balances you are required to calculate cash from operation:

	31.12.2003	31.12.2004
Debtors	50,000	47,000
Bills receivable	10,000	12,500
Creditors	20,000	25,000
Bills payable	800	6,000
Outstanding expenses	1,000	1,200
Prepaid expenses	800	700
Accrued income	600	750
Income received in advance	300	250
Profit made during the year		1,30,000

QUESTION NO 4 (C.S.FINAL JUNE 1999)

The summarized Balance Sheet of XYZ Limited as at 31st December 2000 and 2001 are given below:

Particulars	2000	2001
Assets:		
Fixed Assets	4,00,000	3,20,000
Investments	50,000	60,000
Stock	2,40,000	2,10,000
Sundry debtors	2,10,000	4,55,000
Bank	1,49,000	1,97,000
	10,49,000	12,42,000
Liabilities:		
Share capital	4,50,000	4,50,000
General reserve	3,00,000	3,10,000
Profit and loss account	56,000	68,000
Creditors	1,68,000	1,34,000
Provision for taxation	75,000	10,000
Bank loan (long term)	—	2,70,000
	10,49,000	12,42,000

Additional information:

(i) Investment costing ₹ 8000 were sold during the year 2001 for ₹ 8500.

(ii) Provision for tax made during the year was ₹ 9000.

(iii) During the year, part of the fixed assets costing ₹ 10,000 was sold for ₹ 12,000 and the profit was included in Profit and Loss account.

(iv) Dividend paid during the year amounted to ₹ 40,000.

You are required to prepare a statement of cash flow.

ANSWER:

CASH FLOW STATEMENT Of XYZ Ltd. FOR THE YEAR ENDING 31.12.2001

Particulars	Amounts	Amounts
Cash from Operating Activities:		
Net profit	12,000	
Proposed dividend	40,000	
Transfer to general reserve	10,000	
Depreciation	70,000	
Provision for tax	9,000	
Profit on sale of investments	(500)	
Profit on sale of fixed assets	(2,000)	
Working capital adjustments:		
Decrease in stocks	30,000	
Increase in Debtors	(2,45,000)	
Decrease in creditors	(34,000)	
Income tax paid	(74,000)	(1,84,500)
Cash from investing Activities:		
Sale of investments	8,500	
Sale of fixed assets	12,000	
Purchase of investments	(18,000)	2,500
Cash from financing Activities:		
Mortgage loan raised	2,70,000	
Dividend paid	(40,000)	2,30,000
Total of all activities (O+I+F)		48,000
Add: opening balance of cash and bank		1,49,000
Closing balance of cash and bank		1,97,000

QUESTION NO 5 (I.C.W.A. FINAL JUNE 1998)

From the following prepare a cash flow statement for XYZ Limited for the year 2001:

XYZ Limited

Balance Sheet as at March 31, 2000

Liabilities	Amount ('000)	Assets	Amount ('000)
Paid up capital	50	Gross fixed assets	1,000
Retained earnings	350	Less: Depreciation	100
Long term debt	500		900
Notes payable	80	Inventory	100
Accounts payable	80	Accounts Receivable	50
		Cash	10
	1,060		1,060

Balance Sheet as at March 31, 2001

Liabilities	Amount ('000)	Assets	Amount ('000)
Paid up capital	50	Gross fixed assets	1,125
Retained earnings	415	Less: Depreciation	175
Long term debt	550		950
Notes payable	100	Inventory	110
Accounts payable	90	Accounts Receivable	60
		Cash	85
	1,205		1,205

Income statement of March 31, 2001

Sales	1,200
(-) Cost of goods sold	800
Gross profit	400
(-) Selling, general, administration expenses	150
EBIT	250
(-) Interest	50

EBT	200
(-) Taxes (50%)	100
Net Income	100

Additional information:

(i) Dividend paid ₹ 35,000

(ii) Depreciation ₹ 75,000.

QUESTION NO 6 (MAY 2002)

From the following details relating to the accounts of Grow More Limited. Prepare the cash flow statement.

	31.3.2002	31.3.2001
Liabilities:		
Share capital	10,00,000	8,00,000
Reserves	2,00,000	1,50,000
Profit and loss account	1,00,000	60,000
Debentures	2,00,000	—
Provisions for taxation	1,00,000	70,000
Proposed dividend	2,00,000	1,00,000
Sundry creditors	7,00,000	8,20,000
	25,00,000	25,00,000
Assets:		
Plant and machinery	7,00,000	5,00,000
Land and building	6,00,000	4,00,000
Investments	1,00,000	—
Sundry debtors	5,00,000	7,00,000
Stock	4,00,000	2,00,000
Cash on hand/ bank	2,00,000	2,00,000
	20,00,000	20,00,000

Other information:

1. Depreciation @ 25% was charged on the opening value of plant and machinery.
2. During the year one old machine costing 50,000 (WDV 20,000) was sold for ₹ 35,000.
3. ₹ 50,000 was paid towards income tax during the year.
4. Building under construction was not subject to any depreciation.

QUESTION NO 7

The following summary of cash account has been extracted from the company's accounting records:-

Summary of cash account

		(₹ '000)
Balance at 1.1.98		35
Receipts from customers		2,783
Issue of shares		300
Sale of fixed assets		128
		3,246
Payments to suppliers	2,047	
Payments for fixed assets	230	
Payments for overheads	115	
Wages and salaries	69	
Taxation	243	
Dividends	80	
Repayments of bank loan	250	(3,034)
Balance at 31.12.98		212

Prepare the cash flow statement of this company Hills Limited for the year ended 31st December 1998 in accordance with AS-3 (revised).

ANSWER:

CASH FLOW STATEMENT FOR THE YEAR ENDING 31.03.2006

Particulars	Amounts	Amounts
Cash from Operating Activities:		
Receipts from customers	2,783	
Payment to suppliers	(2,047)	
Payments for overheads	(115)	
Wages and salaries	(69)	
taxation	(243)	309
Cash from investing Activities:		
Sale of fixed assets	128	
Payments for fixed assets	(230)	(102)
Cash from financing Activities:		
Issue of shares	300	
Dividends	(80)	
Repayment of bank loan	(250)	(30)
Total of all activities (O+I+F)		177
Add: opening balance of cash and bank		35
Closing balance of cash and bank		212

QUESTION NO 8 (CA FINAL NOV 2001)

From the following summary Cash account of X Limited prepare cash flow statement for the year ended 31st March 2001, in accordance with AS-3 (revised) using the direct method. The company does not have any cash equivalents:-

Summary cash account for the year ended 31.3.2001

Particulars	Amount	Particulars	Amount
Balance on 1.4.2000	50	Payment to suppliers	2,000
Issue of equity shares	300	Purchase of fixed assets	200
Receipts from customers	2800	Overhead expense	200
Sale of fixed assets	100	Wages and salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank loan	300
		Balance of 31.3.2001	150
	3250		3250

QUESTION NO 9 (CA FINAL MAY 2001)

Ms Jyothi of star oils Limited has collected the following information for the preparation of cash flow statement for the year 2000:

Particulars	₹ in Lakhs
Net profits	25000
Dividend paid	8535
Provision for income tax	5000
Income tax paid during the year	4248
Loss on sale of asset	40
Book value of sold asset	185
Depreciation charged to Profit and Loss account	20000
Profit on sale of investment	100
Carrying amount of investment sold	27765
Interest income on investment	2506
Interest expenses	10000
Interest paid during the year	10520
Increase in working capital (excluding cash and bank bal)	56075
Purchase of fixed asset	14560

Investment in joint venture	3850
Expenditure in construction work in progress	34740
Proceeds from call in arrear	2
Proceeds from long term borrowings	25980
Proceeds from short term borrowings	20575
Opening cash and bank balances	5003
Closing cash and bank balances	6982

Prepare the cash flow statement for the year 2000 in accordance with AS-3, cash Flow statements issued by the institute of chartered accountants of India.

QUESTION NO 10

The following date were provided by the accounting records of Ryan Limited at year end March 31,1997:

Income statement

		(₹)
Sales		6,98,000
Cost of goods sold		(5,20,000)
Gross margin		1,78,000
Opening expenses (including depreciation expenses of ₹ 37,000)		(1,47,000)
		31,000
Other income (expenses)		
Interest expenses paid	(23,000)	
Interest income received	6,000	
Gain on sale of investment	12,000	
Loss on sale of plant	(3,000)	(8,000)
		23,000
		7,000
Income tax		16,000

Comparative Balance Sheet

	31.3.97	31.3.96
Assets:	7,15,000	5,05,000
Plant assets	(1,03,000)	(68,000)
Less: accumulated depreciation	6,12,000	4,37,000
Investments (long term)	1,15,000	1,27,000
Inventory	1,44,000	1,10,000
Accounts receivable	47,000	55,000
Cash	46,000	15,000
Prepaid expenses	1,000	5,000
	9,65,000	7,49,000
Liabilities:		
Share capital	4,65,000	3,15,000
Reserve and surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Accounts payable	50,000	43,000
Accrued liabilities	12,000	9,000
Income taxes payable	3,000	5,000
	9,65,000	7,49,000

Analysis of selected accounts and transactions during 1996-97:

1. Purchased investments for ₹ 78,000
2. Sold investments for ₹ 1,02,000, these investments cost ₹ 90,000.
3. Purchased plant assets for ₹ 1,20,000
4. Sold plant assets that cost ₹ 10,000 with as simulated depreciation of ₹ 2,000 for ₹ 5,000.
5. Issued ₹ 1,00,000 of bonds at face value in an exchange for plant assets on 31st March 1997.
6. Repaid ₹ 50,000 of bonds at face value at maturity.
7. Issued 15,000 shares of ₹ 10 each.
8. Paid cash dividends of ₹ 8000.

Prepare Cash flow statement as per AS-3 using the indirect method.

QUESTION NO 11

The Balance Sheet of Sun Limited for the years ended 31st March 1996 and 1997 were summarized thus:

	1997 (₹)	1996 (₹)
Equity share capital	60,000	50,000
Reserves:		
Profit and Loss account	5,000	4,000
Current liabilities:		
Creditors	4,000	2,500
Taxation	1,500	1,000
Proposed dividend	2,000	1,000
	72,500	58,500
Fixed assets (at w.d.v.)		
Premises	10,000	10,000
Fixtures	17,000	11,000
Vehicles	12,500	8,000
Short-term investments	2,000	1,000
Current assets:		
Stock	17,000	14,000
Debtors	8,000	6,000
Bank and cash	60,000	8,500
	72,500	58,500

And the Profit and Loss account for the year ended 31st March 1997 disclosed

Profit before tax	4,500
Taxation	(1,500)
Profit after tax	3,000
Proposed dividend	(2,000)
Retained profit	1,000

Further information is available:

	Vehicles (₹)	Fixtures (₹)
Depreciation for year	1,000	2,500
Disposals:		
Proceeds on disposal		1,700
Written down value		(1,000)
Profit on disposal		700

Prepare a Cash Flow Statement for the year ended 31st March 1997.

QUESTION NO 12

Given below are Profit and Loss account of ABC Limited and relevant Balance Sheet information. Prepare cash flow from operating activities:-

Profit and Loss Account for the year ended 31.12.2000 of ABC Limited	₹ in lacs.
Revenues:	
Sales	4150
Interest and dividends	100
Stock adjustment	20
Total	**4270**
Expenditure:	
Purchases	2400
Wages and salaries	800
Other expenses	200
Interest	60
Depreciation	100
Total	**3560**
Profit before tax	710
Tax provision	200
Profit after tax	**510**
Balance of Profit and Loss Account	50
Profit available for distribution	560

Appropriation	
Transfer to general reserve	200
Proposed dividend	300
Distribution tax	30
Total	**530**
Balance	30

Relevant information of Balance Sheet	31.12.2000	31.12.1999
Debtors	400	250
Inventories	200	180
Creditors	250	230
Outstanding wages	50	40
Outstanding expenses	20	10
Advance tax	195	180
Tax provision	200	180

QUESTION NO 13

The Balance Sheets of Western Manufacturers Limited as on 1st January 2002 and 31st December,2002 are as follows:

Liabilities	1.1.2002	31.12.2002	Assets	1.1.2002	31.12.2002
Share capital	2,50,000	2,50,000	Land and building	1,50,000	1,50,000
5% debentures	1,00,000	80,000			
Sundry creditors	1,15,000	1,08,000	Machinery	82,000	90,000
Profit and Loss account	20,000	27,000	Stock	1,00,000	1,14,000
			Debtors	85,000	81,000
Depreciation fund	40,000	44,000	Cash and bank	60,000	55,000
Reserve for contingencies	70,000	55,000	Temporary investments	1,31,000	95,000
Outstanding expenses	15,000	24,000	Prepaid expenses	2,000	3,000
	6,10,000	5,88,000		6,10,000	5,88,000

The following additional information is also available:

1. New machinery was purchased for ₹ 30,000 but old machinery costing ₹ 15,000 was sold for ₹ 5,000 accumulated depreciation was ₹ 8,000.
2. ₹ 20,000, 5% debentures were redeemed by purchase from open market @ ₹ 96.
3. ₹ 36,000 investment were sold at book value.
4. 12% dividend was paid in cash.
5. ₹ 15,000 was debited to contingency reserve for settlement of previous tax liability.

You are required to prepare the cash flow statement by indirect method.

NOTE:

QUESTION NO 14 (MAY 2003)

From the following Balance Sheet and information, prepare Cash Flow statement of Ryan Limited for the year ended 31.3.2003:-

Balance Sheet

	31.03.2003	31.03.2002
Liabilities:		
Equity Share Capital	6,00,000	5,00,000
10% Redeemable Preference Capital	—	2,00,000
Capital Redemption Reserve	1,00,000	—
Capital Reserve	1,00,000	—

General Reserve	1,00,000	2,50,000
Profit and Loss account	70,000	50,000
9% Debentures	2,00,000	—
Sundry Creditors	95,000	80,000
Bills Payable	20,000	30,000
Liabilities for expenses	30,000	20,000
Provision for Taxation	95,000	60,000
Proposed Dividend	90,000	60,000
	15,00,000	12,50,000
Assets:		
Land and building	1,50,000	2,00,000
Plant and machinery	7,65,000	5,00,000
Investment	50,000	80,000
Inventory	95,000	90,000
Bills receivable	65,000	70,000
Sundry debtors	1,75,000	1,30,000
Cash and bank	65,000	90,000
Preliminary Expenses	10,000	25,000
Voluntary separation payments	1,25,000	65,000
	15,00,000	12,50,000

Additional information:

(i) A piece of land has been sold out for ₹ 1,50,000 (cost- ₹ 1,20,000) and the balance land was revalued. Capital reserve consisted of profit on sale and profit on revaluation.

(ii) On 1st April, 2002 a plant was sold for ₹ 90,000 (original cost – ₹ 70,000 and W.D.V – ₹ 50,000) and debentures worth ₹ 1 lakh was issued at par as part consideration for plant of ₹ 4.50 lakhs acquired.

(iii) Part of the investments (cost –₹ 50,000) was sold for ₹ 70,000.

(iv) Pre-acquisition dividend received ₹ 5,000 was adjusted against cost of investment.

(v) Directors have proposed 15% dividend for the current year.

(vi) Voluntary separation cost of ₹ 50,000 was adjusted against General Reserve.

(vii) Income tax liability for the current year was estimated at ₹ 1,35,000.

(viii) Depreciation @ 15% has been written off from plant account but no depreciation has been charged on land and building.

NOTE:

QUESTION NO 15

From the following information prepare Cash flow statement by indirect method.

COMPARATIVE BALANCE SHEET

Excellent Limited.

Liabilities	31.3.2002	31.3.2001		31.3.2002	31.3.2001
Share capital	50,00,000	40,00,000	Fixed assets	31,00,000	30,00,000
Reserves and surplus	15,00,000	5,00,000	Investments	1,50,000	—
			Cash and bank	2,50,000	1,25,000
Secured loans	35,00,000	40,00,000	Stocks and stores, work in progress	75,00,000	78,75,000
Current liabilities	50,00,000	60,00,000	Sundry debtors	40,00,000	35,00,000
	1,50,00,000	1,45,00,000		1,50,00,000	1,45,00,000

(a) The net profit for the year after adjustment in respect of provisions for dividends and taxation was ₹ 10,00,000.

(b) There was addition to fixed assets during the year amounting to ₹ 4,00,000 and depreciation for the year was ₹ 3,00,000.

QUESTION NO 16

From the following Balance Sheets prepare a cash flow statement of AA Limited for the year-ended 31.3.1999:

Liabilities	97-98	98-99	Assets	97-99	98-99
Share capital:			Sundry fixed assets:		
Equity shares of ₹ 10 each	1000	1200	Gross block	1600	2000
General reserve	700	750	Less: depreciation	320	720
Profit and Loss a/c	200	220	Net block	1280	1280
Share premium	20	40			
14% debentures	400	450	Investment	600	700
Cash credits	90	120	Inventories	500	700
Sundry creditors	180	220	Sundry debtors	320	450
Provisions for taxation	10	20	Cash and bank	50	130
Proposed dividend	150	240			
	2750	3260		2750	3260

Other information:

1. It discarded fixed assets costing ₹ 2 lacs, accumulated depreciation ₹ 40,000 at ₹ 20,000 only.
2. It paid advance tax ₹ 70 lacs for 1998-99, apart from payment of balance tax liability of ₹ 8Lakhs for 1997-98.
3. It transferred excess tax provisions for 1997-98 to General reserve.

NOTE:

QUESTION NO 17 (MAY 2005)

THE following figures have been extracted from the books of X Ltd. for the year ended on 31.3.2004. You are required to prepare a cash flow statement:

(a) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 20 lakhs:

a. Depreciation on fixed assets ₹ 5lakhs

b. Discount on issue of Debentures written off ₹ 30,000.

c. Interest on debentures paid ₹ 3,50,000.

d. Books value of investments ₹ 3lakhs (sale of investment for ₹ 3,20,000)

e. Interest received on investments ₹ 60,000.

f. Compensation received ₹ 90,000 by the company in a suit filed.

(b) Income tax paid during the year ₹ 10,50,000

(c) 15,000, 10% Preference shares of ₹ 100 each were redeemed on 31.3.2004 at a premium of 5%. Further the company issued 50,000 equity shares of ₹ 10 each at a premium of 20% on 2.4.2003. dividend on Preference shares were paid at the time of redemption.

(d) Dividends paid for the year 2002-2003 ₹ 5lakhs and interim dividend paid ₹ 3 lakhs for the year 2003-04.

(e) Land was purchased on 2.4.2003 for ₹ 2,40,000 for which the company issued 20,000 equity shares of ₹ 10 each at a premium of 20% to the land owner as consideration.

(f) Current assets and current liabilities in the beginning and at the end of years were as detailed below:

	31.3.2003	31.3.2004
Stock	12,00,000	13,18,000
Debtors	2,08,000	2,13,100
Cash in hand	1,96,300	35,300
Bills receivable	50,000	40,000
Bills payable	45,000	40,000
Creditors	1,66,000	1,71,300
Outstanding expenses	75,000	81,800

NOTE:

QUESTION NO 18 (MAY 2004)

ABC Ltd. gives you the following information. You are required to prepare cash flow statement by using indirect method as per AS 3 for the year 31.03.2004:

BALANCE SHEETS

Liabilities	31.3.2003	31.3.2004	Assets	31.3.2003	31.3.2004
Capital	50,00,000	50,00,000	Plant and mach.	27,30,000	40,70,000
Retained earnings	26,50,000	36,90,000	Less: depreciation	6,10,000	7,90,000
9% Debentures	—	9,00,000		21,20,000	32,80,000
Creditors	8,80,000	8,20,000	Debtors	23,90,000	28,30,000
Bank loan	1,50,000	3,00,000	Less: Provisions	1,50,000	1,90,000
Liability for exp.	3,30,000	2,70,000		22,40,000	26,40,000
Dividend payable	1,50,000	3,00,000	Cash	15,20,000	18,20,000
			Marketable sec.	11,80,000	15,00,000
			Inventories	20,10,000	19,20,000
			prepaid expenses	90,000	1,20,000
	91,60,000	1,12,80,000		91,60,000	1,12,80,000

Additional information:

(a) Net profit for the year ended 31st March, 2004, after charging depreciation ₹ 1,80,000 is ₹ 22,40,000.

(b) Debtors of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

(c) ABC Ltd. declared dividend of ₹ 12,00,000 for the year 2003-2004.

NOTE:

QUESTION NO 19 (NOV 2003)

The Balance Sheet of New Light Ltd. for the years ended 31st March, 2001 and 2002 are as follows:

BALANCE SHEETS

Liabilities	31.3.2003	31.3.2004	Assets	31.3.2003	31.3.2004
Equity share capital	12,00,000	16,00,000	Fixed Assets	32,00,000	38,00,000
10% Preference share capital	4,00,000	2,80,000	Less: depreciation	9,20,000	11,60,000
				22,80,000	26,40,000
Capital Reserve	—	40,000			
General Reserve	6,80,000	8,00,000	Investment	4,00,000	3,20,000
Profit and loss account	2,40,000	3,00,000	Cash	10,000	10,000
9% Debentures	4,00,000	2,80,000	Other current assets	11,10,000	13,10,000
Current Liabilities	4,80,000	5,20,000	Preliminary expenses	80,000	40,000
Provision for tax	1,20,000	1,44,000			
Prop. Dividend	3,60,000	3,40,000			
Unpaid dividend	—	16,000			
	38,80,000	43,20,000		38,80,000	43,20,000

Additional information:

(a) The company sold one fixed asset for ₹ 1,00,000, the cost of which was ₹ 2,00,000 and the depreciation provided on it was ₹ 80,000.

(b) The company also decided to write off another fixed asset costing ₹ 56,000 on which depreciation amounting to ₹ 40,000 has been provided.

(c) Depreciation on fixed assets provided ₹ 3,60,000.

(d) Company sold some investment at a profit of ₹ 40,000 which was credited to capital reserve.

(e) Debentures and Preference share capital redeemed at 5% premium.

(f) Company decided to value stock at cost, whereas previously the practice was to value stock at cost less 10%. The stock according to books on 31.3.2003 was ₹ 2,16,000. The stock on 31.3.2004 was correctly valued at ₹ 3,00,000.

Prepare cash flow statement as per revised accounting standard 3 by indirect method.

NOTE:

QUESTION NO 20 (CA FINAL NOV 1998)

The following are the changes in the account balances taken from the Balance Sheets of PQ Ltd. as at the beginning and end of the year:

	Changes in Rupees in debit or (credit)
Equity share capital 30,000 shares of ₹ 10 each issued and fully paid	0
Capital reserve	(49,200)
8% debentures	(50,000)
Debentures discount	1,000
Freehold property at cost/revaluation	43,000
Plant and machinery at cost	60,000
Depreciation on plant and machinery	(14,400)
Debtors	50,000
Stock and work in progress	38,500
Creditors	(11,800)
Net profit for the year	(76,500)
Dividend paid in respect of earlier year	30,000
Provision for doubtful debts	(3,300)
Trade investments at cost	47,000
Bank	(64,300)
	0

You are informed that:

(a) Capital reserve as at the end of the year represented realized profits on sale of one freehold property together with surplus arising on the revaluation of balance of freehold properties.

(b) During the year plant costing ₹ 18,000 against which depreciation provision of ₹ 13,500 was lying, was sold for ₹ 7,000.

(c) During the middle of the year ₹ 50,000 debentures were issued for cash at a discount of ₹ 1,000.

(d) The net profit for the year was after crediting the profit on sale of plant and charging debentures interest.

You are required to prepare a statement which will explain, why bank borrowing has increased by Rs64,300 during the year end. Ignore taxation.

QUESTION NO 21 (MAY 2006)

Raj Ltd. gives you the following information for the year ended 31.3.2006:

(i) Sales for the year ₹ 48,00,000. The company sold goods for cash only.

(ii) Cost of goods sold was 75% of sales.

(iii) Closing inventory was higher than opening inventory by ₹ 50,000.

(iv) Trade creditors on 31.3.2006 exceed the outstanding on 31.03.2005 by 1,00,000.

(v) Tax paid during the year amounts to ₹ 1,50,000.

(vi) Amounts paid to trade creditors during the year ₹ 35,50,000.

(vii) Administrative and selling expenses paid ₹ 3,60,000.

(viii) One new machinery was acquired in December 2005, for ₹ 6,00,000.

(ix) Dividend paid during the year ₹ 1,20,000.

(x) Cash in hand and at bank on 31.3.2006 ₹ 70,000

(xi) Cash in hand and bank on 31.3.2005 ₹ 50,000

Prepare cash flow statement for the year ended 31.3.2006 as per the prescribed accounting standard.

QUESTION NO 22 (MAY 2006)

What all are the differences between cash flow statement and fund flow statement?

ANSWER:

Fund Flow Statements	Cash flow statement
It ascertains the changes in the financial position between two accounting periods.	It ascertains the changes in balance of cash in hand and cash at bank between two dates.
It analyses the reasons for changes in financial position between two Balance Sheets.	It analyses the reasons for changes in cash and bank balances on a particular date.
It reveals the sources and application of funds.	It shows the Inflows and Outflows of cash.
It helps to test whether working capital has been effectively used or not.	It is an important tool for short term analysis. The two significant areas of analysis are cash generating efficiency and free cash flow.

QUESTION NO 23

Following are the summarized balance sheets of Growell Limited as on 31st March 2000 and 2001.

Particulars	2000	2001
Liabilities:		
Share capital	2,00,000	2,50,000
General reserve	50,000	60,000
Profit and loss account	30,500	30,600
Bank loan (Long term)	70,000	-
Sundry creditors	1,50,000	1,35,200
Provision for taxation	30,000	35,000
	5,30,500	5,10,800
Particulars	**2000**	**2001**
Assets:		
Land and Building	2,00,000	1,90,000
Machinery	1,50,000	1,69,000
Stock	1,00,000	74,000
Sundry debtors	80,000	64,200

Cash	500	800
Bank	—	7,800
Goodwill	—	5000
	5,30,500	5,10,800

Additional information:

(i) Dividend of ₹ 23,000 was paid.

(ii) Assets of another company were purchased for a consideration of ₹ 50,000 payable in shares. The following assets were purchased:

(a) Stock ₹ 20,000

(b) Machinery ₹ 25,000

(iii) Machinery was further purchased for ₹ 8,000.

(iv) Depreciation written off on machinery ₹ 12,000 and

(v) Income tax provided during the year ₹ 33,000; Loss on sale of machinery ₹ 200 was written off to general reserve .

You are required to make the statement of cash flow.

QUESTION NO 24 (NOV 2006)

The following are the summarized Balance Sheets of 'X' Ltd. as on March 31,2005 and 2006.

Liabilities	As on 31.03.2005 (₹)	As on 31.03.2006 (₹)
Equity share capital	10,00,000	12,50,000
Capital Reserves	—	10,000
General Reserve	2,50,000	3,00,000
Profit and Loss A/c	1,50,000	1,80,000
Long-term loan	5,00,000	4,00,000
Sundry Creditors	5,00,000	4,00,000
Provision for Taxation	50,000	60,000
Proposed Dividends	1,00,000	1,25,000
	25,50,000	27,25,000

Assets	Year 2005 (₹)	Year 2006 (₹)
Land and Building	5,00,000	4,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry Debtors	4,00,000	4,20,000
Cash in Hand	2,00,000	1,65,000
Cash at Bank	3,00,000	4,10,000
	25,50,000	27,50,000

Additional Information:

- Dividend of ₹ 1,00,00 was paid during the year ended March 31,2006.
- Machinery during the year purchased for ₹ 1,25,000.
- Machinery of another company was purchased for a consideration of ₹ 1,00,00 payable in equity shares.
- Income-tax provided during the year ₹ 55,000.
- Company sold some investment at a profit of ₹ 10,000, which was credited to Capital reserve.
- There was no sale of machinery during the year.
- Depreciation written off on Land and Building ₹ 20,000.

From the above particulars, prepare a cash flow statement for the year ended March, 2006 as per AS-3 (Indirect method).

QUESTION NO 24 (B) (MAY 2007)

Answer the following :

Garden Ltd. acquired fixed assets viz. plant and machinery for ₹ 20 Lakhs. During the same year it sold its furniture and fixtures for ₹ 5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS_3?

QUESTION NO 25 (NOV 2007)

J Ltd. presents you the following information for the year ended 31st March, 2007:

		(₹ In Lacs)
(i)	Net Profit before tax provision	36,000
(ii)	Dividend paid	10,202
(iii)	Income Tax paid	5,100
(iv)	Book value of Assets sold	222
	Loss on sale of Asset	48
(v)	Depreciation debited in P&L Account	24,000
(vi)	Capital grant received –amortised in P&L A/c	10
(vii)	Book value of investment sold	33,318
	Profit on sale of Investment	120
(viii)	Interest income from investment credited in P&L A/c	3,000
(ix)	Interest expenditure debited in P&L A/c	12,000
(x)	Interest actually paid (Financing activity)	13,042
(xi)	Increase in working Capital Excluding cash and Bank Balance].	67,290
(xii)	Purchase of fixed assets	22,092
(xiii)	Expenditure on construction work	41,6881
(xiv)	Grant received for Capital projects	18
(xv)	Long-term borrowings from Banks	55,866
(xvi)	Provision for Income Tax debited in P&L A/c	6,000
	Cash and Bank Balance on 1.4.2006	6,000
	Cash and Bank Balance on 31.3.2007	8,000

You are required to prepared a Cash flow statement as per AS-3 (Revised).

QUESTION NO 26 (MAY 2009)

From the following summarized Cash account of S. Ltd. prepare cash flow statement for the year ended 31st March, 2009 in accordance with AS-3 (revised) using direct method. The company does not have any cash requirement.

Summarized Cash Account

			(₹ 000)
Opening Balance	50	Payment to suppliers	2,000
Issue of Share capital	300	Purchase of Fixed assets	200
Received from customers	2,800	Overhead expenses	200
Sale of Fixed asset.	100	Wages and salaries	100
		Tax paid	250
		Dividend paid	50
		Bank Loan	300
		Closing Balance	150
	3,250		3,250

QUESTION NO 27 (MAY 2010)

The following particulars relate to Bee Ltd. for the year ended 31 March, 2010. '.

(i) Furniture of book value of ₹ 15,500 was disposed off for ₹ 12,000.

(ii) Machinery costing ₹ 3,10,000 was purchased and ₹ 20,000 were spent on its erection.

(iii) Fully paid 8% preference shares of the face value of ₹ 10,00,000 were redeemed at a premium of 3%. In this connection 60,000 equity shares of ₹ 10 each were issued at a premium of ₹ 2 per share. The entire money being received with applications.

(iv) Dividend was paid as follows :

On 8% preference shares	₹ 40,000
On equity shares for the year 2009-10	₹ 1,10,000

(v) Total sales were ₹ 32,00,000 out of which cash sales were ₹ 11,50,000.

(vi) Total purchases were ₹ 8,00,000 including cash purchase of ₹ 60,000.

(vii) Total expenses were ₹ 12,40,000

(viii) Taxes paid including dividend tax of ₹ 22,500 were ₹ 3,30,000

(ix) Cash and cash equivalents as on 31st March, 2010 were ₹ 1,25,000.

You are requested to prepare Cash Flow Statement as per AS-3 for the year ended 31st March, 2010 after taking into consideration the following also:

	On 31st March, 2009 (₹)	On 31st March, 2010 (₹)
Sundry debtors	1,50,000	1,47,000
Sundry creditors	78,000	83,000
Unpaid expenses	63,000	55,000

NOTE:

QUESTION NO 28 (8 MARKS) (NOV. 2013)

Surya Ltd has provided you the following particulars. Prepare Cash Flow from Operating Activities by Indirect Method in accordance with AS 3:

Profit & Loss Account of Surya Ltd.

for the year ended 31st March, 2013

Particulars	Rs	Particulars	Rs
To Depreciation	86,700	By Operating profit before depreciation	11,01,600
To Patents written off	35,000	By profit on sale on Investments	10,000
To Provision for Tax	1,25,000	By Refund of Tax	3,000
To Proposed dividend	72,000	By Insurance Claim Major Fire Settlement	1,00,000
To Transfer to Reserve	87,000		
To Net Profit	8,08,900		
Total	12,14,600	Total	12,14,600

Additional information :

in Rs.

	31.3.2012	31.3.2013
Stock	1,20,000	1,60,000
Trade Debtors	7,500	75,000
Trade Creditors	23,735	87,525
Provision for tax	1,18,775	1,25,000
Prepaid Expenses	15,325	12,475
Marketable Securities	11,775	29,325
cash balance	25,325	35,340

ANSWER :

CASH FROM OPERATING ACTIVITIES

Particulars	**Amount**
Net profits	8,08,900
Transfer to Reserves	87,000
Proposed Dividends	72,000
Provision for Tax	1,25,000
Patents written off	35,000
Depreciation	86,700
Profit on sale on investment	(10,000)
Insurance claim major fire settlement	(1,00,000)
Tax paid for previous year	(1,18,775)
Working Capital Requirement:	
Increase in Stock	(40,000)
Increase in debtors	(67,500)
Decrease in prepaid expenses	2,850
Increase in creditors	63,790
Extra ordinary Activities:	
Insurance claim recovered for major fire settlement	1,00,000
CFOA	10,44,965

QUESTION NO 29 (8 MARKS) (MAY 2013)

On the basis of the following prepare a cash Flow Statement for the year ended 31th March, 2013:-

(i) Total sales for the year were ₹ 199 crore out of which cash sales amounted ₹ 131 crore.

(ii) Cash collection from credit customers during the year totaled ₹ 67 crore.

(iii) Cash paid to suppliers of goods and services and to the employees of the enterprises amounted to ₹ 159 crore.

(iv) Fully paid preference shares of the face value of ₹ 16 crore were redeemed and equity shares of the face value of ₹ 16 crore were allotted as fully paid up at a premium of 25%

(v) ₹ 13 crore were paid by way of income tax.

(vi) Machine of the book value of ₹ 21 crore was sold at a loss ₹ 30 lakhs and a new machine was installed was installed at a total cost of ₹ 40 crore.

(vii) Debenture interest amounting ₹ 1 crore was paid.

(viii) Dividends totaling ₹ 10 crore was paid on equity and preference shares. Corporate dividend tax @ 17% was also paid.

(ix) On 31st March, 2012 balance with bank and cash on cash hand totaled ₹ 9 Crore.

ANSWER

CASH FLOW STATEMENT

FOR THE YEAR ENDING 31.03.2013

(DIRECT METHOD)

Particulars	Amounts	Amounts
Cash from Operating Activities:		
Cash sales	131	
Collection from debtors	67	
Payment to suppliers	(159)	
Income tax paid	(13)	26

Cash from investing Activities:		
Sale of machinery (21-.30)	20.70	
Purchase of machinery	(40)	
		(19.3)
Cash from financing Activities:		
Redemption of Preference share capital	(16)	
Issue of equity share capital	16	
Premium on issue	4	
Dividend paid on capitals	(10)	
Dividend distribution tax	(1.7)	
Interest paid	(1)	(8.7)
Total of all activities (O+I+F)		(2)
Add: opening balance of cash and bank		9
Closing balance of cash and bank(bal.fig)		**7**

Note : In the given question, we can not apply indirect method because net profit is not given as well as balance sheets for two years are not given due to which changes can not be calculated.

QUESTION NO 30 (10 MARKS) (NOV. 2011)

The following are the summarized Balance Sheets of Hero Ltd. As on 31st March, 2010 and 2011:

Liabilities	31-03-2010 (₹)	31-03-2011(₹)
Equity share capital (` 10 each)	10,00,000	11,50,000
Capital Reserve	-	10,000
Profit and Loss A/c	1,50,000	1,80,000
General reserve	2,50,000	3,00,000
Long term loan from the Bank	5,00,000	4,00,000
Sundry creditors	5,00,000	4,00,000
Provision for taxation	50,000	60,000
Proposed dividend	1,00,000	1,25,000
	25,50,000	26,25,000

Assets	31-03-2010 (₹)	31-03-2011(₹)
Land and building	5,00,000	4,80,000
Machinery	7,50,000	8,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry Debtors	4,00,000	4,20,000
Cash in hand	2,00,000	1,65,000
Cash at Bank	3,00,000	4,10,000
	25,50,000	26,25,000

Additional information:

(i) Dividend of ₹1,00,000 was paid during the year ended 31st march 2011

(ii) Depreciation written off on land and building ₹ 20,000.

(iii) The company sold some investment at a profit of ₹ 10,000 which was credited to Capital Reserve.

(iv) Income Tax provided during the year ₹ 55,000.

(v) During the year, the company purchased a machinery for ₹ 1,25,000.

You are required to prepare a cash flow statement for the year ended 31st March, 2011 as per AS-3, by using indirect method.

ANSWER:

CASH FLOW STATEMENT

Of Hero Ltd.

FOR THE YEAR ENDING 31.12.2011

Particulars	Amounts	Amounts
Cash from Operating Activities:		
Closing balance in profit and loss a/c	1,80,000	
Transfer to Reserves	50,000	
Proposed/interim dividends	1,25,000	
Opening balance in profit and loss a/c	(1,50,000)	
Net profit for the year	2,05,000	
Depreciation on land & buildings	20,000	
Provision for tax	55,000	

Tax paid **(W.N#1)**	(45,000)	
Depreciation on machinery**(W.N#2)**	55,000	
Working capital adjustments:		
Decrease in stock	20,000	
Increase in debtors	(20,000)	
Decrease in creditors	(1,00,000)	1,90,000
Cash from investing Activities:		
Purchase of machinery (**(W.N#2)**	(1,25,000)	
Sale of investment (50,000+10,000)	60,000	(65,000)
Cash from financing Activities:		
Issue of shares	1,50,000	
Repayment of Bank loan	(1,00,000)	
Dividend paid	(1,00,000)	(50,000)
Total of all activities (O+I+F)		75,000
Add: opening balance of cash and bank		5,00,000
Closing balance of cash and bank		5,75,000

(W.N#1)

Provision for Tax Account

Particulars	Amount	Particulars	Amount
To bank **(bal. fig)**	**45,000**	By balance b/d	50,000
		By PL account **(given)**	55,000
To balance c/d	60,000		
	1,05,000		1,05,000

(W.N#2)

Machinery Account

Particulars	Amount	Particulars	Amount
To balance b/d	7,50,000	By Depreciation	55,000
To Cash	1,25,000	**(bal.fig)**	
		By Balance c/d	8,20,000
	8,75,000		8,75,000

₹ 3,000 only)

QUESTION NO 31 (16 MARKS) (MAY 2011)

The following are the summarized Balance Sheets of Lotus Ltd. As on 31st March, 2010 and 2011:

Liabilities	31-03-2010 (₹)	31-03-2011(₹)
Equity share capital (₹ 10 each)	10,00,000	12,50,000
Capital Reserve	—	10,000
Profit and Loss A/c	4,00,000	4,80,000
Long term loan from the Bank	5,00,000	4,00,000
Sundry creditors	5,00,000	4,00,000
Provision for taxation	50,000	60,000
	24,50,000	26,00,000
Assets	**31-03-2010 (₹)**	**31-03-2011(₹)**
Land and building	4,00,000	3,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry Debtors	4,00,000	4,20,000
Cash in hand	2,00,000	1,40,000
Cash at Bank	3,00,000	4,10,000
	24,50,000	26,00,000

Additional information:

(1) Depreciation written off on land and building ₹ 20,000.

(2) The company sold some investment at a profit of ₹ 10,000 which was credited to Capital Reserve.

(3) Income Tax provided during the year ₹ 55,000.

(4) During the year, the company purchased a machinery for ₹ 2,25,000. They paid ₹ 1,25,000 in cash and issue 10,000 equity shares of ₹ 10 each at par.

You are required to prepare a cash flow statement for the year ended 31st March, 2011 as per AS-3, by using indirect method.

ANSWER:

CASH FLOW STATEMENT

Of LOTUS Ltd.

FOR THE YEAR ENDING 31.12.2011

Particulars	Amounts	Amounts
Cash from Operating Activities:		
Closing balance in profit and loss a/c	4,80,000	
Transfer to Reserves	Nil	
Proposed/interim dividends	Nil	
Opening balance in profit and loss a/c	(4,00,000)	
Net profit for the year	80,000	
Depreciation on land & buildings	20,000	
Provision for tax	55,000	
Tax paid **(W.N#1)**	(45,000)	
Depreciation on machinery**(W.N#2)**	55,000	
Working capital adjustments:		
Decrease in stock	20,000	
Increase in debtors	(20,000)	
Decrease in creditors	(1,00,000)	

Cash from investing Activities:		
Purchase of machinery (**(W.N#2)**	(1,25,000)	
Sale of investment (50,000+10,000)	60,000	65,000
Cash from financing Activities:		(65,000)
Issue of shares (other than for machinery)	1,50,000	
Repayment of Bank loan	(1,00,000)	50,000
Total of all activities (O+I+F)		50,000
Add: opening balance of cash and bank		5,00,000
Closing balance of cash and bank		5,50,000

(W.N#1)

Provision for Tax Account

Particulars	Amount	Particulars	Amount
To bank	**45,000**	By balance b/d	50,000
(bal. fig)		By PL account	55,000
To balance c/d	60,000	**(given)**	
	1,05,000		1,05,000

(W.N#2)

Machinery Account

Particulars	Amount	Particulars	Amount
To balance b/d	7,50,000	By Depreciation	**55,000**
To Cash	1,25,000	**(bal.fig)**	
To ESC	1,00,000	By Balance c/d	9,20,000
	9,75,000		9,75,000

QUESTION NO 32

From the following Balance Sheet of Avinash Ltd., you are required to prepare Cash flow statement.

Balance Sheet

	1-1-01	31-12-01		1-1-01	31-12-01
Equity Share Capital	3,00,000	4,00,000	Fixed Assets: Less: Accumulated	4,00,000	5,50,000
General Reserve	85,000	1,10,000	Deprecation	80,000	1,35,00
Bank Loan	1,00,000	75,000		3,20,000	4,15,000
Creditors	3,10,000	2,90,000	Investments	80,000	1,10,000
Bank overdraft	—	5,000	Stock	2,00,000	2,25,000
Proposed Dividend	45,000	60,000	Debtors	2,10,000	1,80,000
			Cash	30,000	10,000
	8,40,000	9,40,000		8,40,000	9,40,000

A piece of machinery costing ₹ 50,000 was sold for ₹ 30,000, accumulated deprecation thereon beings ₹ 10, 000.

SOLUTION:

Cash Flow Statement	
Cash from Operating Activities	1,50,000
Cash from Investing activities	(2,00,000)
Cash from Financing Activities	30,000
Total	(20,000)
(+) Opening cash and cash Equivalents	30,000
Closing cash and Cash Equivalents	10,000
Operating Activities	
Increase in General Reserve	25,000
+ Change in Debtors	30,000
+ Deprecation	65,000
+ Loss on Sale of Machinery	10,000
- Change in stock	(25,000)
- Change in Creditors	(20,000)
+ Proposed Dividend	**1,45,000**

Cash from Investing Activities	
Purchase of Fixed Assets	(2,00,000)
Sale of Machinery	30,000
Purchase of Investment	(30,000)
	(2,00,000)
Cash from Financing Activities	
Issue of Equity Share Capital	1,00,000
+ Bank Loan	5,000
- Payment of Bank Loan	(25,000)
- Dividend Paid	(45,000)
	35,000

QUESTION NO 33

From the following information prepare Cash flow statement:

Balance Sheet

	31-3-00	31-3-01		31-3-00	31-3-01
Share Capital	10,00,000	11,00,000	Goodwill	50,000	40,000
Debentures	5,00,000	3,00,000	Land	4,20,000	6,60,000
General Reserve	2,00,000	2,00,000	Machinery	6,00,000	8,00,000
Profit and Loss A/c	1,10,000	1,90,000	Stock	2,50,000	2,10,000
Provision for			Debtors (Good)	3,00,000	2,40,000
Income tax	40,000	1,00,000	Preliminary Exp.	30,000	20,000
Creditors	50,000	40,000	Cash	3,00,000	24,000
Bills payable	20,000	30,000			
Provision for					
Doubtful debts	30,000	24,000			
	19,50,000	19,94,000		19,50,000	19,94,000

Additional Information :

During the year, a part of machine costing ₹ 7,500 (accumulated deprecation thereon being ₹ 2,500) was sold for ₹ 3,000.

Income –tax of 1999-2000 paid in 2000-2001 was ₹ 40,000.

Depreciation on machinery provided for 2000-2001 was ₹ 50,000.

SOLUTION:

Cash Flow Statement	
Cash from operating Activities	3,16,000
Cash from Investing Activities	(1,00,000)
Cash from Financing Activities	(4,92,000)
Total	(2,76,000)
(+) Opening cash and Cash Equivalents	3,00,000
Closing Cash and Cash Equivalents	24,000
Operating Activities	
Change in Profit and Loss Account	80,000
+ Provision for tax	1,10,000
- Tax paid	(40,000)
- Change in Creditors	(10,000)
+ Change in Bills Payable	10,000
+ Goodwill Written off	10,000
+ Loss on Sales on Machine	2,000
+ Deprecation	50,000
+ Change in Stock	40,000
+ Change in Debtors	60,000
+ Preliminarily Expenses Written off	10,000
-Change in Provisions for Doubtful Debts	(6,000)
	3,16,000
Cash from Investing Activities	
Purchase of Land	(2,40,000)
Purchase of Machinery	(2,55,000)
Sale of Machinery	3,000
	4,92,000
Cash from Financing Activities	
Issue of Share Capital	1,00,000
Payment to Debenture holders	(2,00,000)
	1,00,000

QUESTION NO 34

From the following summarized Balance Sheet of a Company, as at 31st March, 2000 and 31st March, 2001 respectively, you are required to prepare cash flow statement All working should from part of your answer.

Balance Sheet

	31-3-00	31-3-01		31-3-00	31-3-01
Equity share capital	75,000	1,20,000	Fixed Assets at	2,40,070	2,53,730
10% redeemable			cost		
Preference Shares			Less: Deprecation	90,020	98,480
Capital	1,00,000	80,000		1,50,050	1,55,250
Reserve for			Investments	61,000	76,000
Replacement of			Stocks	98,000	1,04,000
Machinery	15,000	10,000	Trade Debtors	88,000	85,000
Long term loans	—	40,000	Bank	11,750	32,000
Bank Overdraft	22,000	—			
Trade Creditors	84,450	75,550			
Proposed dividends					
On equity shares	12,000	24,000			
Profit & Loss A/c	1,00,350	1,02,700			
	4,08,800	4,52,250		4,08,800	4,52,250

Additional Information :

1. During the year, additional equity capital was issued to the extent of ₹ 25,000 by way of bonus shares fully paid up.
2. Final dividend on preference shares and an interim dividend of ₹ 4,000 on equity shares were paid on 31st March, 2001.
3. Proposed dividends for the year ended 31st March, 2000 were paid in October, 2000.
4. Movement in Reserve for replacement of machinery account represents transfer to Profit and Loss Account.
5. During the year, one item plant was up valued by ₹ 3,000 and credit for this was taken in then Profit and Loss Account.
6. ₹ 1,700 being capital expenditure on fixed assets for the year ended 31st March, 2000 wrongly debited to Sundry Debtors then, was corrected in the next year.

7. Fixed assets costing ₹ 6,000 (accumulated depreciation ₹ 4,800) were sold for ₹ 250. Loss arising there from was written off.
8. Preference share redeemed in the year were out of a fresh issue of equity shares. Premium paid on redemption was 10%.

SOLUTION:

Cash Flow Statement	
CF OA (S-1)	57,960
CFIA (S-2)	(29,710)
CFFA (S-3)	(8,000)
Total	20,250
(+) Opening Cash & Cash Equivalent	11,750
Closing Cash Equivalent	32,000

CFOA (S-1)	
Change in P/L A/c	2,350
(-) Revaluation of Profits	3,000
(+) Deprecation charged	13,260
(+) Loss on sale	950
(-) Change in stock	6,000
(+) Change in debtors (86,300-85, 000) 1,300	
(+) Bonus out of Profits	25,000
(+) premium on red. Written off	2,000
(-) Movement in reserve in replacement	5,000
(-) change in creditors	8,900
(+) Dividend Proposed/ Pref. interest	36,000
	57,960

CFOA (S-2)	
Asset purchased	(14,960)
Sale of asset	250
	(15,000)
Purchased of Investment	**(29,710)**

CFOA (S-3)	
Issue of share capital	20,000
Redemption of Pref. Cap.	(22,000)
Loan raised	40,000
Bank O/D repaid	(22,000)
	(8,000)
	(8,000)

Working Notes:

Fixed assets Account

Particulars	₹	Particulars	₹
To Balance b/d	2,41,770	By Asset disposal	6,000
To P&L A/c	3,000	By Balance c/d	2,53,730
To bank (Purchase)	14,960		
	2,59,730		2,59,730

Accumulated Depreciation Account

Particulars	₹	Particulars	₹
To Assets deposal Account	4,800	By Balance b/d	90,020
To Balance c/d	98,480	By P & L A/c	13,260
	1,03,280		1,03,280

Asset Disposal A/c

Particulars	₹	Particulars	₹
To Fix Asset	6,000	By A Dep.	4,800
		By bank	250
		By P/L A/c	950
	6,000		6,000
	ESC	A/c	6,000
To Bal. c/d	1,20,000	By bal. b/d	75,000
		By P/L A/c	25,000
		By bank	20,000
	1,20,000	PSC A/c	1,20,000

To cash	22,000	By bal. b/d	1,00,000
To c/d	80,000	By P/L A/c	2,000
	1,02,000		1,02,000

Reserve for Replacement of Machinery A/c

Particulars	₹	Particulars	₹
To P/L A/c	5,000	By bal. b/d	15,000
To bal. c/d	10,000		
	15,000		15,000

Proposed Dividend A/c

Particulars	₹	Particulars	₹
To cash	8,000	By bal. b/d	12,000
To cash	4,000	By P/L A/c	36,000
To cash	12,000		
To bal. c/d	24,000		
	48,000		48,000

QUESTION NO 35

From the following information, prepare cash flow statement:

Balance Sheet

	1-1-01	31-12-01		1-1-01	31-12-01
Share Capital	2,00,000	2,00,000	Cash	8,000	10,000
Profit and Loss A/c	50,000	90,000	Bank	22,000	20,000
Bank Loan	10,000	—	Debtors	10,000	20,000
Creditors	15,000	20,000	Stock	25,000	15,000
Outstanding Exp.	5,000	1,000	Non-current Assets	2,35,000	2,75,000
Provision for Taxation	20,000	25,000			
Unclaimed Dividend		4,000			
	3,00,000	3,40,000		3,00,000	3,40,000

Net profit for the year 2001 after providing ₹ 20,000 depreciation was ₹ 60,000. During the 2001, Company declared equity dividend @ 10%, and paid ₹ 15,000 as income tax.

SOLUTION:

Cash Flow Statement	
Cash from operating Activities	86,000
Cash from Investing Activities	(60,000)
Cash from Financing Activities	(26,000)
Total	Nil
(+) Opening Cash and Cash Equivalents (8,000 + 22,000)	30,000
Closing cash and Equivalents (20,000 + 10, 000)	30,000
Operating Activities	
Increase in Profit and Loss Account	40,000
+ Depreciation	20,000
+ Proposed Dividend (2,00,000 x 10%)	20,000
- Income Tax paid	(15,000)
+ Provision for Tax	20,000
+ Change in Stock	10,000
- Change in Debtors	(10,000)
+ Change in Creditors	5,000
- Change in out Expenses	(4,000)
	86,000
Investing Activities	
Purchase of Assets	(60,000)
(2,78,000 +20,000-2,35,000)	
	60, 000
Financing Activities	
Bank Loan paid	(10,000)
Dividend Paid	(16,000)
	(26,000)

QUESTION NO 36

From the following comparative balance Sheet of M/s A Ltd. make out:

Cash flow statement

Liabilities	2001 ₹	2002 ₹	Assets	2001 ₹	2002 ₹
Equity share capital	3,00,000	4,00,000	Goodwill	1,15,000	90,000
Preference Share			Land & Building	2,00,000	1,70,000
Capital	1,50,000	1,00,000	Plant	80,000	2,00,000
General Reserve	40,000	70,000	Debtors	1,60,000	2,00,000
Profit and Loss A/c	30,000	48,000	Stock	77,000	1,09,000
Proposed Dividends	42,000	50,000	Bills Receivable	20,000	30,000
Creditors	55,000	83,000	Cash	15,000	10,000
Bills Payable	20,000	16,000	Bank	10,000	8,000
Provision for Taxation	40,000	50,000			
	6,77,000	8,17,000		6,77,000	8,17,000

Supplementary Data :

(1) Depreciation of ₹ 10,000 and ₹ 20,000 have been charged on plant and Lnad and Building respectively in 2002.

(2) An interim dividend of ₹ 20,000 has been paid in 2002.

(3) Income-tax ₹ 35,000 has been paid during the year 2002.

SOLUTION:

CASH FLOW STATEMENT	
Cash from operating Activities	83,000
Cash from Investing Activities	(1,20,000)
Cash from Financing activities	30,000
Total	(7,000)
(+) Opening Cash and cash equivalents	25,000
Closing Cash and Cash Equivalents	18,000

Operating Activities	
Increase in General Reserve	30,000
+ Increase in Profit & Loss	18,000
+ Goodwill written off	25,000
+ Depreciating of Plant	10,000
+ Depreciation on land & Building	20,000
+ Change in Creditors	28,000
+ Proposed Dividend	28,000
+ Provision for Taxation	45,000
- Change in Debtors	40,000
- Change in Stock	32,000
-Change in Bills Receivable	10,000
- Change in Bill Payable	4,000
-Tax. Paid	35,000
	83,000
Cash from Investing Activities	
Purchase of Plant	(1,30,000)
Sale of Land & Building (2,00,000-20,000-1,70,000)	10,000
	(1,20,000)
Cash from Financing Activities	
Issue of Equity Share Capital	1,00,000
Redemption of Preference Share Capital	(50,000)
Interim Dividend Paid	(20,000)
	30,000

QUESTION NO 37

From the following details relating to the accounts of Husmundi & Co. Ltd. Prepare Cash Flow Statement.

Liabilities	31-12-86 ₹	31-12-85 ₹
Share Capital	4,00,000	3,00,000
Reserve	1,00,000	80,000
Profit & Loss Account	50,000	30,000
Debentures	1,00,000	1,50,000
I.T. Provision	40,000	50,000
Trade Creditors	70,000	90,000
Proposed Dividend	40,000	30,000
	8,00,000	7,30,000

Assets	31-12-86 ₹	31-12-85 ₹
Goodwill	90,000	1,00,000
Plant & Machinery	4,29,250	2,98,000
Debenture Discount	5,000	8,000
Prepaid Expenses	5,750	4,000
Investments	60,000	1,00,000
Sundry Debtors	1,10,000	1,60,000
Stock	80,000	50,000
Cash and Bank	20,000	10,000
	8,00,000	7,30,000

1. 15% depreciation has been charged in the accounts on plant & Machinery.
2. Old machine costing ₹ 50,000 (WDV 20,000) have been sold for ₹ 35,000,
3. A machine costing ₹ 10,000 (WDV ₹ 3,000) has been discarded.
4. ₹ 10,000 profit has been earned by sale of investments.
5. Debentures have been redeemed at 5% premium.
6. ₹ 45,000 income tax has been paid and adjusted against Income Tax Provision Accounts.

(20 marks)

SOLUTION:

Cash Flow Statements	
Cash From Operating Activities	1,37,500
Cash From Investing Activities	(1,45,000)
Cash From Financing Activities	17,500
Total	10,000
Add opp CSCE	10,000
Closing C&CE	20,000
Cash From Operating Activities	
Interest in Pls	20,000
Interest in Profit & Loss Account	20,000
(+) G/W W/off	10,000
(-) Profit on sale of M/C	15,000
(+) Profit & machinery discarded	3,000
(+) Deprecation on machinery	75,750
(+) Discount on deb w/off	3,000
(-) change in PP exp	1,750
(+) change in debtors	50,000
- change in stock	30,000
(+) prevention on red of debtor	2,500
(+) provision fro tax	35,000
(-) interest tax paid	45,000
(-) change in creditors	20,000
(+) proposed dividend	40,000
(-) profit on sale	10,000
	1,37,500
Cash From Investing Activities	
Sale of Plant & machinery	35,000
Purchase of plant & machinery	(2,30,000)
Sale of invests	50,000
	(1,45,000)

Cash from Financing Activities	
Issue of S cap	1,00,000
Redemption of deb	(52,500)
Dividend paid	(30,000)
	17,500

Profit and Machinery Account			
To Balance b/d	2,98,000	By bank	35,000
To profit & Loss A/c	15,000	By profit & Loss discard	3,000
To Bank	2,30,000	By Depreciations	75,750
		By Balance c/d	4,29,250
	5,43,000		5,43,000

Investment Account			
To balance b/d	1,00,000	By bank	50,000
Profit & Loss	-10,000	By Balance c/d	60,000
	1,10,000		1,10,000

Provision & tax			
To cash	45,000	By Balance b/d	50,000
To balance c/d	40,000	By Profit & Loss Account	35,000
	85,000		85,000

QUESTION NO 38

From the following information, prepared a cash Flow Statement as per AS for Banjara Ltd. using direct method:

Balance Sheet as on March 31,2010 (₹ 000)

Assets:		2010		2009
Cash on hand and balances with bank		200		25
Marketable securities (having one month maturity)		670		135
Sundry debtors		1,700		1,200
Interest receivable		100		
Inventories		900		1,950

Investments		2,500		2,500
Fixed assets at cost	2,180		1,910	
Accumulated depreciation	(1,450)		(1,060)	
Fixed assets (net)		730		850
Total assets		6,800		6,660
Liabilities:		**2010**		**2009**
Sundry creditors		150		1,890
Interest payable		230		100
Income tax payable		400		1,000
Long term debt		1,110		1,040
Total liabilities		1,890		4,030
Shareholder's fund:				
Share capital		1,500		1,250
Reserves		3,410		1,380
		4,910		2,630
Total liabilities and shareholders' fund		6,800		6,660

Statement of Profit and Loss for the year ended 31.03.2010

	(₹ 000)
Sales	30,650
Cost of sales	(26,000)
Gross Profit	4,650
Depreciation	(450)
Administrative and selling expenses	(910)
Interest expenses	(400)
Interest income	300
Dividend income	200
Net profit before taxation and extraordinary	3,390
Extraordinary items :	
Insurance proceeds from earthquake disaster settlement	140
Net profit after extraordinary items	3,530
Income tax	(300)
	3,230

Additional information :

(i) An amount of ₹ 250 was raised from the issue of share capital and a further ₹ 250 was raised from long term borrowings.

(ii) Interest expense was ₹ 400 of which ₹ 770 was paid during the period ₹ 100 relating to interest expense of the prior period was also paid during the period.

(iii) Dividends paid were ₹ 1,200.

(vi) Tax deducted at source on dividends received (including in the tax expense of ₹ 300 for the year) amounted to ₹ 40.

(v) During the period the enterprise acquired fixed assets for ₹ 350. The payment was made in cash.

(vi) Plant with original cost of ₹ 80 and accumulated depreciation of ₹ 60 was sold for ₹ 20.

(vii) Sundry debtors and Sundry creditors include amounts relating to credit sales and credit purchase only.

ANSWER:

Cash Flow Statement (Direct Method)		
Cash flows from Operating Activities		
Cash receipts from customers (W.N. 2)	30,150	
Cash paid to suppliers, employees and for expenses (W.N. 3)	(27,600)	
Cash generated from operations	2,550	
Income tax paid (W. N 4)	(860)	
	1,690	
Cash flow before extraordinary item:		
Proceeds from earthquake disaster settlement	140	
Net cash from operating activities		1830
Cash flows from Investing Activities:		
Purchase of fixed assets	(350)	
Proceeds from sale and equipment	20	
Interest received (300-100)	200	
Dividends received (200-40)	160	
Net cash from investing activities		30
Cash flows from Financing Activities:		
Proceeds from issuance of share capital	250	
Proceeds from long term borrowings	250	
Repayment of long term borrowings (W. N 5)	(180)	
Interest paid (W.N. 6)	(270)	
Dividends paid	(1,200)	

Net cash used in financial activities		(1150)
Net increase in cash and cash equivalents		
Cash and cash equivalents at beginning of the period (W. N. 1)		710
Cash and cash equivalents at end of the period (W.N. 1)		160
		870

Working Notes :

(1) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks and investments in money market instruments for short period.

		₹ 000
	2010	**2009**
Cash in hand and balance with bank	200	25
Short-term investments	670	135
Cash and cash equivalents	870	160

(2) Cash receipts from customers

	₹ 000
Total sales	30,650
Add : Sundry debtors at the beginning of the year	1,200
	31,850
Less: Sundry debtors at the end of the year	(1,700)
Cash sales	30,150

(3) Cash paid to suppliers, employees and for expenses

		₹ 000
Cost of sales		26,000
Administrative and selling expenses		910
		26,910
Add: Sundry creditors at the beginning of the year	1,890	
Inventories at the end of year	900	2,790
		(29700)
Less: Sundry creditors at the end of year Inventories at the beginning of the year	(150)	
	(1950)	2100
		27,600

(4) Income Tax paid (including TDS from dividends received)

	₹ 000
Income Tax expense for the year	300
Including tax deducted at sources from dividend received	
Add: Income Tax liability at the beginning of the year	1,000
Less: Income Tax liability at the end of the year	1,300
	(400)
	900

Out of ₹ 900 thousands, tax deducted at source on dividends received (amounting to ₹ 40 thousands) is included in cash flows from investing activities and the balance of ₹ 860 thousands is included in cash flows from operating activities.

(5) Repayment of long term borrowings during the year

	₹ 000
Long term debts at the beginning of the year	1,040
Add: Long term borrowings made during the year	(250)
Less : Long term borrowing at the end of the year	1290
	1110

(6) Interest paid during the year

	₹ 000
Interest expense for the year	400
Add: Interest payable at the beginning of the year	100
	500
Less: Interest payable at the end of the year	(230)
	270

QUESTION NO 39

Explain Classification of activities (with two examples) as suggested in AS 3, to be used for preparing a cash flow statements.

ANSWER

AS 3 (Revised) on cash Flow Statements requires that the cash flow statement should cash flows by operating, investing and financing activities.

Additional information :

(i) Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities. Cash receipts from sale of goods and cash payments to suppliers of goods are two examples of operating activities.

(ii) Investing activities are acquisition and disposal of long-term assets and other investments not included in cash equivalents. Payment made to acquire machinery and cash received for sale furniture are examples of investing activities.

(iii) Financial activities are those activities that result in changes in the size and composition of the owner's capital (including preference share capital in the case of a company) and borrowings of the enterprise. Cash proceeds from issue of shares and cash paid to redeem debentures are two examples of financing activities.

QUESTION 40

Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3, (AS 3) revised.

ANSWER

As per Para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flow from operating activities using either:

(a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed: or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales (interest and similar income and interest expenses and similar charges for a financial enterprise) and other items in the statement of profit and loss for :

(i) changes during the period in inventories and operating receivables and payables;

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes and unrealized foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

QUESTION 41

From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.2015:

Balance Sheet of Mr. Zen

Liabilities	As on 1.4.2014 ₹	As on 1.4.2015 ₹
Zen's Capital A/c	10,00,000	12,24,000
Trade payables	3,20,000	3,52,000
Mrs. Zen's loan	2,00,000	--
Loan from Bank	3,20,000	4,00,000
	18,40,000	19,76,000

Assets	As on 1.4.2014 ₹	As on 1.4.2015 ₹
Land	6,00,000	8,80,000
Plant and Machinery	6,40,000	4,40,000
Inventories	2,80,000	2,00,000
Trade receivables	2,40,000	4,00,000
Cash	80,000	56,000
	18,40,000	19,76,000

Additional information:

A machine costing ₹80,000 (accumulated depreciation there on ₹24,000) was sold for ₹40,000. The provision for depreciation on 1.4.2014 was ₹2,00,000 and 31.3.2015 was ₹3,20,000. The net profit for the year ended on 31.3.2015 was ₹3,60,000.

ANSWER

Cash Flow Statement of Mr. Zen as per AS 3 for the year ended 31.3.2015

			₹
(i)	**Cash flow from operating activities**		
	Net Profit (given)		3,60,000
	Adjustments for		
	Depreciation on Plant & Machinery	1,44,000	
	Loss on Sale of Machinery	16,000	1,60,000
	Operating Profit before working capital changes		5,20,000
	Decrease in inventories	80,000	
	Increase in trade receivables	(1,60,000)	
	Increase in trade payable	32,000	(48,000)
	Net cash generated from operating activities		4,72,000
(ii)	**Cash flow from investing activities**		
	Sale of Machinery	40,000	
	Purchase of Land	(2,80,000)	
	Net cash used in investing activities		(2,40,000)

(iii)	**Cash flow from financing activities**		
	Repayment of Mrs. Zen's Loan	(2,00,000)	
	Drawings	1,36,000)	
	Loan from Bank	80,000	
	Net cash used in financing activities		(2,56,000)
	Net decrease in cash		(24,000)
	Opening balance as on 1.4.2014		80,000
	Cash balance as on 31.3.2015		56,000

Working Notes:

1. **Plant & Machinery A/c**

	₹		₹
To Balance b/d (6,40,000+2,00,000)	8,40,000	By Cash-Sales	40,000
		By Provision for Depreciation A/c	24,000
		By Profit & Loss A/c- Loss on Sale (80,000-64,000)	16,000
		By Balance c/d (4,40,000+3,20,000)	7,60,000
	8,40,000		8,40,000

2. Provision for depreciation on Plant and Machinery A/c

	₹		₹
To Plant and Machinery A/c	24,000	By Balance b/d	2,00,000
To Balance c/d	3,20,000	By Profit & Loss A/c (Bal. fig.)	1,44,000
	3,44,000		3,44,000

3. To find out Mr. Zen's drawings:

	₹
Opening Capital	10,00,000
Add: Net Profit	3,60,000
	13,60,000
Less: Closing Capital	(12,24,000)
Drawings	1,36,000

QUESTION 42

From the following information, prepare cash flow statement of A (P) Ltd. as at 31st March, 2015 by using indirect method:

Balance Sheet

	2014 ₹	2014 ₹
Liabilities:		
Share capital	12,00,000	12,00,000
Profit and loss account	8,50,000	10,00,000
Long term loans	10,00,000	10,60,000
Trade payables	3,50,000	4,00,000
	34,00,000	36,60,000
Assets:		
Fixed assets	17,00,000	20,00,000
Investment in shares	2,00,000	2,00,000
Inventory	6,80,000	7,00,000
Trade receivables	7,60,000	6,90,000
Cash	60,000	70,000
	34,00,000	36,60,000

Income Statement for the year ended 31st March, 2015

		₹
Sales		40,80,000
Less: Cost of sales		(27,20,000)
Gross profit		13,60,000
Less: Operating expenses:		
Administrative expenses	4,60,000	
Depreciation	2,20,000	(6,80,000)
Operating profit		6,80,000
Add: Non-operating incomes (dividend received)		50,000
		7,30,000
Less: Interest Paid		(1,40,000)
Profit before tax		5,90,000
Less: Income-tax		(2,60,000)
Profit after tax		3,30,000

Statement of Retained Earnings

		₹
Opening balance		8,50,000
Add:	Profit	3,30,000
		11,80,000
Less:	Dividend paid	(1,80,000)
Closing balance		10,00,000

ANSWER

Cash Flow Statement of A (P) Ltd.

for the year ended 31st March, 2015

		₹	₹
(i)	Cash flows from operating activities		
	Profit before tax	5,90,000	

	Adjustments for		
	Depreciation	2,20,000	
	Interest paid	1,40,000	
	Dividend received	(50,000)	
	Operating profit before working capital changes	9,00,000	
	Add:		
	Decrease in trade receivables	70,000	
	Increase in trade payables	50,000	
		10,20,000	
	Less: Increase in inventory	(20,000)	
	Cash generated from operations	10,00,000	
	Less: Tax paid	(2,60,000)	
	Cash flow operating activities		7,40,000
(ii)	**Cash flows from investing activities**		
	Purchase of fixed assets	(5,20,000)	
	[20,00,000+2,20,000-17,00,000]		
	Dividend on investments	50,000	
	Cash used in investing activities		(4,70,000)
(iii)	**Cash flows from financing activities**		
	Long term loan taken	60,000	
	Interest paid	(1,40,000)	
	Dividend paid	(1,80,000)	
	Cash used in financing activities		(2,60,000)
Net increase in cash during the year			10,000
Add: Opening cash balance			60,000
Closing cash balance			70,000

QUESTION 43

The Balance Sheets of X Ltd. as on 31st March, 2014 and 31st March, 2015 are as follows:

Liabilities	2014 Amount (₹)	2015 Amount (₹)	Assets	2014 Amount (₹)	2015 Amount (₹)
Share Capital	5,00,000	7,00,000	Land and Building	80,000	1,20,000
General Reserve	50,000	70,000	Plant and Machinery	5,00,000	8,00,000
Profit and Loss A/c	1,00,000	1,60,000	Inventory	1,00,000	75,000
Trade payable	1,93,000	240,000	Trade receivables	1,50,000	1,60,000
			Cash	20,000	20,000
Outstanding Expenses	7,000	5,000			
	8,50,000	11,75,000		8,50,000	11,75,000

Additional Information:

(a) ₹ 50,000 depreciation has been charged to Plant and Machinery during the year 2015.

(b) A piece of Machinery costing ₹ 12,000 (Depreciation provided there on ` 7,000) was sold at 60% profit on book value.

You are required to prepare Cash flow statement for the year ended 31st March 2015 as per AS 3 (revised), using indirect method.

ANSWER

Cash Flow Statement for the year ended 31st March, 2015

			Amount ₹	Amount ₹
I.	Cash Flows from Operating Activities			
	Closing Balance as per Profit & Loss A/c			1,60,000
	Less:	Opening Balance as per Profit & Loss A/c		(1,00,000)
				60,000

	Add: Transfer to General Reserve		20,000
	Net Profit before taxation and extra-ordinary items		80,000
	Add: Depreciation on Plant and Machinery		50,000
	Less: Profit on sale of machinery (Refer W.N.)		(3,000)
	Operating Profit		1,27,000
	Add: Decrease in Inventory	25,000	
	Increase in trade payable	47,000	72,000
			1,99,000
	Less: Increase in trade receivables	(10,000)	
	Decrease in Outstanding expenses	(2,000)	(12,000)
	Net Cash from Operating Activities		1,87,000
II.	**Cash Flows from Investing Activities**		
	Purchase of Land & Building	(40,000)	
	Proceeds from Sale of Machinery (Refer W.N.)	8,000	
	Purchases of Plant & Machinery (Refer W.N.)	(3,55,000)	
	Net Cash used in Investing Activities		(3,87,000)
III.	**Cash Flows from Financing Activities**		
	Proceeds from Issuance of Share Capital	2,00,000	
	Net Cash from Financing Activities		2,00,000
	Net Increase / Decrease in Cash & Cash Equivalents		0
Add:	Cash in hand at the beginning of the year		20,000
Cash in hand at the end of the year			20,000

Working Note:

Plant and Machinery Account

	₹		₹
To Balance b/d	5,00,000	By Bank	8,000*
To Profit and Loss A/c (Profit on sale)	3,000	By Depreciation	50,000
To Purchase (Bal. fig.)	3,55,000	By Balance c/d	8,00,000
	8,58,000		8,58,000

QUESTION 44

The following are the summarized Balance Sheet Star Ltd. as on 31st March, 2014 and 2015:

		(₹ '000)
	2014	2015
Equity share capital of ₹10 each	3,400	3,800
Profit and Loss A/c	400	540
Securities Premium	40	80
14% Debentures	800	900
160% of (12,000-7,000) = ₹ 8,000		
Long term borrowings	180	240
Trade payables	360	440
Provision for Taxation	20	40
Dividend payable	300	480
	5,500	6,520
Sundry Fixed Assets:		
Gross Block	3,200	4,000
Less: Depreciation	(640)	(1,440)
Net Block	2,560	2560
Investment	1,200	1,400
Inventories	1,000	1,400
Trade receivables	640	900
Cash and Bank Balance	100	260
	5,500	6,520

The Profit and Loss account for the year ended 31st March, 2015 disclosed:

	(₹ '000)
Profit before tax	780
Less: Taxation	(160)
Profit after tax	620
Less: Dividend payable	(480)
Retained Profit	140

The following information are also available:

(1) 40,000 equity shares issued at a premium of ₹ 1 per share

(2) The Company paid taxes of ₹ 1,40,000 for the year 2014-15.

(3) During the period, it discarded fixed assets costing ` 4 lacs, (accumulated depreciation ₹ 80,000) at ₹ 40,000 only.

You are required to prepare a cash flow statement as per AS 3 (Revised), using indirect method,

ANSWER

Cash Flow Statement for the year ended 31st March, 2015

			(₹ '000)
(A)	**Cash flow from operating activities**		
	Net profit before tax	780	
	Add: Adjustment for depreciation	880	
	Loss on sale of fixed assets	280	
	Interest on debentures	126	
	Operating profit before changes in working capital	2,066	
	Less: Increase in trade receivables	(260)	
	Less: Increase in Inventories	(400)	
	Add: Increase in trade payables	80	
	Cash generated from operations	1,486	
	Less: Income tax paid W.N.1)	140	
	Net cash from operating activities		1,346
(B)	**Cash flow from investing activities**		
	Purchase of fixed assets	(1,200)	
	Sale of fixed assets	40	
	Purchase of investments	(200)	
	Net cash used in investing activities		(1,360)
(C)	**Cash flow from financing activities**		
	Proceeds from issue of shares including premium (400+40)	440	

	Proceeds from issue of 14% debentures (900-800)	100	
	Proceeds from long term borrowings	60	
	Interest on debentures	(126)	
	Payment of dividend	(300)	
	Net cash from financing activities		174
	Net increase in cash and cash equivalents (A+B+C)		160
	Cash and cash equivalents at the beginning of the year		100
	Cash and cash equivalents at the end of the year		260

Working Notes:

1.	**Calculation of Income tax paid during the year**	(₹ '000)
	Income tax expense for the year	160
	Add: Income tax liability at the beginning of the year	20
		180
	Less: Income tax liability at the end of the year	(40)
	Income tax paid during the year	140
2	**Calculation of Fixed assets purchased during the year**	
	Closing balance of gross block of fixes assets	4,000
	Add: Cost assets discarded during the year	400
		4,400
	Less: Opening balance of gross block of fixed assets	(3,200)
	Fixed assets purchased during the year	1,200
3.	**Calculation of Depreciation charged during the year**	
	Closing balance of accumulated depreciation	1,440
	Add: Depreciation charged on assets discarded during the year	80
		1,520
	Less: Opening balance of accumulated depreciation	(640)
	Depreciation charged during the year	880

QUESTION 45

Intelligent Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

(i) Loans and Advances given to the following and interest earned on then:

 (1) To suppliers

 (2) To employees

 (3) To its subsidiaries companies

(ii) Investment made in subsidiary Smart Ltd. and dividend received

(iii) Dividend paid for the year

(iv) TDS on interest income earned on investments made

(v) TDS on interest earned on advance given to suppliers

(vi) Insurance claim received against loss of fixed asset by fire

Discuss in the context of AS 3 Cash Flow Statement.

ANSWER

(i) **Loans and advances given and interest earned**

(1)	to suppliers	Operating Cash flow
(2)	to employees	Operating Cash flow
(3)	To its subsidiary companies	Investing Cash flow

(ii) **Investment made in subsidiary company and dividend received**

Investing Cash flow

(iii) **Dividend paid for the year**

Financing Cash Outflow

(iv) **TDS on interest income earned on investments made**

Investing Cash Outflow

(v) **TDS on interest earned on advance given to suppliers**

Operating Cash Outflow

(vi) **Insurance claim received of amount loss of fixed asset by fire**

Extraordinary item to be shown under a separate heading as 'Cash inflow from Operating activities.

QUESTION 46

Prepare cash flow statement of M/'s MNT Ltd. for the year ended 31st March, 2015 with the help of the following information:

(1) Company sold goods for cash only.

(2) Gross Profit Ratio was 30% for the year, gross profit amounts to ₹ 3,82,500.

(3) Opening inventory was lesser than closing inventory by ₹ 3,500.

(4) Wages paid during the year ₹ 4,92,500.

(5) Office and selling expenses paid during the year ₹ 75,000.

(6) Dividend paid during the year ₹ 30,000 (including dividend distribution tax.)

(7) Bank loan repaid during the year ₹ 2,15,000 (included interest ₹ 15,000)

(8) Trade payables on 31st March, 2014 exceed the balance on 31st March, 2015 by ₹ 25,000.

(9) Amount paid to trade payables during the year ₹ 4,60,000.

(10) Tax paid during the year amounts to ` 65,000 (Provisions for taxation as on 31.03.2015 ₹ 45,000).

(11) Investments of ₹ 7,00,000 sold during the year at a profit of ₹ 20,000.

(12) Depreciation on fixed assets amounts to ₹ 85,000.

(13) Plant and machinery purchased on 15th November, 2014 for ₹ 2,50,000.

(14) Cash and Cash Equivalents on 31st March, 2014 ₹ 2,00,000.

(15) Cash and Cash Equivalents on 31st March, 2015 ₹ 6,07,500.

ANSWER

M/s MNT Ltd.

Cash Flow Statement for the year ended 31st March, 2015

(Using direct method)

Particulars	₹	₹
Cash flows from Operating activities		
Cash sales (3,82,500/30		12,75,000
Less: Cash payments for trade payables	(4,60,000)	
Wages paid	(4,92,500)	
Office and selling expenses	(75,000)	(10,27,500)

Cash generated from operations before taxes		2,47,500
Income tax paid		(65,000)
Net cash generated from operating activities (A)		1,82,500
Cash flows from investing activities		
Sale of investments	7,20,000	
Payments for purchase of Plant Y Machinery	(2,50,000)	
Net cash used in investing activities (B)		4,70,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,15,000)	
Dividend paid (including dividend distribution tax)	30,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,07,500
Cash and cash equivalents at beginning of the period		2,00,000
Cash and cash equivalents at end of the period		6,07,500

NOTES

ACCOUNTING STANDARD 12
ACCOUNTING FOR GOVERNMENT GRANTS

QUESTION 1

Krithivasa Ltd. received an area of Land, free of cost, from the Government. This amount is not recorded at all. The Company argues that – (a) No money has been spent by the Company on its acquisition, and (b) Land is not a depreciable assets, Comment.

SOLUTION

1. Principle: Non-Monetary Grants/Assets received free of cost, are recorded at a Nominal Value for the purposes of identification and control) . Whether it is depreciable or non-depreciable is not relevant in this regard.
2. Conclusion: As per AS-12, the above Land should be recorded at a Nominal Value, for identification and control purposes. Hence, the Company's stand is not in accordance with AS-12.

QUESTION NO 2

Ram Ltd. purchased a Machinery for Rs.1.00 Crore. The State Government granted the Company a subsidy of Rs.40 Lakhs to meet partial cost of Machinery. The Company credited the Subsidy received from the State Government to its Profit and Loss Account for the year ended 31st March. Comment on the above.

SOLUTION

1. Principle: Where a Government Grant is received towards a specific depreciable Fixed Asset, it should be accounted for either under Cost Reduction Method or Deferred Income Method.
2. Conclusion: The accounting treatment of the Company, i.e. crediting P&L A/c. is incorrect.

QUESTION NO 3

Haribhakti Ltd. acquired the Fixed Asset of Rs. 100 Lakhs on which it received a Grant of Rs. 10 Lakhs. What will be the cost of the Fixed Assets as per AS-12 and how it will be disclosed in the Financial Statements?

SOLUTION

Principle: Where a Government Grant is received towards a specific depreciable Fixed Assets, it should be accounted for either under Cost Reduction Method or Deferred Income Method. The accounting will be as under:-

1. Asset Reduction Method: Cost Rs. 100 Lakhs Less Grant Rs. 10 Lakhs = Rs. 90 Lakhs will be the Carrying Amount, and written off over its useful life.
2. Deferred Income Method: Rs. 10 Lakhs in Deferred Income Account shall be shown in Balance Sheet separately under an appropriate head. A portion of this Rs. 10 Lakhs will be credited to P&L A/c. every year, over the useful life of the asset.

QUESTION NO 4

Gowri Shankar Ltd. purchased a special machinery on 1st April of a Financial year, for Rs. 25 Lakhs. It received a Government Grant for 20% of the Price. The machine has an effective life of 10 years. Advise the Company of the accounting treatment(s)

SOLUTION

Under AS-12, where the Grant relates to a specific depreciable Fixed Asset, the Company can follow any of the following accounting methods, as illustrated below:-

Particulars	Cost Reduction Method	Deferred Income Method
1. Original Cost of Machinery	Rs. 25 Lakhs	Rs. 25 Lakhs
2. Scarp Value of Asset	Nil	Nil
3. Specific Grant Received	Rs. 5 Lakhs (reduced from cost).	Rs. 5 Lakhs (treated as Deferred Income)
4. Depreciable Value (1)-(2)-(3)	Rs. 20 Lakhs	Rs. 25 Lakhs
5. Useful Life of Machinery	10 Years	10 Years
6. Depreciation provided p.a. (4) ÷ (5)	Rs. 2 Lakhs	Rs. 2.5 Lakhs
7. Other Income credited to P&L A/c. every year	Not applicable	(3) ÷ (5) Rs. 0.5 Lakhs

Note: The balance in the Deferred Income Account shall be shown in the Balance Sheet separately as 'Deferred Government Grants' under an appropriate head.

QUESTION NO 5

Kripanidhi Ltd. purchased a Fixed Asset for Rs. 75 Lakhs, which has an estimated useful life of 5 years, with the Salvage Value of Rs. 7,50,000. On Purchase of the Asset, the Government have the Company a grant of Rs. 15 Lakhs. Pass the necessary journal entries in the books of the Company for the first two years.

SOLUTION

Journal Entries under Asset Cost Reduction Method

(Rs. in Lakhs)

Year	Particulars		Dr.	Cr.
1	Machinery A/c.	Dr.	75.00	
	To Bank A/c.			75.00
	(Being Machinery Purchased)			
	Bank A/c.	Dr.	15.00	
	To Machinery A/c.			15.00
	(Being Government Grant received and credited to Fixed Asset A/c.)			
	Depreciation A/c. (Cost 75 (-) Grant 15 (-) Salvage Dr. Value 7.5) ÷ 5 Years		10.50	
	To Machinery A/c.			10.50
	(Being Depreciation Charged on Straight Line Method on Cost net of Grant & SV)			
	Profit & Loss A/c.	Dr.	10.50	
	To Depreciation A/c.			10.50
	(Being Depreciation transferred to P&L A/c.)			
2.	Depreciation A/c.	Dr.	10.50	
	To Machinery A/c.			10.50
	(Being Depreciation charged on Straight line method)			
	Profit & Loss A/c.	Dr.	10.50	
	To Depreciation A/c.			10.50
	(Being Depreciation transferred to P&L A/c.)			

Journal Entries under Deferred Income Method

(Rs. in Lakhs)

Year	Particulars		Dr.	Cr.
1	Machinery A/c.	Dr.	75.00	
	To Bank A/c.			75.00
	(Being Machinery Purchased)			
	Bank A/c.	Dr.	15.00	
	To Deferred Income			15.00
	(Being Government Grant received as Deferred Income)			
	Government Grants Deferred Income A/c. (15 Lakhs ÷ 5 years)		3.00	
	To Profit & Loss A/c.			3.00
	(Being Grant Portion for this year, considered as Income in P&L A/c).			
	Depreciation A/c. (Cost 75 (-) Salvage Value 7.5) ÷ 5 Years		13.50	
	To Machinery A/c.			13.50
	(Being Depreciation Charged on Straight Line Method on Cost net of Grant & SV)			
	Profit & Loss A/c.	Dr.	13.50	
	To Depreciation A/c.			13.50
	(Being Depreciation transferred to P&L A/c.)			
2.	Government Grants Deferred Income A/c. (15 Lakhs ÷ 5 Years)		3.00	
	To Profit & Loss A/c.			3.00
	(Being Grant portion for this year, considered as Income in P&L A/c.)			
	Depreciation A/c.	Dr.	13.50	
	To Machinery A/c.			13.50
	(Being Depreciation charged on Straight line method)			

Profit & Loss A/c.	Dr.	13.50	
To Depreciation A/c.			13.50
(Being Depreciation transferred to P&L A/c.)			

QUESTION NO 6

Bhava Limited purchased a Machinery for Rs. 25,00,000 which has an Estimated Useful Life of 10 years and a Salvage Value of Rs. 5,00,000. On Purchase of the Assets, the Central Government pays a Grant for Rs. 5,00,000.

Pass the Journal Entries with narrations in the books of the Company for the first year, treating Grant as Deferred income.

SOLUTION

Journal Entries under Deferred Income Method

(Rs. in Lakhs)

Year	Particulars		Dr.	Cr.
1	Machinery A/c.	Dr.	25.00	
	To Bank A/c.			25.00
	(Being Machinery Purchased)			
2	Bank A/c.	Dr.	5.00	
	To Government Grants Deferred Income A/c.			5.00
	(Being Government Grant received and retained as Deferred Income)			
3	Government Grants Deferred Income A/c.		0.50	
	(5 Lakhs ÷ 10 years)	Dr		
	To Profit & Loss A/c.			0.50
	(Being Grant Portion for this year, considered as Income in P&L A/c.)			
4	Depreciation A/c. (Cost 25 (-) Salvage Value		2.00	
	5) ÷ 10 Years	Dr.		
	To Machinery A/c.			2.00
	(Being Depreciation Charged on Straight Line Method on Cost net of Grant & Salvage value)			

5	Profit & Loss A/c.	Dr.		
	To Depreciation A/c.		2.00	2.00
	(Being Depreciation transferred to P&L A/c.)			

QUESTION NO 7

Santosh Ltd. has received a Grant of Rs. 8 Crores from the Government for setting up a Factory in a backward area. Out of this Grant, the Company distributed Rs. 2 Crores as Dividend. Also, Santosh Ltd. received land free of cost from the State Government but it has not recorded at all in the books as no money has been spent. In the light of AS-12, examine, whether the treatment of both the Grants is correct.

SOLUTION

1. Rs. 8 Crores is in the nature of Promoter's Contribution, and hence should be transferred to Capital Reserve. Its distribution as Dividend is inappropriate.
2. Land received free of cost, being Non-Monetary Grant, should be recorded at Nominal Value.

QUESTION NO 8

Supriya Ltd. received a grant of Rs. 2,500 Lakhs from the Government during the last accounting year for welfare activities to be carried on by the Company for its Employees. The Grant prescribed conditions for its utilization. However, during the current year, it was found that the conditions of Grants wee not complied with and the Grant had to be refunded to the Government in full. Explain the accounting treatment, under AS-12.

1. The above Grant is in the nature of Revenue Grant, since it is for welfare activities for its Employees. Therefore, when received, it should have been credited to P&L Account.
2. Therefore, in the event of refund, the amount refunded should be debited to P&L account.
3. Such debt should be shown as an Extra Ordinary item in the P&L Statement.

QUESTION NO 9

Three years ago, Sankara Ltd. had received Subsidy of Rs. 25 Lakhs from Government by way of contribution towards its Total Capital Outlay. However, due to non-fulfilment of some specified conditions. Rs. 16 Lakhs was recovered by the Government during the current accounting year. Discuss the accounting treatment.

SOLUTION

Principle: Where a Grant, which is in the nature of Promoter's Contribution becomes refundable to the Government, in part or in full, due to non- fulfillment of some specified conditions, the relevant amount recoverable by the Government is reduced from the Capital Reserve.

Conclusion: In the above case, the amount of Rs. 16 Lakhs should be reduced from the Capital Reserve. The balance in the Capital Reserve will be Rs. 9 Lakhs.

QUESTION NO 10

Neelakanta Ltd. purchased a Machinery for Rs. 40 Lakhs (Useful Life 4 years and Residual value Rs. 8 Lakhs). Government Grant received is Rs. 16 Lakhs. Due to non- compliance of certain condition, the Grant become refundable in 3rd year to the extent of Rs. 12 Lakhs. Show the Journal Entry to be passed at the time of refund of Grant and the value of the Fixed Assets, if (a) the Grant is credited to Fixed Assets (b) the Grant is credited to Deferred Grant A/c.

A. If Grant is credited to Fixed Assets (i.e. Assets Cost Reduction Method)

Particulars		Dr. (Rs.)	Cr. (Rs.)
Fixed Assets A/c.	Dr.	12,00,000	
To Bank A/c.			12,00,000
(Being Grant refunded to the Government on non-compliance of related conditions, and Cost of the Asset thereby increased) (See Note below)			

* Depreciation p.a. = $\dfrac{\text{Cost 40 Lakhs – Grant 16 Lakhs – Residual Value 8 Lakhs}}{\text{4 Years Useful Life}}$

= Rs. 4,00,000 p.a.

- WDV of Asset before the above Journal Entry = Cost Rs.40,00,000 less Grant Credited at inception Rs. 16,00,000 less Depreciation of Rs. 4,00,000 for 2 years = Rs.16,00,000
- Carrying Book Value of Asset after above Journal Entry = Rs.16,00,000 + Rs.12,00,000 = Rs. 28,00,000

B. If Grant is credited to Deferred Grant A/c. (i.e. Deferred Income Method)

Particulars		Dr. (Rs.)	Cr. (Rs.)
Deferred Government Grant A/c.	Dr.	8,00,000	
Profit and Loss A/c.	Dr.	4,00,000	
To Bank A/c.			12,00,000
(Being Grant refunded to Government, and excess provided from Profit & Loss A/c).			

- Depreciation p.a. under Deferred Income Method

  $= \dfrac{\text{Cost 40 Lakhs} - \text{Residual Value 8 Lakhs}}{\text{4 Years Useful Life}}$

  = Rs. 8,00,000 p.a.
- WDV of Asset at beginning of year 3 = Cost Rs.40,00,000 less Depreciation of Rs. 8,00,000 for 2 years = Rs.24,00,000
- Balance of Deferred Grant at the end of 2 years Rs.16,00,000 – (Rs.4,00,000 x 2 years) = Rs. 8,00,000
- There will not be any change in the Carrying Amount of the Asset.

QUESTION NO 11

Srikanta Ltd. received a specific grant of Rs. 30 Lakhs for acquiring the Plant of Rs.150 Lakhs during 2010-11 having useful life of 10 years. The Grant received was credited to Deferred Income in the Balance Sheet. During 2013- 14, due to non-compliance of conditions laid down, for the grant, the Company had to refund the whole grant to the Government Balance in the Deferred Income on that date was Rs. 21 Lakhs and Written Down Value of Plant was Rs. 105 Lakhs.

SOLUTION

If Grant is credited to Deferred Grant A/c. (i.e. Deferred Income Method)

Particulars		Dr. (Rs.)	Cr. (Rs.)
Deferred Government Grant A/c.	Dr.(given)	21,00,000	
Profit and Loss A/c.	Dr.(balancing figure)	9,00,000	
To Bank A/c.			30,00,000
(Being Grant refunded to Government, and excess provided from Profit & Loss A/c).			

Note: There will not be any change in the carrying Amount of the Asset. Depreciation will be charged on the same basis as charged in the earlier years.

QUESTION NO 12

Markandeya Ltd. applied for a Government Grant for purchase of a special machinery. The machinery costs Rs. 80 Lakhs and the Grant was Rs. 30 Lakhs. The Machinery has a useful life of 10 years and the Company follows SLM Depreciation. The Grant was promptly received but certain conditions regarding production were attached to it. Four years later, an amount of Rs. 4 Lakhs become refundable to the Government since the Company did not adhere to the conditions imposed earlier. Explain the accounting treatment.

SOLUTION

1. Where Asset Cost Reduction Method is followed:

(a)	Original cost of the Machinery	Rs. 80 Lakhs
(b)	Government Grant reduced from cost	Rs. 30 Lakhs
(c)	Depreciable Amount of Machinery (a-b)	Rs. 50 Lakhs
(d)	Usefull Life	10 Years
(e)	Depreciation per annum (c ÷ d)	Rs. 5 Lakhs
(f)	Accumulated Depreciation for four years	Rs. 20 Lakhs (Rs. 5 Lakhs x 4 years)
(g)	Book Value of the asset in fourth year	Rs.30 Lakhs (Rs. 50 Lakhs – Rs.20 Lakhs)
(h)	Add back: Amount of Refundable Grant	Rs. 4 Lakhs
(i)	Revised Book Value of Machinery (g + h)	Rs. 34 Lakhs
(j)	Balance Useful Life	10-4 = 6 years
(k)	Depreciation to be provided for next 6 years	34 ÷ 6 = Rs. 5.67 Lakhs per annum

2. Where Deferred Income Method is followed:

(a)	Original cost of the Machinery	Rs. 80 Lakhs
(b)	Usefull Life	10 Years
(c)	Depreciation per annum	Rs.8 Lakhs
(d)	Government Grant treated as Deferre income	Rs. 30 Lakhs
(e)	Amount allocated/credited to P&L A/c. every year	Rs. 3 Lakhs

		(Rs. 30 Lakhs 10 ÷ years)
(f)	Total Amount credited to P&L for our years	Rs. 12 Lakhs
(g)	Balance in Deferred Income Account for 4th year	Rs.18 Lakhs
		(Rs. 30 Lakhs – Rs.12 Lakhs)
(h)	Less: Grant Refundable – now adjusted	Rs. 4 Lakhs
(i)	Revised Balance in Deferred Income Account	Rs. 14 Lakhs
(j)	Amount to be credited to P&L for next 6 years	Rs. 2.33 Lakhs
		(Rs. 14 Lakhs 6 ÷ years)

QUESTION NO 13

A Fixed Asset is purchased for Rs. 20 Lakhs. Government Grant received towards it is R. 8 Lakhs. Residual value is Rs. 4 Lakhs and useful life is 4 years. Assumed SLM Depreciation. Asset is shown net of Grant. After 1 years, Grant becomes refundable to the extent of Rs. 5 Lakhs due to non- compliance with conditions. Pass Journal Entries.

SOLUTION

Year	Particulars		Dr.	Cr.
1	Fixed Assets A/c.	Dr.	20,00,000	
	To Bank A/c.			20,00,000
	(Being Purchased of Fixed Asset for Rs.20,00,000			
2	Bank A/c.	Dr.	8,00,000	
	To Fixed Asset A/c.			8,00,000
	(Being Grant recorded as reduction from Cost of Asset)			
3	Depreciation A/c.	Dr.	2,00,000	
	To Fixed Asset A/c.			2,00,000
	(Being Depreciation for year of acquisition, under SLM before Grant Refund) (Note 1)			
4	Fixed Assets A/c.	Dr.	5,00,000	
	To Bank A/c.			5,00,000
	(Being grant refunded to Government on non-compliance of related conditions and cost of the asset thereby increased).			

5	Depreciation A/c.	Dr	3,66,667	
	To Fixed Assets A/c.			3,66,667
	(Being depreciation charged on Fixed Asset under SLM after Grant Refund (Note 2)			

Note:

1. Depreciation (before Grant Refund) =

$$= \frac{\text{Cost } 20{,}00{,}000\ (-)\ \text{Grant } 8{,}00{,}000 - \text{Residual Value } 4{,}00{,}000}{4 \text{ Years Useful Life}}$$

= Rs. 2,00,000

2. Depreciation (after Grant Refund) =

$$= \frac{\text{WDV } 10{,}00{,}000\ (+)\ \text{Grant } 5{,}00{,}000 - \text{Residual Value } 4{,}00{,}000}{\text{Balance Useful Life 3 Years}}$$

= Rs. 3,66,667

QUESTION NO 14

Shivam Ltd. acquired a Fixed Asset for Rs. 50,00,000. The estimated useful life of the asset is 5 years. The salvage value after useful life was estimated at Rs. 5,00,000. The State Government gave a grant of Rs. 10,00,000 to encourage the asset acquisition. At the end of the second year, the subsidy of the State Government became refundable. What is the Fixed Asset value after refund of Grant/Subsidy to the State Government but before amortising the asset value at the end of the second year?

SOLUTION

Particulars	Rs.
Original Cost of Fixed Assets	50,00,000
Less: State Government Grant received	(10,00,000)
	40,00,000
Less: Amount to be written off in the first year (40,00,000 – 5,00,000) ÷ 5 years	(7,00,000)
Add: Refund of State Government Grant.	10,00,000
Value of Fixed Assets, at the end of the 2nd year, after refund but before depreciation.	43,00,000

QUESTION NO 15

On 1st April 2010, Sundaram Ltd. received a Government Grant of Rs. 300 Lakhs for acquisition of a Machinery costing Rs. 1,500 Lakhs. The Grant was credited to the cost of the Asset. The life of the Machinery is 5 years. The Machinery is depreciated at20% on WDV basis. The Company had to refund the Grant in May 2013 due to non-fulfillment of certain conditions. How you would deal with the refund of Grant?

SOLUTION

Particulars			Rs.
Original Cost of the Machinery			1,500
Less:	Government Grant	(Reduced from Cost)	(300)
Depreciable Cost as on 1.4.2009			1,200
Less:	Depreciation for 2010-11	(Rs.1,200 x 20%)	(240)
WDV on 1.4.2011			960
Less:	Depreciation for 2011-12	(Rs. 960 x 20%)	(192)
WDV on 1.4.2012			768
Less:	Depreciation for 2012-13	(Rs. 78 x 20%)	(154)
WDV on 1.4.2013			614
Add:	Refundable Government Grant		300
Revised Book Value of Machinery			914

QUESTION NO 16

A Steel Manufacturing Company has a turnover of Rs, 45 Crores and Net Tax Profit of Rs. 6 Crores. The company's financial year ends on 31st March. The Company's policy is to treat Grants received in respect of Fixed Assets as Deferred income and to deduct all Grants identified as relating to specific revenue expenditure against that expenditure. All other Grants recognized are credited to P&L Account. Answer the following questions:-

A. During the year the Company received a Grant from the Defence Department of Government of India for Rs.3,00,000 towards the cost of new equipment. The equipment has an estimated useful economic life of 10 years and cost Rs. 7,00,000. The Company policy is to depreciate all depreciable Fixed Assets by the Straight Line Method.

B. During the year, the Company spent Rs. 70,000 on training in respect of which it is due to receive Government Grant of 50%. The Grant formalities year.

C. In October, a Grant of Rs. 40,000 was received from the Government in recognition of the high quality that the Company's production had maintained over the five years, which had ended on 31st March, the previous accounting year.

SOLUTION

Situation A : The Government Grant has been received relating to specific Fixed Assets. There are two methods for dealing with the Grant in the books:-

Particulars	Asset Cost Reduction Method	Deferred Income Method
1. Original Cost of Equipment	Rs.7,00,000	Rs.7,00,000
2. Specific Grant Received	Rs. 3,00,000 (reduced from Cost)	Rs. 3,00,000
3. Depreciable Value (1)-(2)	Rs. 4,00,000	Rs. 7,00,000
4. Useful Life of Machinery	10 Years	10 Years
5. Depreciation Provided p.a. (3)- (4)	Rs. 40,000	Rs. 70,000
6. Other Income credited to P&L A/c. every year	Not Applicable	(2) ÷ (4) Rs.30,000

Note: The balance in the Deferred Income Account shall be shown in the Balance Sheet separately with a description, as 'Deferred Government Grants' under the appropriate head.

Situation B : The Government Grant to be received can be shown either as income or as deduction from Training Expenses. As the Grant has not been received till the year end, it has to be shown as Receivable.

Situation C : This is not a Grant related to specific Fixed Asset or for conditions to be complied in future. This Grant should be credited to P&L Account in the year of receipt only.

QUESTION NO 17

Samrat Limited has set up its business in a designated backward area which entitles the Company for subsidy of 25% of the total investment from Government of India. The Company has invested Rs. 80 Crores in the eligible investments. The Company is eligible for the Subsidy and has received Rs. 20 Crores from the Government in February 2014. The Company wants to recognize the said Subsidy as of the Company in accordance with the Accounting Standards?

SOLUTION

1. The Government Grants may be in the nature of Promoters' Contribution, i.e.
   (a) they are given with reference to the Total Investment in an undertaking, or
   (b) by way of contribution towards its total Capital Outlay, (e.g. Central Investment Subsidy Scheme).
2. They cannot be shown as income in the Profit and Loss Account. Such Grants are not ordinarily expected to be repaid. Hence, they are treated as Capital Reserve, and as part of Shareholders' Funds which cannot be distributed as dividend or considered as Deferred Income.
3. Only Grants which are not revenue in nature can be capitalized. The correct treatment is to credit the Subsidy to Capital Reserve.

QUESTION NO 18

A Ltd. has set up its business in a designated backward area with an investment of Rs.200 Lakhs. The Company is eligible for 25% subsidy and has received Rs.50 Lakhs from the Government. Explain the treatment of the Capital Subsidy received from the Government in the books of the Company.

SOLUTION

1. The Government Grants may be in the nature of Promoters' Contribution i.e.-
   (a) they are given with reference to the Total Investment in an undertaking, or
   (b) by way of contribution towards its Total Capital Outlay,(e.g. Central Investment Subsidy Scheme).
2. Such Grants are not ordinarily expected to be repaid. Hence, they are treated as Capital Reserve, and as part of Shareholders' Funds which cannot be distributed as dividend or considered as Deferred Income.
3. Subsidy received in this case, is not in relation to specific Fixed Assets or in relation to revenue, Hence, it should not be treated as Deferred Income or as an Item of Revenue. The correct treatment is to credit the Subsidy to capital Reserve.

SCHEDULE III TO THE DIVISION I

Financial Statements for a company who's Financial Statements are required to comply with the Companies (Accounting Standards) Rules, 2006

GENERAL INSTURCTION FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS OF A COMPANY

1. Where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head/sub-head or any changes *inter se*, in the financial statements or statements forming part thereof, the same shall be made and the requirements of this Schedule shall stand modified accordingly.
2. The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 2013. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act shall be made in the notes to accounts in addition to the requirements set out in this Schedule.
3. (i) Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required (a) narrative descriptions or dis-aggregations of items recognized in those statements and (b) information about items that do not qualify for recognition in those statements.

   (ii) Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts. In preparing the Financial Statements including the notes to accounts, a balance shall be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation.
4. (i) Depending upon the turnover of the company, the figures appearing in the Financial Statements may be rounded off as given below:

Turnover	Rounding off
(a) Less than one hundred crore rupees	to the nearest hundreds, lakhs or millions, or decimals thereof
(b) One hundred crore rupees or more	to the nearest, lakhs, millions or crores, or decimals thereof.

(ii) Once a unit of measurement is used, it shall be used uniformly in the Financial Statements.

5. Except in the case of the first Financial Statements laid before the Company (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.

6. For the purpose of this Schedule, the terms used herein shall be as per the applicable Accounting Standards.

Note: This part of Schedule sets out the minimum requirements for disclosure on the face of the Balance Sheet, and the Statement of Profit and Loss (hereinafter referred to as "Financial Statements" for the purpose of this Schedule) and Notes. Line items, sub-line items and sub -totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company's financial position or performance or to cater to industry/sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act or under the Accounting Standards.

PART I – BALANCE SHEET

Name of the Company…………………….

Balance Sheet as at………………………

(Rupees in…………)

			Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
			1	2	3	4
			Equity and Liabilities			
1.			**Shareholders' funds**			
	a		Share capital			
	b		Reserves and Surplus			
	c		Money received against share warrants			
2.			**Share application money pending allotment**			

3.			**Non-current liabilities**			
	a		Long-term borrowings			
	b		Deferred tax liabilities (Net)			
	c		Other long term liabilities			
	d		Long-term provisions			
4.			**Current liabilities**			
	a		Short-term borrowing			
	b		Trade Payables			
			(A) total outstanding dues of micro enterprises and small enterprises; and			
			(B) total outstanding dues of creditors other than micro enterprises and small enterprises .			
c			Other current liabilities			
d			Short-term provisions			
			Total			
			ASSETS			
1			**Non-current assets**			
	a		Fixed assets			
		i.	Tangible assets			
		ii.	Intangible assets			
		iii.	Capital Work-in-progress			
		iv	Intangible assets			
	b		Non-current investments			
	c		Deferred tax assets (Net)			
	d		Long-term loans and advances			
	e		Other non-current assets			
2			**Current assets**			
	a		Current investments			
	b		Inventories			
	c		Trade receivables			

	d		Cash and cash equivalents			
	e		Short-term loans and advances			
	f		Other current assets			
			Total			

See accompanying notes to Financial Statements.

Notes

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

1. An asset shall be classified as current when it satisfies any of the following criteria:
   (a) it is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;
   (b) it is held primarily for the purpose of being traded;
   (c) it is expected to be realized within twelve months after the reporting date; or
   (d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

   All other assets shall be classified as non-current.
2. An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.
3. A liability shall be classified as current when it satisfies any of the following criteria:
   (a) it is expected to be settled in the company's normal operating cycle;
   (b) it is held primarily for the purpose of being traded;
   (c) it is due to be settled within twelve months after the reporting date; or
   (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

   All other liabilities shall be classified as non-current.
4. A receivable shall be classified as a 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.
5. A payable shall be classified as a 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.
6. A company shall disclose the following in the notes to accounts:

A. Share Capital

For each class of share capital (different classes of preference shares to be treated separately):

(a) the number and amount of shares authorized;

(b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;

(c) par value per share;

(d) a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;

(e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;

(f) shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;

(g) shares in the company held by each shareholder holding more than 5 percent shares specifying the number of shares held;

(h) shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts;

(i) for the period of five years immediately preceding the date as at which the Balance Sheet is prepared:

(A) Aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash.

(B) Aggregate number and class of shares allotted as fully paid up by way of bonus shares.

(C) Aggregate number and class of shares bought back.

(D) terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date.

(k) calls unpaid (showing aggregate value of calls unpaid by directors and officers)

(l) forfeited shares (amount originally paid up)

B. Reserves and Surplus

(i) Reserves and Surplus shall be classified as:

(a) Capital Reserves;

(b) Capital Redemption Reserve;

(c) Securities Premium Reserve;

(d) Debenture Redemption Reserve;

(e) Revaluation Reserve;

(f) Share Options Outstanding Account;

(g) Other Reserves – (specify the nature and purpose of each reserve and the amount in respect thereof);

(h) Surplus i.e. balance in Statement of Profit & Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves etc.

(Additions and deductions since last balance sheet to be shown under each of the specified heads)

(ii) A reserve specifically represented by earmarked investments shall be termed as a 'fund'.

(iii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

C. Long-Term Borrowings

(i) Long-term borrowings shall be classified as:

(a) Bonds/debentures.

(b) Term loans

(A) From banks.

(B) From other parties

(c) Deferred payment liabilities.

(d) Deposits.

(e) Loans and advances from related parties

(f) Long term maturities of finance lease obligations

(g) Other loans and advances (specify nature).

(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

(iv) Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by instalments, the date of maturity for this purpose must be reckoned as the date on which the first instalment becomes due.

(v) Particulars of any redeemed bonds/ debentures which the company has power to reissue shall be disclosed.

(vi) Terms of repayment of term loans and other loans shall be stated.

(vii) Period and amount of continuing default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.

D. Other Long Term Liabilities

Other Long-term Liabilities shall be classified as:

(a) Trade payables

(b) Others

E. Long-term provisions

The amounts shall be classified as:

(a) Provision for employee benefits.

(b) Others (specify nature).

F. Short-term borrowings

(i) Short-term borrowings shall be classified as:

(a) Loans repayable on demand

(A) From banks

(B) From other parties

(b) Loans and advances from related parties.

(c) Deposits.

(d) Other loans and advances (specify nature).

(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

(iv) Period and amount of default as on the balance sheet date in repayment of loans and interest shall be specified separately in each case.

FA. Trade Payables

The following details relating to Micro, Small and Medium Enterprises shall be disclosed in the notes:

(a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;

(b) the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;

(c) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;

(d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and

(e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.

Explanation The terms 'appointed day', 'buyer', 'enterprise', 'micro enterprise', 'small enterprise' and 'supplier', shall have the same meaning assigned to those under clauses (b), (d), (e), (h), (m) and (n) respectively of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006.

G. Other current liabilities

The amounts shall be classified as:

(a) Current maturities of long-term debt;

(b) Current maturities of finance lease obligations;

Interest accrued but not due on borrowings

(d) Interest accrued and due on borrowings;

(e) Income received in advance;

(f) Unpaid dividends

(g) Application money received for allotment of securities and due for refund and interest accrued thereon. Share application money includes advances towards allotment of share capital. The terms and conditions including the number of shares proposed to be issued, the amount of premium, if any, and the period before which shares shall be allotted shall be disclosed. It shall also be disclosed whether the company has sufficient authorized capital to cover the share capital amount resulting from allotment of shares out of such share application money. Further, the period for which the share application money has been pending beyond the period for allotment as mentioned in the document inviting application for shares along with the reason for such share application money being pending shall be disclosed. Share application money not exceeding the issued capital and to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable i.e., the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under 'Other current liabilities'

(h) Unpaid matured deposits and interest accrued thereon

(i) Unpaid matured debentures and interest accrued thereon

(j) Other payables (specify nature);

H. Short-term provisions

The amounts shall be classified as:

(a) Provision for employee benefits.

(b) Others (specify nature).

I. Tangible assets

(i) Classification shall be given as:

(a) Land.

(b) Buildings.

(c) Plant and Equipment.

(d) Furniture and Fixtures.

(e) Vehicles.

(f) Office equipment.

Others (specify nature)

(ii) Assets under lease shall be separately specified under each class of asset.

(iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

(iv) Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

J. Intangible assets

(i) Classification shall be given as:

- (a) Goodwill.
- (b) Brands /trademarks.
- (c) Computer software.
- (d) Mastheads and publishing titles.
- (e) Mining rights.
- (f) Copyrights, and patents and other intellectual property rights, services and operating rights.
- (g) Recipes, formulae, models, designs and prototypes.
- (h) Licenses and franchise.
- (i) Others (specify nature).

(ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses/reversals shall be disclosed separately.

Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase

K. Non-current investments

(i) Non-current investments shall be classified as trade investments and other investments and further classified as:

- (a) Investment property;
- (b) Investments in Equity Instruments;
- (c) Investments in preference shares
- (d) Investments in Government or trust securities;
- (e) Investments in debentures or bonds;
- (f) Investments in Mutual Funds;
- (g) Investments in partnership firms
- (h) Other non-current investments (specify nature)

Under each classification, details shall be given of names of the bodies corporate [indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities] in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

(ii) Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof.

(iii) The following shall also be disclosed:

(a) Aggregate amount of quoted investments and market value thereof;

(b) Aggregate amount of unquoted investments;

(c) Aggregate provision for diminution in value of investments.

L. Long-term loans and advances

(i) Long-term loans and advances shall be classified as:

(a) Capital Advances;

(b) Security Deposits;

(c) Loans and advances to related parties (giving details thereof);

(d) Other loans and advances (specify nature).

(ii) The above shall also be separately sub-classified as:

(a) Secured, considered good;

(b) Unsecured, considered good;

(c) Doubtful.

(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

(iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

M. Other non-current assets

Other non-current assets shall be classified as:

(i) Long Term Trade Receivables (including trade receivables on deferred credit terms);

(ii) Others (specify nature)

(iii) Long term Trade Receivables, shall be sub-classified as:

(a) (A) Secured, considered good;

(B) Unsecured considered good;

(C) Doubtful

(b) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(c) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

N. **Current Investments**

(i) Current investments shall be classified as:

(a) Investments in Equity Instruments;

(b) Investment in Preference Shares

(c) Investments in government or trust securities;

(d) Investments in debentures or bonds;

(e) Investments in Mutual Funds;

(f) Investments in partnership firms

Other investments (specify nature

Under each classification, details shall be given of names of the bodies corporate [indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities] in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

(ai) The following shall also be disclosed:

(a) The basis of valuation of individual investments

(b) Aggregate amount of quoted investments and market value thereof;

(c) Aggregate amount of unquoted investments;

(d) Aggregate provision made for diminution in value of investments.

O. Inventories

(i) Inventories shall be classified as:

(a) Raw materials;

(b) Work-in-progress;

(c) Finished goods;

(d) Stock-in-trade (in respect of goods acquired for trading);

(e) Stores and spares;

(f) Loose tools;

(g) Others (specify nature).

(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.

(iii) Mode of valuation shall be stated.

P. Trade Receivables

(i) Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the Date they are due for payment should be separately stated.

(ii) Trade receivables shall be sub-classified as:

(a) Secured, considered good;

(b) Unsecured considered good;

(c) Doubtful.

(iii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(iv) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

Q. Cash and cash equivalents

(i) Cash and cash equivalents shall be classified as:

(a) Balances with banks;

(b) Cheques, drafts on hand;

(c) Cash on hand;

(d) Others (specify nature).

(ii) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

(iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

(iv) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.

(v) Bank deposits with more than 12 months maturity shall be disclosed separately.

R. Short-term loans and advances

(i) Short-term loans and advances shall be classified as:

(a) Loans and advances to related parties (giving details thereof);

(b) Others (specify nature).

(ii) The above shall also be sub-classified as:

(a) Secured, considered good;

(b) Unsecured, considered good;

(c) Doubtful.

(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

(iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

S. Other current assets (specify nature).

This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.

T. Contingent liabilities and commitments (to the extent not provided for)

(i) Contingent liabilities shall be classified as:

(a) Claims against the company not acknowledged as debt;

(b) Guarantees;

(c) Other money for which the company is contingently liable (ai) Commitments shall be classified as:

(a) Estimated amount of contracts remaining to be executed on capital account and not provided for;

(b) Uncalled liability on shares and other investments partly paid

(c) Other commitments (specify nature).

U. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on preference shares shall also be disclosed separately.

V. Where in respect of an issue of securities made for a specific purpose, the whole or part of the amount has not been used for the specific purpose at the balance sheet date, there shall be indicated by way of note how such unutilized amounts have been used or invested.

W. If, in the opinion of the Board, any of the assets other than fixed assets and non-current investments do not have a value on realization in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of that opinion, shall be stated.

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company…………………….

Profit and loss statement for the year ended ………………………

(Rupees in…………)

	Particulars	Note No.	*Figures for the current reporting period*	*Figures for the Previous reporting period*
	1	2	3	4
i.	Revenue from operations		xxx	xxx
ii.	Other income		xxx	Xxx
iii.	Total Revenue (I + II)		xxx	Xxx
iv.	Expenses:		Xxx	Xxx
	Cost of materials consumed		Xxx	Xxx
	Purchases of Stock-in-Trade		Xxx	Xxx
	Changes in inventories of finished goods		Xxx	Xxx

	Particulars	Note No.	*Figures for the current reporting period*	*Figures for the Previous reporting period*
	work-in-progress			
	and Stock-in-Trade			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total expenses			
V.	Profit before exceptional and extraordinary items and tax (III-IV)			
VI.	Exceptional items			
	Profit before extraordinary items and tax (V-VI)			
VIII.	Extraordinary Items			
IX.	Profit before tax (VII- VIII)			
X	Tax expense:			
	(1) Current tax		xxx	Xxx
	(2) Deferred tax		xxx xxx	xxx xxx
XI	Profit (Loss) for the period from continuing operations (VII-VIII)			
XII	Profit/(loss) from discontinuing operations		xxx	Xxx
XIII	Tax expense of discontinuing operations		xxx	Xxx
XIV	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)			
XV	Profit (Loss) for the period (XI + XIV)			
XVI	Earnings per equity share:			
	(1) Basic		xxx	xxx
	(2) Diluted		xxx	xxx

See accompanying notes to the financial statements.

GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF PROFIT AND LOSS

1. The provisions of this Part shall apply to the income and expenditure account referred to in sub-clause (ii) of Clause (40) of Section 2 in like manner as they apply to a statement of profit and loss.

2. (A) In respect of a company other than a finance company revenue from operations shall disclose separately in the notes revenue from

   (a) Sale of products;

   (b) Sale of services;

   (c) Other operating revenues; Less:

   (d) Excise duty.

   (A) In respect of a finance company, revenue from operations shall include revenue from

   (a) Interest; and

   (b) Other financial services

   Revenue under each of the above heads shall be disclosed separately by way of notes to accounts to the extent applicable.

3. **Finance Costs**

   Finance costs shall be classified as:

   (a) Interest expense;

   (b) Other borrowing costs;

   (c) Applicable net gain/loss on foreign currency transactions and translation.

4. **Other income**

   Other income shall be classified as:

   (a) Interest Income (in case of a company other than a finance company);

   (b) Dividend Income;

   (c) Net gain/loss on sale of investments

   (d) Other non-operating income (net of expenses directly attributable to such income).

5. **Additional Information**

A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:

(a) Employee Benefits Expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses]

(b) Depreciation and amortization expense;

(c) Any item of income or expenditure which exceeds one per cent of the revenue from operations or ₹ 1,00,000, whichever is higher;

(d) Interest Income;

(e) Interest Expense;

(f) Dividend Income;

(g) Net gain/ loss on sale of investments;

(h) Adjustments to the carrying amount of investments;

(i) Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);

(j) Payments to the auditor as

- (a) auditor,
- (b) for taxation matters,
- (c) for company law matters,
- (d) for management services,
- (e) for other services,
- (f) for reimbursement of expenses;
- (k) In case of companies covered u/s 135, amount of expenditure incurred on corporate social responsibility activities.
- (l) Details of items of exceptional and extraordinary nature;
- (m) Prior period items;

(ai) (a) In the case of manufacturing companies,

- (1) Raw materials under broad heads.
- (2) goods purchased under broad heads.

(b) In the case of trading companies, purchases in respect of goods traded in by the company under broad heads.

(c) In the case of companies rendering or supplying services, gross income derived from services rendered or supplied under broad heads.

(d) In the case of a company, which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance with the requirements herein if purchases, sales and consumption of raw material and the gross income from services rendered is shown under broad heads.

(e) In the case of other companies, gross income derived under broad heads.

(iii) In the case of all concerns having works in progress, works-in-progress under broad heads.

(iv) (a) The aggregate, if material, of any amounts set aside or proposed to be set aside, to reserve, but not including provisions made to meet any specific liability, contingency or commitment known to exist at the date as to which the balance-sheet is made up.

(b) The aggregate, if material, of any amounts withdrawn from such reserves.

(v) (a) The aggregate, if material, of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitments.

(b) The aggregate, if material, of the amounts withdrawn from such provisions, as no longer required.

(vi) Expenditure incurred on each of the following items, separately for each item:-

(a) Consumption of stores and spare parts.

(b) Power and fuel.

(c) Rent.

(d) Repairs to buildings.

(e) Repairs to machinery.

(f) Insurance.

(g) Rates and taxes, excluding, taxes on income.

(h) Miscellaneous expenses,

(vii) (a) Dividends from subsidiary companies.

(b) Provisions for losses of subsidiary companies.

(viii) The profit and loss account shall also contain by way of a note the following information, namely:

(a) Value of imports calculated on C.I.F basis by the company during the financial year in respect of –

I. Raw materials;

II. Components and spare parts;

III. Capital goods;

(b) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters;

(c) Total value if all imported raw materials, spare parts and components consumed during the financial year and the total value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption;

(d) The amount remitted during the year in foreign currencies on account of dividends with a specific mention of the total number of non-resident shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related;

(e) Earnings in foreign exchange classified under the following heads, namely: I. Export of goods calculated on F.O.B. basis;

II. Royalty, know-how, professional and consultation fees; III. Interest and dividend;

IV. Other income, indicating the nature thereof

Note: Broad heads shall be decided taking into account the concept of materiality and presentation of true and fair view of financial statements.

GENERAL INSTRUCTIONS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Where a company is required to prepare Consolidated Financial Statements, i.e., consolidated balance sheet and consolidated statement of profit and loss, the company shall *mutatis mutandis* follow the requirements of this Schedule as applicable to a company in the preparation of balance sheet and statement of profit and loss. In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Accounting Standards including the following:

   (i) Profit or loss attributable to "minority interest" and to owners of the parent in the statement of profit and loss shall be presented as allocation for the period.

   (ii) "Minority interests" in the balance sheet within equity shall be presented separately from the equity of the owners of the parent

2. In Consolidated Financial Statements, the following shall be disclosed by way of additional information:

Name of the entity in the	**Net Assets, i.e., total minus total liabilities** **As % of consolidated net assets Amount**		**Share in profit or loss** **AS % of consolidated profit or los Amount**	
1	2	3	4	5
Parent Subsidiaries Indian				
1.				
2.				
3.				

Foreign		
1.		
2.		
3.		
Minority Interests in all subsidiaries Associates (Investment as per the equity method)		
Indian		
1.		
2.		
3.		
Foreign		
1.		
2.		
3.		
Joint Ventures (as per proportionate consolidation/ investment as per the equity method		
Indian		
1.		
2.		
3.		
Foreign		
1.		
2.		
3.		
Total		

3. All subsidiaries, associates and joint ventures (whether Indian or foreign) will be covered under consolidated financial statements.
4. An entity shall disclose the list of subsidiaries or associates or joint ventures which have not been consolidated in the consolidated financial statements along with the reasons of not consolidating.

Division II

Financial Statements for a company whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

GENERAL INSTRUCTIONS FOR PREPARATION OF FINANCIAL STATMENT OF A COMPANY REQUIRED TO COMPLY WITH Ind AS

1. Every company to which Indian Accounting Standards apply, shall prepare its financial statements in accordance with this Schedule or with such modification as may be required under certain circumstances.
2. Where compliance with the requirements of the Act including Indian Accounting Standards (except the option of presenting assets and liabilities in the order of liquidity as provided by the relevant Ind AS) as applicable to the companies require any change in treatment or disclosure including addition, amendment substitution or deletion in the head or sub-head or any changes inter se, in the financial statements or statements forming part thereof, the same shall be made and the requirements under this Schedule shall stand modified accordingly.
3. The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Indian Accounting Standards. Additional disclosures specified in the Indian Accounting Standards shall be made in the Notes or by way of additional statement or statements unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act, 2013 shall be made in the Notes in addition to the requirements set out in this Schedule.
4. (i) Notes shall contain information in addition to that presented in the Financial Statements and shall provide where required-

   (a) narrative description or disaggregation of items recognised in those statements; and

   (b) information about items that do not qualify for recognition in those statements.

   Each item on the face of the Balance Sheet, Statement of Changes in Equity and Statement of Profit and Loss shall be cross-referenced to any related information in the Notes. In preparing the Financial Statements including the Notes, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.

5. Depending upon the turnover of the company, the figures appearing in the Financial Statements shall be rounded off as below:

Turnover	Rounding off
(i) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
(ii) one hundred crore rupees or more	To the nearest, lakhs, millions or crores, or decimals thereof.

Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

6. Financial Statements shall contain the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statement including Notes except in the case of first Financial Statements laid before the company after incorporation.
7. Financial Statements shall disclose all 'material' items, i,e, the items if they could. individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size or nature of the item or a combination of both, to be judged in the particular circumstances.
8. For the purpose of this Schedule, the terms used herein shall have the same meanings assigned to them in Indian Accounting Standards.
9. Where any Act or Regulation requires specific disclosure to be made in the standalone financial statement of a company, the said disclosure shall be made in addition to those required under this Schedule.

Note: This Schedule sets out the minimum requirements for disclosure on the face of the Financial Statements, i.e, Balance Sheet, Statement of Changes in Equity for the period, the Statement of profit and Loss for the period (The term 'Statement of Profit and Loss' has the same meaning as Profit and Loss Account) and Notes. Cash flow statement shall be prepared, where applicable, in accordance with the requirement of the relevant Indian Accounting Standard.

Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company's financial position or performance to cater to industry or sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act, 2013 or under the Indian Accounting Standards.

PART I -BALANCE SHEET

Name of the Company....................

Balance Sheet as at ....

(Rupees in.........)

	Particular	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
(1)	ASSETS			
	Non-current assets			
	(a) Property, Plant and Equipment			
	(b) Capital work-in-progress			
	(c) Investment Property			
	(d) Goodwill			
	(e) Other Intangible assets			
	(f) Intangible assets under development			
	(g) Biological Assets other than bearer plants			
	(h) Financial Assets			
	(i) Investments			
	(j) Trade receivables			
	(k) Loans			
	(a) Deferred tax assets (net)			
	(b) Other non-current assets			

(2)	Current assets (a) Inventories (b) Financial Assets (i) Investments (ii) Trade receivables (iii) Cash and cash equivalents (iv) Bank balances other than (iii) above (v) Loans (vi) Others (to be specified) (c) Current Tax Assets (Net) (d) Other current assets			
	Total Assets			
	Equity and liabilities			
	Equity			
	(a) Equity Share capital			
	(b) Other Equity			
(1)	Liabilities			
	Non-current liabilities (a) Financial Liabilities (i) Borrowings (ii) Trade payables (iii) Other financial liabilities (other than those specified in item (b), to be specified) (b) Provision (c) Deferred tax liabilities (Net) (d) Other non-current liabilities			

(2)	Current liabilities			
	(a) Financial Liabilities (a) Borrowigns (b) Trade payables (c) Other findnical liabilities (other than those specified in item (C) (b) Other current liabilities (c) Provision (d) Current Tax Liabilities (Net)			
	Total Equity and Liabilities			

see accompanying notes to the financial statements

STATEMENT OF CHANGES IN EQUITY

Name of the Company.............

Statement of Changes in Equity for the period ended ....

A. Equity Share Capital

Balance at the beginning of the reporting period	Changes in equity share capital during the year	Balance at the end of the reporting period

B. Other Equity

			Reserve and Surplus				Debt instrument through other comprehensive income							
	Share application on money pending allotment	Equity component of compound financial instrument	Capital Reserve	Securities Premium Reserve	Other Reserve (Specify nature)	Retained Earning		Equity Instrument through other comprehensive income	Effective portion of cash flow hedges	Revaluation Surplus	Exchange difference on translating the financial statement	Other items of other comprehensive income (Specify nature)	Money received against share capital	Total
Balance at the beginning of the reporting period														
Changes in accounting policy or prior period errors														
Restated balance at the beginning of the reporting period														
Total comprehensive														
Income for the year														
Dividends														

Transfer to retained earnings														
Any other change (to be specified)														
Balance at the end of the reporting period														

Note: Re-measurement of defined benefit plans and fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss shall be recognised as a part of retained earning with separate disclosure of such items alongwith the relevant amounts in the Notes.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

1. An entity shall classify an asset as current when-
   (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
   (b) it holds the asset primarily for the purpose of trading;
   (c) it expects to realise the asset within twelve months after the reporting period; or
   (d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

   An entity shall classify all other assets as non-current.
2. The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents, when the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.
3. An entity shall classify a liability as current when-
   (a) it expects to settle the liability in its normal operating cycle;
   (b) it holds the liability primarily for the purpose of trading;
   (c) the liability is due to be settled within twelve months after the reporting period; or
   (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in it settlement by the issue of equity instruments do not affect its classification.

   An entity shall classify all other liabilities as non-current.
4. A receivable shall be classified as a 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.
5. A payable shall be classified as a 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.
6. A company shall disclose the following in the Notes:

A Non-Current Assets

I. Property. Plant and Equipment:

(i) Classification shall be given as:

(a) Land

(b) Buildings

(c) Plant and Equipment

(d) Furniture and Fixtures

(e) Vehicles

(f) Office equipment

(g) Bearer Plants

(h) Others (specify nature)

(ii) Assets under lease shall be separately specified under each class of assets

(iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

II. Investment Property:

A reconciliation of the gross and net carrying amounts of each class of property at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

III. Goodwill :

A reconciliation of the gross and net carrying amount of goodwill at the beginning and end of the reporting period showing additions, impairments, disposals and other adjustments.

IV. Other Intangible assets

(i) Classification shall be given as:

(a) Brands or trademarks

(b) Computer software

(c) Mastheads and publishing titles

(d) Mining rights

(e) Copyright, patents, other intellectual property rights, services and operating rights

(f) Recipes, formulae, models, designs and prototypes

(g) Licenses and franchises

(h) Others (specify nature)

(ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses or reversals shall be disclosed separately.

V. Biological Assets other than bearer plants:

A reconciliation of the carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments shall be disclosed separately.

VI. Investment

(i) Investments shall be classified as:

(a) Investments in Equity Instruments;

(b) Investments in Preference Shares;

(c) Investments in Government or trust securities;

(d) Investments in debentures or bonds;

(e) Investments in Mutual Funds;

(f) Investments in partnership firms; or

(g) Other investments (specify nature)

Under each classification, details shall be given of names of the bodies corporate that are-

(i) subsidiaries,

(ii) associates,

(iii) joint ventures, or

(iv) structured entities, in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). Investment in partnership firms alongwith names of the firms, their partners, total capital and the shares of each partner shall be disclosed separately.

(ai) The following shall also be disclosed:

(a) Aggregate amount of quoted investment and market value thereof:

(b) Aggregate amount of unquoted investment: and

Aggregate amount of impairment in value of investment

VII. Trade Receivables:

(i) Trade receivables shall be sub-classified as;

   (a) Secured, considered good;

   (b) Unsecured considered good; and

   (c) Doubtful.

(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

VIII. Loans;

(i) Loans shall be classified as-

   (a) Security Deposits;

   (b) Loans to related parties (giving details thereof); and

   (c) Other loans (specify nature).

The above shall also be separately sub-classified as-

(a) Secured, considered good;

(b) Unsecured, considered good; and

(c) Doubtful. Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.

(iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

IX. Bank deposits with more than 12 months maturity shall be disclosed under 'Other financial assets';

X. Other non-current asset: Other non-current assets shall be classified as-

(i) Capital Advances; and

(ii) Advances other than capital advances;

Advances other than capital advances shall be classified as

(a) Security Deposits;

(b) Advances to related parties (giving details thereof; and

(c) Other advances (specify nature).

(2) Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated, In case advances are of the nature of a financial asset as per relevant Ind AS, these are to be disclosed under other financial assets separately.

(bi) Others (specify nature).

B. Current Assets I. Inventories:

(i) Inventories shall be classified as-

(a) Raw materials;

(b) Work in-progress;

(c) Finished goods;

(d) Stock-in-trade (in respect of goods acquired for trading);

(e) stores and spares;

(f) Loose tools; and

(g) Others (specify nature).

(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.

(iii) Mode of valuation shall be stated.

II. Investment;

(i) Investments shall be classified as-

(a) Investments in Equity Instruments;

(b) Investment in Preference Shares;

(c) Investment in government or trust securities;

(d) Investments in debentures or bonds;

(e) Investments in Mutual Funds;

(f) Investment in partnership firms; and

(g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate that are-

(i) subsidiaries,

(ii) associates,

(iii) joint ventures, or

(iv) structured entities,

in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid)

(ai) The following shall also be disclosed

- (a) Aggregate amount of quoted investments and market value thereof;
- (b) Aggregate amount of unquoted investments;
- (c) Aggregate amount of impairment in value of investments,

III. Trade Receivables

(i) Trade receivables shall be sub-classified as:

- (a) Secured, considered good;
- (b) Unsecured considered good; and
- (c) Doubtful.:

(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or. private companies respectively in which any director is a partner or a director or a member should be separately stated.

IV. Cash and cash equivalents:

Cash and cash equivalents shall be classified as-

a. Balances with Banks (of the nature of cash and cash equivalents);

b. Cheques, drafts on hand;

c. Cash on hand; and

d. Others (specify nature).

V. Loans:

(i) Loans shall be classified as:

(a) Security deposits;

(b) Loans to related parties (giving details thereof); and

(c) others (specify nature).

(ii) The above shall also be sub-classified as-

(a) Secured, considered good;

(b) Unsecured, considered good; and

(c) Doubtful.

(iii) Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.

(iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

VI. Other current assets (specify nature): This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories. Other current assets shall be classified as-

(i) Advances other than capital advances

(1) Advances other than capital advances shall be classified as:

(a) Security Deposits;

(b) Advances to related parties (giving details thereof);

(c) Other advances (specify nature)

(2) Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

(a) Earmarked balances with banks (for example. for unpaid dividend) shall be separately stated.

(b) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

D. Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated **Equity**

I. Equity Share Capital: For each class of equity share capital:

(a) the number and amount of shares authorised;

(b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;

(c) par value per Share;

(d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;

(f) shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;

(g) shares in the company held by each shareholder holding more than five per cent. shares specifying the number of shares held;

(h) shares reserved for issue under options and contracts or commitments for the sale of shares or disinvestment, including the terms and amounts;

(i) for the period of five years immediately preceding the date at which the Balance Sheet is prepared aggregate number and class of shares allotted as fully paid up pursuant to contract without payment being received in cash;

- aggregate number and class of shares allotted as fully paid up by way of bonus shares; and
- aggregate number and class of shares bought back;

(j) terms of any securities convertible into equity shares issued along with the earliest date of conversion in descending order starting from the farthest such date;

(k) calls unpaid (showing aggregate value of calls unpaid by directors and officers);

(l) forfeited shares (amount originally paid up).

AI. Other Equity:

(i) Other Reserves' shall be classified in the notes as-

  (a) Capital Redemption Reserve;

  (b) Debenture Redemption Reserve;

  (c) Share Options Outstanding Account; and

  (d) others- (specify the nature and purpose of each reserve and the amount in respect thereof);

(Additions and deductions since last balance sheet to be shown under each of the specified heads)

(ii) Retained Earnings represents surplus i.e. balance of the relevant column in the Statement of Changes in Equity;

(iii) A reserve specifically represented by earmarked investments shall disclose the fact that it is so represented;

(iv) Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'retained earnings'. Similarly, the balance of 'Other Equity', after adjusting negative balance of retained earnings, if any, shall be shown under the head 'Other Equity' even if the resulting figure is in the negative; and

(v) Under the sub-head 'Other Equity', disclosure shall be made for the nature and amount of each item.

E. Non-Current Liabilities

I. Borrowings:

(i) borrowings shall be classified as-

- (a) Bonds or debentures
- (b) Term loans
  - (I) from banks
  - (II) from other Parties
- (c) Deferred payment liabilities
- (d) Deposits.
- (e) Loans from related parties
- (f) Long term maturities of finance lease obligations
- (g) Liability component of compound financial instruments
- (h) Other loans (specify nature);

(ii) borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed;

(iv) bonds or debentures (along with the rate of interest, and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be, where bonds/debentures are redeemable by installments, the date of maturity for this purpose must be reckoned as the date on which the first installment becomes due;

(v) particulars of any redeemed bonds or debentures which the company has power to reissue shall be disclosed;

(vi) terms of repayment of term loans and other loans shall be stated; and

(vii) period and amount of default as on the balance sheet date in repayment of borrowings and interest shall be specified separately in each case.

BI. Provisions: The amounts shall be classified as-

(a) Provision for employee benefits; and

(b) Others (specify nature).

IV. Other non-current liabilities;

(a) Advances; and

(b) Others (specify nature).

F. Current Liabilities

I. Borrowings:

(i) Borrowings shall be classified as-

- (a) Loans repayable on demand
  - (I) from banks
  - (II) from other parties
- (b) Loans from related parties
- (c) Deposits
- (d) Other loans (specify nature);

(ii) borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case;

(iii) where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed; period and amount of default as on the balance sheet date in repayment of borrowings and interest, shall be specified separately in each case

AI. Other Financial Liabilities: Other Financial liabilities shall be classified as-

(a) Current maturities of long-term debt;

(b) Current maturities of finance lease obligations;

(c) Interest accrued;

(d) Unpaid dividends;

(e) Application money received for allotment of securities to the extent refundable and interest accrued thereon;

(f) Unpaid matured deposits and interest accrued thereon;

(g) Unpaid matured debentures and interest accrued thereon; and

(h) Others (specify nature).

'Long term debt is a borrowing having a period of more than twelve months at the time of origination

BI. Other current liabilities:

The amounts shall be classified as-

(a) revenue received in advance;

(b) other advances (specify nature); and

(c) others (specify nature);

IV. Provisions: The amounts shall be classified as-

(i) provision for employee benefits; and

(ii) others (specify nature)

G. The presentation of liabilities associated with group of assets classified as held for sale and non-current assets classified as held for sale shall be in accordance with the relevant Indian Accounting Standards (Ind ASs)

H. Contingent Liabilities and Commitments: (to the extent not provided for)

(i) Contingent Liabilities shall be classified as-

- (a) claims against the company not acknowledged as debt;
- (b) guarantees excluding financial guarantees; and
- (c) other money for which the company is contingently liable.

Commitments shall be classified as

- (a) estimated amount of contracts remaining to be executed on capital account and not provided for;
- (b) uncalled liability on shares and other investments partly paid; and
- (c) other commitments (specify nature).

I. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and title related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on irredeemable preference shares shall also be disclosed separately.

J. Where in respect of an issue of securities made for a specific purpose the whole or part of amount has not been used for the specific purpose at the Balance sheet date, there shall be indicated by way of note how such unutilised amounts have been used or invested.

7. When a company applies an accounting policy retrospectively or makes a restatement of items in the financial statements or when it reclassifies items in its financial statements, the company shall attach to the Balance Sheet, a "Balance Sheet" as at the beginning of the earliest comparative period presented.

8. Share application money pending allotment shall be classified into equity or liability in accordance with relevant Indian Accounting Standards. share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable shall be separately shown under 'Other financial liabilities'.

9. Preference shares including premium received on issue, shall be classified and presented as 'Equity' or 'Liability' in accordance with the requirements of the relevant Indian Accounting Standards. Accordingly, the disclosure and presentation requirements in that regard applicable to the relevant class of equity or liability shall be applicable mutatis mutandis to the preference shares. For instance, redeemable preference shares shall be classified and presented under 'non-current liabilities' as 'borrowings' and the disclosure requirements in this regard applicable to such borrowings shall be applicable mutatis mutandis to redeemable preference shares.

10. Compound financial instruments such as convertible debentures, where split into equity and liability components, as per the requirements of the relevant Indian Accounting Standards, shall be classified and presented under the relevant heads in 'Equity' and 'Liabilities'

11. Regulatory Deferral Account Balances shall be presented in the Balance Sheet in accordance with the relevant Indian Accounting Standards.

PART II - STATEMENT OF PROFIT AND LOSS

Name of the Company.........................

Statement of Profit and Loss for the period ended................

	Particulars	Note No.	Figures as at the end of current reporting period	Figures for the Previous reporting Period
I	Revenue from operations			
II	Other Income			
III	Total Income (I + II)			
IV	EXPENSES			
	Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, Stock-in -Trade and work-in-progress			
	Employee benefits expense			
	Finance costs			
	Depreciation And amortization expenses			
	Other expenses			
	Total expenses (IV)			
V	Profit/(loss) before exceptional items and tax (I-IV)			
VI	Exceptional Items			
VII	Profit/ (loss) before exceptions items and tax (V-VI)			
VIII	Tax expense:			
	(1) Current tax			
	(2) Deferred tax			
IX	Profit (Loss) for the period from continuing operations (VII - VIII)			

X	Profit/(loss) from discontinued operations			
XI	Tax expenses of discontinued operations			
XII	Profit /(loss) from Discontinued operations (after tax) (X-XI)			
XIII	Profit (loss) for the period (IX-XII)			
XIV	Other Comprehensive Income			
	A. (i) Items that will not be reclassified to profit or loss			
	(ii) Income tax relating to items that will not be reclassified to profit or loss			
	B (i) (item that will be reclassified to profit or loss			
	(ii) Income tax relating to items that will be reclassified to profit or loss			
XV	Total Comprehensive Income for the period (XIII+XIV) Comprising Profit (Loss) and other comprehensive Income for the period)			
XVI	Earnings per equity share (for continuing operation):			
	(1) Basic			
	(2) Diluted			
XVII	Earnings per equity share (for discontinued operation)			
	(1) Basic			

	(2) Diluted			
XVIII	Earning per equity share for discontinued & continuing operation) (1) Basic (2) Diluted			

GENERAL INSTRUCTIONS FOR PREPARING OF STATEMENT OF PROFIT AND LOSS

1. The provisions of this Part shall apply to the income and expenditure account, in like manner as they apply to a Statement of Profit and Loss,
2. The Statement of Profit and Loss shall include:
   (1) Profit of loss for the Period;
   (2) Other Comprehensive Income for the period
   The sum of (1) and (2) above is "Total Comprehensive Income"
3. Revenue from operations shall disclose separately in the notes
   (a) sale of products (including Excise Duty);
   (b) sale of services; and
   (c) other operating revenues.
4. Finance Costs: Finance costs shall be classified as-
   (a) interest;
   (b) dividend on redeemable preference shares;
   (c) exchange differences regarded as an adjustment to borrowing costs; and
   (d) other borrowing costs (specify nature).
5. Other income: other income shall be classified as-
   (a) interest Income;
   (b) dividend Income; and
   (c) other non-operating income (net of expenses directly attributable to such income)
6. Other Comprehensive Income shall be classified into-

(A) Items that will not be reclassified to profit or loss

   (i) Changes in revaluation surplus;
   (ii) Re-measurements of the defined benefit plans;

(iii) Equity Instruments through Other Comprehensive Income;

(iv) Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss;

(v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and

(v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and

(vi) Others (specify nature).

(B) Items that will be reclassified to profit or loss;

(i) Exchange differences in translating the financial statements of a foreign operation;

(ii) Debt instruments through Other Comprehensive Income;

(iii) The effective portion of gains and loss on hedging instruments in a cash flow hedge;

(iv) Share of other comprehensive income in Associates and Joint Ventures, to the extent to be classified into profit or loss; and

(v) Others (specify nature)

7. **Additional Information:** A Company shall disclose by way of notes, additional information regarding aggregate expenditure and income on the following items:

(a) employee Benefits expense (showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) share based payments to employees, (iv) staff welfare expenses).

(b) depreciation and amortisation expense;

(c) any item of income or expenditure which exceeds one per cent of the revenue from operations or ₹ 10,00,000, whichever is higher, in addition to the consideration of 'materiality 'as specified in clause 7 of the General Instructions for Preparation of Financial Statements of a Company;

(d) interest Income;

(e) interest Expense

(f) dividend income;

(g) net gain or loss on sale of investments;

(h) net gain or loss on foreign currency transaction and translation (other than considered as finance cost);

(i) payments to the auditor as (a) auditor, (b) for taxation matters, (c) for company law matters, (d) for other services, (e) for reimbursement of expenses;

(j) in case of companies covered under section 135, amount of expenditure incurred on corporate social responsibility activities; and

(k) details of items of exceptional nature;

8. Changes in Regulatory Deferral Account Balances shall be presented in the Statement of Profit and Loss in accordance with the relevant Indian Accounting Standards

PART III - GENERAL INSRUCTIONS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Where a company is required to prepare Consolidated Financial Statements, i.e,, consolidated balance sheet, consolidated statement of changes in equity and consolidated statement of profit and loss, the company shall mutatis mutandis follow the requirements of this Schedule as applicable to a company in the preparation of balance sheet, statement of changes in equity and statement of profit and loss .In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, including the following, namely:

   (i) Profit or loss attributable to 'non-controlling interest 'and to 'owners of the parent' in the statement of profit and loss shall be presented as allocation for the period Further, 'total comprehensive income for the period attributable to 'non-controlling interest' and to 'owners of the parent shall be presented in the statement of profit and loss as allocation for the period. The aforesaid disclosures for 'total comprehensive income shall also be made in the statement of changes in equity. In addition to the disclosure requirements in the Indian Accounting Standards, the aforesaid disclosures shall also be made in respect of 'other comprehensive Income

   (ii) 'Non-controlling interests' in the Balance Sheet and in the Statement of Changes in Equity, within equity, shall be presented separately from the equity of the 'owners of the parent'.

   (iii) Investments accounted for using the equity method.

2. In Consolidated Financial Statement, the following shall be disclosed by the way of additional information

Name of the entity in the Group	Net Asset i.e. total assets minus total liabilities		Share in profit or loss		Share in other comprehensive income		Share in total comprehensive income	
	As % of consolidated net assets	Amount	As % of consolidated profit or loss	Amount	As % of consolidated other comprehensive income	Amount	As % of total compre-hensive income	Amount
Parent subsidiaries Indian 1. 2. 3.								
Foreign 1. 2. 3.								
Non-Controlling Interest in alls ubsidiaries Associates (Investmentas per the equity method) Indian								

Name of the entity in the Group	Net Asset i.e. total assets minus total liabilities		Share in profit or loss		Share in other comprehensive income		Share in total comprehensive income	
Indian 1. 2. 3.								
Foreign 1. 2. 3.								
Joint Venture (Investment as per the equity method) Indian 1. 2. 3. Foreign 1. 2. 3.								
Total								

3. All subsidiaries, associates and joint venture (whether Indian or Foreign) will be covered under consolidated financial statement.
4. An entity shall disclose the list of subsidiaries or associates or joint venture which have been consolidated in the consolidated financial statement along with the reason of not consolidating.]

QUESTIONS ON SCHEDULE 3 (SELF READING)

QUESTION 1

What happens when requirements of schedule 3 contradicts with the Provisions of Accounting Standards?

SOLUTION

Where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head or sub-head or any changes, in the financial statements or statements forming part thereof, the same shall be made and the **requirements of this Schedule shall stand modified accordingly**. The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 2013. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements.

NOTE: This part of Schedule sets out the minimum requirements for on the face of the Balance Sheet, and the Statement of Profit and Loss (hereinafter referred to as —Financial Statements || for the purpose of this Schedule) and Notes. Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company's financial position or performance or to cater to industry/sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act or under the Accounting Standards.

QUESTION 2

How can an asset be classified as a current assets?

SOLUTION

(a) it is expected to be realized, or is intended for sale or consumption, in the company's normal operating cycle; or

(b) it is held primarily for the purpose of being traded; or

(c) it is expected to be realized within twelve months after the reporting date; or

(d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

QUESTION 3

How can an asset be classified as a non-current asset?

SOLUTION

The Asset other than Current Asset shall be classified as non current assets.

QUESTION 4

What is the meaning of an operating cycle?

SOLUTION

Time between the acquisition of assets for processing and Their realization in cash or cash equivalents.

Where the normal operating cycle cannot be identified: It is assumed to have duration of 12 months.

QUESTION 5

ICAI Ltd provides you the following information :

1. Raw material stock holding period : 3 months
2. Work –in-progress holding perios : 1 month
3. Finished goods holding period : 4 monjths
4. Debtors collection period : 6 months

You are required to compute the operating cycle.

SOLUTION

According to Schedule III "an operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents".

Operating Cycle = Raw material stock holding period+work-in-progress holding period + Finished goods holding period+Debtors Collection period = 3+1+4+6=14 months.

QUESTION 6

State giving reason whether the Trade Receivables are Current Assets or Non-Current Assets as per Schedule III in the following cases.

Case	Operating Cycle Period	Expected Realization period
1	11 months	10 months

2.	11 months	12 months
3.	11 months	13 months
4.	14 months	13 months
5.	14 months	15 months

SOLUTION

Case	Current Assets or Non-Current Assets	Reason
1	Current Assets	Expected Realization period - Is less than the Operating Cycle period and - Is within 12 months
2.	Current Assets	Expected Realization Period within 12 months although it is more than the Operating Cycle period
3.	Non-Current Assets	Expected Realization period is more than the Operating Cycle Period and 12 months Period.
4.	Current Assets	Expected Realization period is less than the Opeating Cycle period although it is more than the 12 months period.
5.	Non-Current Assets	Expected Realization period is more than the operating cycle period and the 12 months period.

QUESTION 7

State giving reason whether the Trade payables are Current Liabilities or Non-Current Liabilities as per schedule III in the following cases:

Case	Operating Cycle Period	Expected Payment Period
1	11 months	10 months
2	11 months	12 months
3	11 months	13 months
4.	11 months	15 months

SOLUTION:

Case	Operating Cycle Period	Expected Payment Period
1	Current Liabilities	Expected Payment Period - Is less than the Operating Cycle period and - Is within 12 months
2.	Current Liabilities	Expected Payment period is within 12 months although it in more than the Operating Cycle period.
3.	Non-Current Liabilities	Expected Payment period is more than the operating Cycle period and 12 months period.
4.	Non-Current Liabilities	Expected Payment period is more than the Operating Cycle Period and the 12 months period.

QUESTION 8 (MAY 14) (8 MARKS)

ICAI Ltd. Is in the process of finalizing its accounts for year ended 31st March, 2015 and furnishes the following information:

(i) Finished goods normally are held for 1 month before sale.

(ii) Sales realization from Debtors usually takes 2 months from date of credit invoice.

(iii) Raw materials are held in stock to cover 1 month's production requirements.

(iv) Packing materials, being specifically made for the company and having lead time of 3 months is held in stock for 3 months.

(v) Being a monopoly KAY Ltd. Enjoys a credit period of 12.5 months from its suppliers who sometimes at the end of their credit opt for conversion of their dues into long term debt of KAY Ltd.

You are required to compute the operating cycle of ICAI Ltd. As per Schedule III of The Companies Act, 2013. As the suppliers of the company are paid off after a credit period of 12.5 months should this be part of Current Liability ? Would your answer be the same if the creditors are settled in 330 days ?

SOLUTION:

Operating Cycle: 1+1+3+1+2=8 months

(Credit Period given by Suppliers should not be deducted while computing operating cycle as per Schedule 3)

Classification of Liability to suppliers : Schedule III provides that :

"A liability shall be classified as current when it satisfies any of the following criteria:

(i) It is expected to be settled in the company's normal operating cycle ;

(ii) It is held primarily for the purpose of being traded;

(iii) It is due to be settled within 12 months after the reporting date; or

(iv) The company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments and do not affect its classification".

   (a) When Credit period is 12.5 months : It will be treated as non-current liability since it is not due to be settled within 12 months after the reporting date.

   (b) When credit period is 330 days (i.e. 11 months approx.) : It will be treated as current liability since it is due to be settled within 12 months after the reporting date.

QUESTION 9

X Ltd. Provides you the following Information.

1. Raw material stock holding period : 4 months.
2. Work-in-progress holding period : 2 months.
3. Finished goods holding period : 3 months.
4. Debtors collection period : 4 months

You are required to compute the operating Cycle.

SOLUTION

As per Schedule III "An operating Cycle is the time between the acquisition of Assets for processing and their realization in cash or cash equivalents".

Statement showing calculation of Operating Cycle

Raw material stock holding period	= 4 months
+ work-in-progress holding period	= 2 month
+ Finished goods holding period	= 3months
+Debtors collection period	= 4months
	---------------
	13 months

QUESTION 10

H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset. Comment on the accuracy of the decision and the treatment of asset by H Ltd. As per Schedule III.

SOLUTION

- As per Schedule III, one of the criteria for classification of an asset as a current asset is that the asset is expected to be realised in the company's operating cycle or is intended for sale or consumption in the company's normal operating cycle.
- Further, Schedule III defines that an operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents.
- However, when the normal operating cycle cannot be identified, it is assumed to have duration of 12 months. As per the facts given in the question, the process of manufacturing of lotus wine takes around 18 months; therefore, its realisation into cash and cash equivalents will be done only when it is ready for sale i.e. after 18 months.
- ***This means that normal operating cycle of the product is 18 months. Therefore, the contention of the company's management that the operating cycle of the product lotus wine is 18 months and not l2 months is correct. H. Ltd. will classify the raw material purchased held in stock as current asset.***

QUESTION 11

How can a liability be classified as a current liability?

SOLUTION

(a) It is expected to be settled in the company normal operating cycle; or

(b) It is held primarily for the purpose of being traded; or

(c) It is due to be settled within twelve months after the reporting date; or

(d) The company does not have an unconditional right to defer settlement of the liability for least twelve months after the reporting cm Terms of a liability that could, at the option the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

QUESTION 12

How can a liability be classified as a non-current liability?

SOLUTION

The liability other than Current liability shall be classified as Non-Current.

QUESTION 13 (AUDIT-MAY-13)

The Balance Sheet of G Ltd as at 31st March 13 is as under. Comment on the presentation in terms of revised Schedule III and Accounting Standards issued by NFRA.

Heading	Note No.	31st March, 13	31st March, 12
Equity & Liabilities			
Share Capital	1	xxx	xxx
Reserves & Surplus	2	0	0
Employee stock option outstanding	3	xxx	xxx
Share application money	4	xxx	xxx
Non-Current Liabilities	5	xxx	xxx
Deferred tax liability (Arising from Indian Income Tax)			
Current Liabilities	6	xxx	xxx
Trade Payables		xxx	xxx
Total		xxxx	xxxx
Assets			
Non-Current Assets			
Fixed Assets-Tangible	7	xxx	xxx
CWIP (including capital advances)	8	xxx	xxx
Trade Receivables	9	xxx	xxx
Deferred Tax Asset((Arising from Indian Income Tax)	10	xxx	xxx
P&l Debit balance			
Total		xxxx	xxxx

SOLUTION

Following Errors are noticed in presentation as per Schedule III:

(I) Share Capital & Reserve & Surplus are to be reflected under the heading Shareholders' funds, which is not shown while preparing the balance sheet. Although it is a part of Equity and Liabilities yet it must be shown under head Shareholders 'funds. The heading Shareholders 'funds is given in the question missing in the balance sheet.

(ii) Reserve & Surplus is showing zero balance, which is not correct in the given case. Debit balance of statement of profit & Loss should be shown as a negative figure under the head Surplus'. The balance of Reserves and Surplus', after adjusting negative balance of surplus shall be shown under the head Reserves and Surplus 'even if the resulting figure in negative.

(iii) Schedule III requires that Employee Stock Option outstanding should be disclosed under the heading Reserves and Surplus

(iv) Share application money refundable shall be shown under the sub-heading Other Current Liabilities. As this is refundable and not pending for allotment, hence it is not a part of equity.

(v) Deferred Tax Liability has been correctly shown under Non-Current Liabilities. But Deferred tax assets and deferred tax liabilities, both, cannot be shown in balance sheet because only the net Balance of Deferred Tax Liability or Asset is to be shown.

(vi) Under the main heading of Non-Current Assets, Fixed Assets are further classified as under:

I. Tangible assets II. Intangible assets

III. Capital work in Progress IV. Intangible assets under development.

Keeping in view the above, the CWIP shall be shown under Fixed Assets as Capital Work in Progress. The amount of Capital advances included in CWIP shall be disclosed under the sub heading Long term loans and advances under the heading Non-CurrentAssets.

(vii) Deferred Tax Asset shall be shown under Non-Current Asset. It should be the net balance of Deferred Tax Asset after adjusting the balance of deferred tax liability.

QUESTION 14

How will you disclose the following items while preparing the Balance Sheet of a company ?

1. Trade Receivables
2. Trade Payables
3. Current Maturities of Long-term debt.

SOLUTION:

1. Trade Receivables are to be classified as Current Assets if Expected Realization period is either within the Operating Cycle Period of within the 12 months period.
2. Trade Payables are to be classified as Current Liabilities if expected payment period is either within the 12 months period.
3. Current Maturities of Long-term Debt represents that portion of long-term borrowings which is due within 12 months from the date of Balance Sheet or with in Operating Cycle Period. It appears under the head 'Current Liabilities and sub-head 'Other Current Liabilities'. For example 12% Debentures of Reliance Ltd. Rs. 100 lacs (20% Redeemable within 1 year). Rs. 20 lacs will appear as Current maturity of Long-term Debt under the head 'Current Liabilities' and sub-head 'other Current Liabilities and Rs. 80 lacs will appear under the head 'Non-Current Liabilities' and sub head 'Long-Term Borrowing'.

QUESTION 15

State under which head these accounts should be classified in balance Sheet, as per Schedule III to The Companies Act 2013:

i) Shares application money received in excess of issued share capital.
ii) Share option outstanding account.
iii) Unpaid matured debenture and interest accrued thereon.
iv) Uncalled liability on shares and other partly paid investments.
v) Calls unpaid.
vi) Intangible Assets underdevelopment
vii) Money received against share warrant.
viii) Long term maturity of finance lease obligation.

SOLUTION:

Classification of following accounts for the presentation in Schedule III to be Companies Act, 2013.

	Accounts	Head
i)	Share application money received in excess of issue share capital	Other Current liabilities.
ii)	Share option outstanding account	Reserve & Surplus
iii)	Unpaid matured debenture and interest accrued thereon	Other Current Liabilities.

iv)	Uncalled liability on share and other partly paid investment.	Contingent Liabilities and commitments-Commitments to the extend not provided for
v)	Calls unpaid	Share Capital
vi)	Intangible Assets under development	Fixed Assets
vii)	Money received against share warrant	Shareholder's Fund
viii)	Long term maturity of finance lease obligation	Long term Borrowings.

QUESTION 16

The management of X Ltd. Contends that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opined that the value of opening and closing work in process would be more or less the same. Accordingly, the management had not separately disclosed work in process in its financial statements. Comment in line with schedule III.

SOLUTION:

Schedule III to the Companies Act, 2013 requires the disclosure of opening and closing WIP under broad heads by way of additional information (General Instruction 5 (iii)). In addition, AS-2 also requires the valuation of WIP. Therefore, the non-disclosure in the financial statements by the company amounts to violation of Schedule III.

QUESTION 17

Is non-disclosure of source from which Bonus shares have been issued, a violation of Schedule III to the Companies Act, 2013?

SOLUTION

No, since Schedule III does not require such disclosure. Schedule III merely requires the disclosure of aggregate number and class of shares allotted as fully paid up bonus shares for a period of years immediately preceding the balance sheet date is the Notes to accounts.

QUESTION 18

ICAI Ltd. Paid Rs. 25 lakhs as advance to Y Ltd. Towards the purchase of printing machinery on 15.01.2015 with delivery instruction to deliver the same in the last week of June, 2015. Further on 15.02.2015 X Ltd. Purchased two diesel generator sets from Y Ltd. For Rs. 30 Lakhs on 90 days Credit term. In the accounts for 2014-15, X Ltd. Intends to adjust the advance paid against Credit purchase and show the net amount of Rs. 5 lakhs as due from them. As the Statutory Auditor, how would you deal with this?

SOLUTION:

Since X Ltd. Has paid advance amount to the supplier of machinery to be used in the project, such advance amount should be grouped under the main heading 'Non-Current Assets' with the sub-head as Fixed Assets with a sub-classification as 'Capital work-in-Progress.' This is as per requirement of Schedule iii to the Companies Act, 2013 and the existing accounting practice.

It the advance is for purchase of their machinery, it should be grouped under a separate head-'Long Term Loan and advance' with a sub-classification as 'Capital Advance' under the main heading 'Non-current Assets'. In view of the above, the proposal of X Ltd. To show the net balance in the personal accounts of Y Ltd. Is not correct. Such proposal will conceal the two material items in the balance sheet-one, expenditure towards capital asset and the other current liability for purchase of the generator set.

Hence, the auditor should advice X Ltd., to show these two items separately. If X Ltd., does not accept the advice, the auditor should qualify his report with suitable quantification of amount involved.

PROBLEM 19

ICAI Ltd. Issued Bonds to the tune of Rs. 100 lacs and provided security to the tune of Rs. 80 lacs for the same. It insists that it will disclose the Bonds as "Secured" in the balance Sheet of the company. Comment.

SOLUTION:

Prima Facie, the Bonds Issued to the tune of Rs. 100 lacs are provided with security to the tune of Rs. 80 lacs i.e. neither fully secured nor unsecured. Guidance Note on the 'Terms used in Financial Statements' issue by ICAI, states "Secured Loans' as loan secured wholly or partly against tan assets. Hence the Bond should be classified under 'Secured Loans' for the purpose of disclosure in the balance sheet. However the nature of security should be clearly specified.

QUESTION 20

What are the mandatory disclosures to be made in notes to accounts under the heading of share capital as per schedule 3?

SOLUTION

a. The number and amount of shares authorized.

b. The number of shares issued, subscribed and fully paid, and subscribed but not fully paid.

c. Par value per share.

d. ***A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period.***

e. The rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital.

f. Shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate.

g. ***Shares in the company held by each shareholder holding more than 5 per cent, shares specifying the number of shares held.***

h. Shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts.

i. For the period of five years immediately preceding the date as at which the Balance Sheet is prepared.

    i. Aggregate number and class of shares allotted as fully paid-up pursuant to contract(s) without payment being received in cash.

    ii. Aggregate number and class of shares allotted as fully paid-up by way of bonus shares.

    iii. Aggregate number and class of shares bought back.

j. Terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date.

k. Calls unpaid (showing aggregate value of calls unpaid by directors and officers).

l. Forfeited shares (amount originally paid-up).

QUESTION 21

What are the mandatory disclosures to be made under the heading of Reserves & Surpluses?

SOLUTION

As per the provisions of schedule 3 of companies act 2013, the reserves of a company should be classified as follows:

1) Capital Reserves;
2) Capital Redemption Reserve;
3) Securities Premium Reserve;
4) Debenture Redemption Reserve;
5) Revaluation Reserve;

6) Share Options Outstanding Account;

7) Other Reserves (specify the nature and purpose of each reserve and the amount in respect thereof);

8) Surplus i.e., balance in Statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus snares and transfer to/from reserves, etc.;

(Additions and deductions since last balance sheet to be shown under each of the specified heads);

Reserve specifically represented by earmarked investments shall be termed as a "fund". **Debit balance of statement of profit and loss** Shall be shown as a negative figure under the head "Surplus". Similarly, the balance of "Reserves and Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.

QUESTION 22

Explain the meaning of share warrants?

SOLUTION

Meaning: A share warrant is a bearer document of title to shares and can be issued only by public limited companies and that to against fully paid up shares only.

A share warrant cannot be issued by a private company, because the share warrant states that its bearer is entitled to a number of shares mentioned there in. It is a negotiable document and is easily transferable by mere delivery to another person. The holder of the share warrant is entitled to receive dividend as decided by the company.

A share warrant is accompanied by attached coupons for the payment of future dividends.

There are three parts of a share warrant:

(1) The counter foil.

(2) Share Warrant proper.

(3) The dividend coupons.

<u>**Conditions for the issue of a share warrant:**</u>

(1) **Only public limited companies:** Share warrant can be issued by the public limited companies. It cannot be issued by private companies.

(2) **Against share certificate of fully paid up shares:** A share warrant is only issued against share certificate of fully paid up shares.

(3) Provision in the Articles: There must be a provision in the Articles of Association regarding the issue of share warrant. If there is a provision, the company can issue a share warrant. If there is no provision in the Articles, the company cannot issue a share warrant.

(4) Permission of the Central Government: Prior permission from the Central Government is necessary for the issue of share warrant.

(5) Share warrant not issued originally: Share warrant are not issued originally at the time of initial issue.

(6) At the request of the share holder: A share warrant is issued at the request of the Shareholders / member and not by the company at its own initiative.

In simple terms, a warrant is like an option issued by a company that gives the holder the right to buy stock from the company at a specified price within a certain designated time period. Generally speaking, warrants are issued by the company whose stock underlies the warrant and when an investor exercises a warrant, he or she buys stock from the company. A stock warrant is a way for a company to raise money through equity (stocks). A stock warrant is a smart way to own shares of a company because a warrant usually is offered at a price lower than that of a stock option. ^1

Like an option, a warrant does not represent actual ownership in the stock of the company and it is simply the right (but not the obligation) to buy shares at a certain price in the future.

The main difference between warrants and call options is that warrants are issued and guaranteed by the company, whereas options are exchange instruments and are not issued by the company. Also, the lifetime of a warrant is often measured in years, while the lifetime of a typical option is measured in months

1. A share warrant can be issued only when the shares are fully paid up whereas a share certificate can be issued at any stage without the shares being fully paid up.
2. A share warrant is a negotiable instrument but a share certificate is not.
3. A share certificate is a document showing prima facie title to the shares represented thereby but a share warrant is the share security itself capable of easy transfer.
4. A holder of a share certificate is a member of the company but the holder of a share warrant is not, unless the articles otherwise provide.
5. A share certificate can be issued both by a public and a private company but a share warrant is issued only by a public company.

QUESTION 23

How will you disclose the following items while preparing the Balance Sheet of a Company?

Item	Major Head	Sub-Head	Sub-Sub-Head
Preference Share whose redemption overdue	Shareholder's Funds (As per ICAI's Guidance Note)	Share Capital	
Share Application money pending Allotment-Not exceeding Issued Capital and to the extend not refundable	Shareholder's Fund	Share Capital	
Share Application Money pending Allotment-to the extent refundable	Current Liabilities	Other Current Liabilities	
Debit Balance of Profit & Loss A/c	Shareholder's Funds	Reserves and Surplus (As a Negative Figure)	
Loans repayable after Operating Cycle	Non-Current liabilities	Long-term Borrowings	
Loans repayable within Operating Cycle/12 months	Current Liabilities	Short-Term Borrowing	
Loans repayable on demand	Current liabilities	Short-Term Borrowing	
Trade Payables to be settled within Operating Cycle /12 months	Current Liabilities	Trade Payables	
Interest accused and due on Long-Term Borrowings	Current Liabilities	Other Current Liabilities	
Outstanding Expenses	Current Liabilities	Other Current Liabilities	

Tax Payable	Current Liabilities	Other Current Liabilities	
Bank Overdraft	Current Liabilities	Other Current liabilities	
Unpaid/Unclaimed Dividend	Current Liabilities	Other Current Liabilities	
Matured Deposits	Current Liabilities	Other Current Liabilities	
Matured Debentures	Current Liabilities	Other Current Liabilities	Current Maturities of Long-Term Debt.
That portion of Long-Term Borrowings repayable within 12 months	Current Liabilities	Other Current Liabilities	
Provision for tax	Current Liabilities	Short-Term Provisions	
Declared Dividend	Current Liabilities ›Note: This treatment is as per ICAI's Guidance Note and AS 4)	Other Current Liabilities	It may be noted that revised schedule VI requires merely the disclosure in Note to Accounts.
Provision for Employee Benefits to the settled with 12 months	Current Liabilities	Short-Term Provisions	
Provision for Employee Provident Fund to be settled after 12 months	Non-Current Liabilities	Long-term Provisions	
Provision for Employee Provident Fund to be settled after 12 months	Non-Current Liabilities	Long-term Provision	

Live Stock	Non Current Assets	PPE	Tangible Assets
Brands	Non Current Assets	PPE	Intangible Assets
Intellectual Property Rights	Non Current Assets	PPE	Intangible Assets
Licenses and Franchise	Non Current Assets	PPE	Intangible Assets
Building under construction	Non Current Assets	Fixed Assets	Capital work-in-Progress
Computer Software under Development	Non-Current Assets	Fixed Assets	Intangible Assets under Development
Investment in Property	Non-Current Assets	Non-Current Investments	
Capital Advances	Non-Current Assets	Long-Term Loans and Advances	
Security Deposits	Non-Current Assets	Long-Term Loans and Advances	
Deposits with Custom Authorities	Non-Current Assets	Long-Term Loans and Advances	
Loans & Advances Receivable after 12 months	Non-Current Assets	Long-term loans and advances	
Discount/Loss on issue of Debentures /Share Issued Exp. To be w/o after 12 months **Preliminary Expenses**	As per Para 56 of AS 26, Intangible	Other Non-Current Assets	

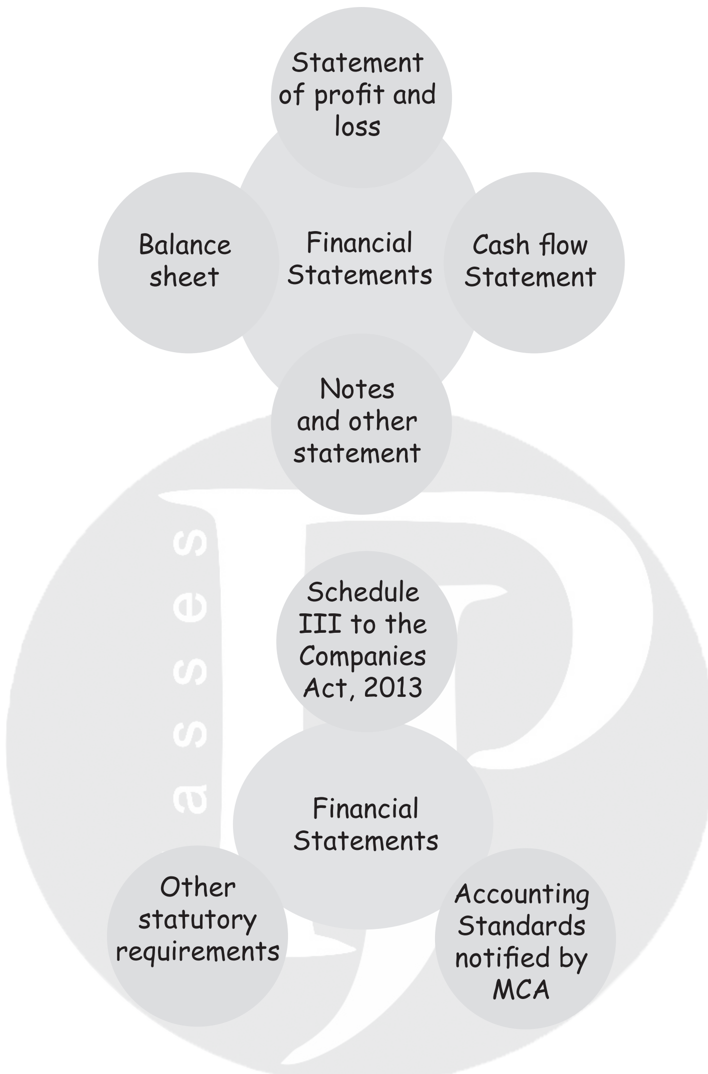
Preliminary Expenses	As per Para 56 of AS 26, intangible Assets', Preliminary expenses are to be recognized as expenses as and when they are incurred. Hence, Preliminary Expenses are not to appear in the Balance Sheet.		
Work-in-Progress	Current Assets	Inventories	
Loose Tools	Current Assets	Inventories	
Stores & Spares	Current Assets	Inventories	
Trade Receivables to be realized within 12 months/ Operating Cycle	Current Assets	Trade Receivables	
Provision for Doubtful Debts	Current Assets	Trade Receivables (Shown by way of deduction).	
Cheques/Drafts on hand	Current Assets	Cash and Cash Equivalents	
Bank Deposits with more than 12 months maturity	Current Assets	Cash and Cash Equivalents	
Loan & Advances receivable within 12 months	Current Assets	Short-term Loans and Advances	
Prepaid Expenses	Current Assets	Other Current Assets	
Interest accrued on Investments	Current Assets	Other Current Assets	

Unpaid Amount on Shares subscribed by Subscribers to Memorandum of Association	Current Assets (Note: Subscribed and paid up share capital will include such unpaid amount)	Other Current Assets	
Calls Unpaid on Shares other than those subscribed by Subscribers to Memorandum of Associations	Notes to Accounts (Note : Subscribed and paid up Share Capital will be net of Calls unpaid).		
Guarantees	Notes to Accounts	Contingent Liabilities and Commitments	Contingent Liabilities
Bills Discounted but not yet matured	Notes to accounts	Contingent Liabilities and Commitments	Contingent liabilities.
Uncalled Liabilities on partly paid Shares held as Investments	Notes to Accounts	Contingent Liabilities and Commitments	Commitments
Uncalled liability on partly paid Debentures held as investments.	Notes to Accounts	Contingent Liabilities and Commitments	Commitments.
Arrears of Fixed Cumulative Dividends on Preference Shares	Notes to Accounts	Contingent Liabilities and Commitments	Commitments.
Allocations and Appropriations such as Dividend, bonus Shares and Transfer to/from Reserves	Notes to Accounts	Reserves and Surplus	Surplus

NOTES

COMPANY FINAL ACCOUNTS

OVERVIEW



MEANING OF COMPANY

As per Section 2 (20) of the Companies Act, 2013, "Company" means a company incorporated under the Companies Act, 2013 or under any previous company law (e.g., the Companies Act, 1956). Different types of companies have been defined (under various sub-sections of the Companies Act, 2013) as follows:

2(21) "**company limited by guarantee**" means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being would up;

2(22) "**Company limited by shares**" means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them;

2(42) "**Foreign company**" means any company or body corporate incorporated outside India which-

(a) has a place of business in India whether by itself or through an agent physically or through electronic mode; and

(b) conducts any business activity in India in any other manner.

2(45) " **Government company**" means any company in which not less than 51% of the paid-up share capital is held by the Central Government, or by any State Government of Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company;

2(62) "**One Person Company**" means a company which has only one person as a member;

2(68) "**Private company**" means a company having a minimum paid-up share capital as may be prescribed, and which by its articles,-

(i) restricts the right to transfer its shares;

(ii) except in case of One Person Company, limits the number of its members to two hundred;

Provided that where two or more person hold one or more shares in a company jointly, they should, for the purposes of this sub-clause, be treated as a single member;

Provided further that-

(A) person who are in the employment of the company; and

(B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, should not be included in the number of members; and

(iii) prohibits any invitation to the public to subscribe for any securities of the company;

2(71) "**Public Company**" means a company which -

(a) is not a private company;

(b) has a minimum paid-up share capital as may be prescribed:

Provided that a company which is a subsidiary of a company, not being a private company, should be deemed to be public company for the purposes of this Act even where such subsidiary company continue to be a private company in its articles;

2(85) "**Small company**" means a company, other than a public company,

(i) paid-up share capital of which does not exceed Rs.50 lakhs or such higher amount as may be prescribed which should not be more than ₹ 5 crores; or

(ii) turnover which as per its last profit and loss account does not exceed ₹ 2 crores; or such higher amount as may be prescribed which should not be more than ₹ 20 crores:

Provided that nothing in this clause should apply to: (A) a holding company or a subsidiary company (B) a company registered under section 8

(C) a company or body corporate governed by any special Act

2(92) "**Unlimited company**", in relation to one or more other companies, means a

company of which such companies are subsidiary companies;

2(46) "**Holding company**", in relation to one or more other companies, means a company of which such companies are subsidiary companies;

2(87) "**Subsidiary company**", or "**subsidiary**", in relation to any other company (that is to say the holding company), means a company in which the holding company-

(i) control the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies;

Provided that such class or classes of holding companies as may be prescribed should not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation - For the purposes of this clause,-

(a) a company should be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

(b) the composition of a company's Board of Directors should be deemed to be controlled by another company if that other company by exercise of some power exercisable by its at its discretion can appoint or remove all or a majority of the directors;

(c) the expression "company" includes anybody corporate ;

(d) "layer" in relation to a holding company means its subsidiary or subsidiaries;

MAINTENANCE OF BOOKS OF ACCOUNT

As per Section 128 of the Companies Act, 2013, Every company should prepare and keep at its registered office books of account and other relevant books and papers and financial statement of every financial year which give a true and fair view of the state of the affairs of the company, including that of tis branch office or offices, if any, and explain the transactions effected both a the registered office and its branches and such books should be kept on accrual basis and according to the double entry system of accounting:

Provided further that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

Maintenance at Place other than Registered Office

It is a duty of the company to inform the Registrar of Companies within seven days of the decision in case the Board of Directors decides to maintain books at the place other than the registered office.

In Case of Branch Office

Where a company has a branch office in India or outside India, it should be deemed to have complied with the provisions of the Act, if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarized returns periodically are sent by the branch office to the company at its registered office or such other place as the Board of Directors has decided.

Section 128 (3) further lays down that the books of account and other books and papers maintained by the company within India should be open for inspection at the registered office of the company or at such other place in India by any director during business hours, and in the case of financial information, if any, maintained outside the country, copies of such financial information should be maintained and produced for inspection by any director subject to such conditions as may be prescribed. Section 128 (5) further states that the books of account of every company relating to a period of not less than

8 financial years immediately preceding a financial years, or where the company had been in existence for a period less than 8 years, in respect of all the preceding years together with the vouchers relevant to any entry in such books of account should be kept in good order.

STATUTORY BOOKS

The following statutory books are required to be maintained by a company under different sections of the Companies Act, 2013:

- ➢ Register of Investments of the company held in its own name (Section 187)
- ➢ Register of Charges (Section 85)
- ➢ Register of Members (Section 88)
- ➢ Register of Debenture- holders and other Security holders (Section 88)
- ➢ Minute Books (Section 118)
- ➢ Register of Contracts, or arrangements in which directors are interested (Section 189)
- ➢ Register of directors and key managerial personnels and their shareholding (Section 170

➢ Register of Loans and Investments by Company (Section 186)

In addition, a company usually maintains a number of statistical books to keep a record of its transactions which have resulted either in the payment of money to it or constitute the basis on which certain payment have been made by it.

➢ Registers and documents relating to the issue of shares are:

(i) Share Application and Allotment Book

(ii) Share Call Book

(iii) Certificate Book

(iv) Register of Members

(v) Share Transfer Book

(vi) Dividend Register.

ANNUAL RETURN

In accordance with Section 92 of the Companies Act, 2013, every company should prepare an annual return in the form prescribed by the Companies Act,

2013 signed by a director and the company secretary, or where there is no

company secretary, by a company secretary in practice:

Provided that in relation to One Person Company and small company, the annual return should be signed by the company secretary, or where there is no company secretary, by the director of the company.

The annual return should be filed with the Register within 60 days from the day on which each of the annual general meeting (AGM) is held or where no AGM is held in any year, within 60 days from the date on which AGM should have been held along with a statement showing the reason why AGM was not held.

FINAL ACCOUNTS

Under Section 129 of the companies Act, 2013, at the annual general meeting of a company, the Board of Directors of the company should lay financial statements before the company:

Financial Statements as per Section 2(40) of the Companies Act, 2013, inter-alia include

(i) a balance sheet as at the end of the financial year:

(ii) a profit and loss account, or in the case of a company carrying on any activity

Not for profit, an income and expenditure account for the financial year;

(iii) cash flow statement for the financial year;

(iv) a statement of changes in equity, if applicable; and

(v) any explanatory note annexed to, or forming part of, any document referred to in (i) to (iv) above:

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

Requisites of Financial Statements

It should give a true and fair view of the state of affairs of the company as at the end of the financial year.

Provisions Applicable

(1) Specific Act is Applicable

For instance, any

(a) insurance company

(b) banking company or

(c) any company engaged in generation or supply of electricity[1]* or

(d) any other class of company for which a Form of balance sheet or Profit and loss account has been prescribed under the Act governing such class of company

(2) In case of all other companies

Balance Sheet as per Form set out in Part I of Schedule III and Statement of

Profit and Loss as per Part II of Schedule III

Points to be kept in mind while prepare final accounts:

- Requirements of schedule III to the Companies Act;
  - Other statutory requirements;
  - Accounting Standards notified by Ministry of Corporate Affairs (MCA) (AS 1 to AS 29 [1]*);
- Statements and Guidance Notes issued by the Institute Chartered

Accountants of India (ICAI); which are necessary for understanding the accounting treatment/ valuation/ disclosure suggested by the ICAI.

COMPLIANCE WITH ACCOUNTING STANDARDS

As per section 133 of the Companies Act, it is mandatory to comply with accounting standards notified by the Central Government from time to time.

Schedule II of the Companies Act, 2013

As per section 129 of the Companies Act, 2013, Financial statements should give a true and fair view of the state of affairs of the company or companies and comply with the accounting standards notified under section 133 and should be in the form or forms as may be provided for different class or classes of companies in Schedule III under the Act. Schedule III to the Companies Act, 2013 has been given as Annexure at the end of this chapter.

EXAMPLE 1

In the financial statements of the financial year 20X1-20X2, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ₹ 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non- disclosure a violation of the Schedule III to the Companies Act? Comment.

SOLUTION

Schedule III has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1st April, 20X1. As per Part I of the Schedule III, a company should, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 20X2 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Schedule III does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Schedule III to the Companies Act.

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* The Electricity Act, 2000 does not specify any format for presentation of Financial Statements. Therefore, Schedule III of the Companies Act, 2013 is followed by Electricity Companies in preparation of their financial statements.

EXAMPLE 2

The management of Loyal Ltd. contends that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in process would be more or less the same. Accordingly, the management had not separately disclosed work in process in its financial statements. Comment in line with Schedule III.

SOLUTION

Schedule II to the companies Act does not require that the amounts of WIP at the beginning and at the end of the accounting period to be disclosed in the statement of profit and loss. Only changes in inventories of WIP need to be disclosed in the statement of profit and loss. Non-disclosure of such change in the statement of profit and loss by the company may not amount to violation of Schedule III if the differences between opening and closing WIP are not material.

EXAMPLE 3

Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 20X1:

	Amount ₹ in lakhs
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of ₹ 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

SOLUTION

Part I of Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) should be shown as a negative figure under the head 'Surplus'. Similarly, the balance of

'Reserves and Surplus', after adjusting negative balance of surplus, should be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balances of profit and loss i.e. ₹ 250 lakhs exceeds the total of all the reserves i.e. ₹ 250 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by ₹ 20 lakhs, which should be disclosed on the face of the balance sheet. Thus the treatment done by the company is incorrect.

EXAMPLE 4

Sumedha Ltd. took a loan from bank for ₹ 10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First instalments is due on 30.09.20X1 of ₹ 1,00,000. Determine how the loan will be classified in preparation of Financial Statements of Sumedha Ltd. for the year ended 31st March, 20X1 according to Schedule III.

1* AS 6 and AS 8 have been withdrawn

SOLUTION

As per Schedule III, a liability should be classified as current when it satisfies any of the following criteria;

(i) It is expected to be settled in the company's normal operating cycle;

(ii) It is held primarily for the purpose of being traded;

(iii) It is due to be settled within twelve months after the reporting date;

or

(iv) the company does not have an unconditional right to defter settlement of the liability for at least twelve months after the reporting date.

In the given case, instalments due on 30.09.20X1 and 31.03.20X2 will be shown under the head „other current liabilities' as per criteria (c).

Therefore, in the balance sheet as on 31.3.20X1, ₹ 8,00,000 (₹ 1,00,000 x 8 instalments) will be shown under the heading 'Long term Borrowing's and ₹ 2,00,000 (₹ 1,00,000 x 2 instalments) will be shown under the heading 'Other Current Liabilities' as current maturities of loan from bank.

Note: Students may note that the questions based on preparation of statement of Profit and Loss and Balance Sheet and explanatory notes as per Schedule III have been given in this Unit. However, questions requiring preparation of cash Flow statements have been separately given in the next unit of this chapter.

MANAGERIAL REMUNERATION

QUESTION 1

The following is the Draft Profit & Loss A/c of Mudra Ltd., the year ended 31st March, 20X1:

		₹			₹
To	Administrative, Selling and distribution expenses	8,22,542	By	Balance b/d	5,72,350
To	Directors fees	1,34,780	By	Balance from Trading A/c	40,25,365
To	Interest on debentures	31,240	By	Subsidies received from Govt.	2,73,925
To	Managerial	2,85,350			

To	Depreciation on fixed assets	5,22,543			
To	Provision for Taxation	12,42,500			
To	General Reserve	4,00,000			
To	Investment Revaluation Reserve	12,500			
To	Balance c/d	14,20,185			
		48,71,640			48,71,640

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was ₹ 5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

SOLUTION:

Calculation of net profit u/s 198 of the Companies Act, 2013

	₹	₹
Balance from Trading A/c		40,25,365
Add: Subsidies received from Government		2,73,925
		42,99,290
Less; Administrative, selling and distribution expenses	8,22,542	
Director's fees	1,34,780	
Interest on debentures	31,240	
Depreciation on fixed assets as per Schedule II	5,75,345	(15,63,907)
Profit u/s 198		27,35,383

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ₹ 27,35,383 = ₹ 3,00,892

QUESTION NO 2

The following extract of Balance Sheet of X Ltd. was obtained:

Balance Sheet (Extract) as on 31st March, 20X1

Liabilities	₹
Authorised capital:	
20,000, 14% preference shares of ₹ 100	20,00,000
2,00,000 Equity shares of ₹ 100 each	2,00,00,000
	2,20,00,000
Issued and subscribed capital :	
15,000, 14% preference shares of ₹ 100 each fully paid	15,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Share suspense account	20,00,000
Reserves and surplus:	
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
Secured loans:	
15% Debentures	65,00,000
Unsecured loans:	
Public deposits	3,70,000
Cash credit loan from SBI (Short term)	4,65,000
Current Liabilities:	
Trade Payables	3,45,000
Assets:	
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (Dr. balance)	15,25,000

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if X Ltd. is an investment company?

SOLUTION

Computation of effective capital:

	Where X Ltd. is a non- investment company	Where X ltd. is an investment company
	₹	₹
Paid-up share capital -		
15,000, 14% Preference shares	15,00,000	15,00,000
1,20,000 Equity shares	96,00,000	96,00,000
Capital reserves (1,95,000-1,50,000)	45,000	45,000
Securities premium	50,000	50,000
15% Debentures	65,00,000	65,00,000
Public Deposits	3,70,000	3,70,000
(A)	1,80,65,000	1,80,65,000
Investments	75,00,000	-
Profit and Loss account (Dr. balance)	15,25,000	15,25,000
(B)	90,25,000	15,25,000
Effective capital (A-B)	90,40,000	1,65,40,000

QUESTION NO 3

Kumar Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(₹ in lakhs)
Paid up equity share capital	120
Paid up Preference share capital	20
Reserves (including Revaluation reserve ₹ 10 lakhs)	150
Securities premium	40
Long term loans	40
Deposits repayable after one year	20
Application money pending allotment	720

Accumulated losses not written off	20
Investments	180

Kumar Ltd. has only one whole-time director, Mr. X. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Part II of Schedule XIII, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years.

SOLUTION

Calculation of effective capital and maximum amount of monthly remuneration

	(₹ in lakhs)
Paid up equity share capital	120
Paid up Preference share capital	20
Reserve excluding Revaluation reserve (150-10)	140
Securities premium	40
Long term loans	40
Deposits repayable after one year	380
	(20)
Less: Accumulated losses not written of Investments	(180)
Effective capital for the purpose of managerial remuneration	180

Since Kumar Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @ 60,00,000 per annum.

Note: Revaluation reserve and application money pending allotments are not included while computing effective capital of Kumar Ltd.

QUESTION NO 4

The manager of M/s Slow and Steady Limited is entitled to get a salary of Rs.2,500 per month plus 1 per cent commission on the net profit of the company after such salary and commission. The following is the Profit and Loss account of the company for the year ended 30th June 1998:

Particulars	Rs.	Particulars	Rs.
To Salaries, wages and bonus	1,92,500	By Gross profit b/d	9,00,000
To General expenses	74,000	By Subsidy from Govt.	60,000
To Depreciation	82,000	By Profit on sale of assets (cost price Rs.2,50,000 and written- down value Rs.1,80,000)	1,00,000
To Expenditure on scientific research (cost of an apparatus)	14,000		
To Manager's salary	30,000		
To Commission to manager (on account)	6,000		
To Provisions for bad and doubtful debts	17,500		
To Provision for income tax	2,40,000		
To Proposed dividend	1,00,000		
To net profit	3,04,000		
	10,60,000		**10,60,000**

Depreciation as schedule ii of companies act 2013 amounts to Rs.81,000. Calculate the remuneration payable to the manager.

QUESTION NO 5

From the following profit and loss account for the year ended 31.3.2002 of XY Ltd., calculate commission payable to the managing director and other directors @ 5% and 1% of the net profit respectively:

Particulars	Rs.	Particulars	Rs.
To administrative expenses	4,00,000	By Gross profit b/d	12,00,000
To interest on loans	50,000	By Profit on sale of investments	15,000
To managing directors remun.	15,000	By dividend on shares	9,000
To depreciation	55,000	By transfer fees	1,000
To directors fees	4,000		
To capital redemption reserve	40,000		

To provision for taxation	2,50,000		
To development rebate reserve	15,000		
To net profit	3,96,000		
	12,25,000		12,25,000

Depreciation as per Schedule II is Rs.45,000.

QUESTION NO 6

Pagadiwala Containers Limited having three whole-time director on its Board, the others being part-time directors, earned profits during the year ended 31st March 1997 to the tune of Rs.2,50,000 after taking into consideration the following:

Depreciation on fixed assets

(Depreciation admissible as per the Companies Act Rs.32,800) Rs. 47,800

Provisions for income-tax Rs. 1,22,500

Capital expenditure included in General expenses charged to

Profit and Loss account Rs. 12,500

Calculate the maximum remuneration payable to the whole time directors and the part-time directors assuming that the remuneration payable to the whole-time directors is to be calculated on net profits remaining after payment of commission to part-time directors and that the commission to part-time directors is to be calculated on net-profits remaining after payment of remuneration to whole-time directors.

QUESTION NO 7

(a) From the following particulars of Ganga Limited, you are required to calculate the managerial remuneration in the following situation:

(b) There is only one whole time director.

(c) There are two whole time directors.

(d) There are two whole time directors a part time director and a manager.

	Rs.
Net profit before provision for income tax and managerial Remuneration, but after depreciation and provision for repairs	8,70,410

Depreciation provided for in the books	3,10,000
Provision for repairs of machinery during the year	25,000
Depreciation allowable under Schedule XIV	2,60,000
Actual expenditure incurred on repairs during the year	15,000

DIVISIBLE PROFIT

One of the important functions of company accounting is to determine the amount of profits which is available for distribution to the shareholders as dividend. This is necessary since the amount for profits disclosed by the Profit & Loss Account, in every case, is not available for distribution. The availability of profits for distribution depends on a number of factors, e.g., their composition, the amount of provisions and appropriations that must be made out of them in priority, etc.

Meaning of Dividend

(a) A dividend is a distribution of divisible profit of a company among the members according to the number of shares held by each of them in the capital of the company and the rights attaching thereto.

(b) Such a distribution may or may not entail a release of assets; it would be where a distribution involves payment of cash.

(c) But when profits are capitalised and the amount distributed is applied towards payment of bonus shares, issued free to the shareholders, no part of the assets of the company can be said to have been released since, in such a case, profits are only capitalised, thereby increasing the paid up capital of the company. The company does not give up any asset.

As per Section 2 (35) of the Companies Act, 2013, term "Dividend" includes interim dividend also.

Under Section 123 (1) of the Companies Act, 2013, no dividend should be declared or paid by a company for any financial year except -

(a) Out of the profits of the company for that financial year arrived at after providing for depreciation in accordance with the provisions of section 123 (2), or

(b) Out of the profits for any previous financial years arrived at after providing for depreciation in accordance with the provisions of that sub section and remaining undistributed; or

(c) Out of both the above;

(d) Out of the moneys provided by the Central Government or any State Government for the payment of dividend by the Company in pursuance of any guarantee given by the that government

Provided that no dividend should be declared or paid by a company from its reserves other than free reserves.

Declaration of a dividend presupposes that there is a trading profit or a surplus available for distribution, arrived at after providing for depreciation on assets, not only for the year in which the profits were earned but also for any arrears of depreciation of the past years, calculated in the manner prescribed by sub- section (2) of Section 123.

Sub-section (3) of Section 124 further states that the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared : Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend should not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

Dividends cannot be declared except out of profits.

Capital cannot be returned to the shareholders by way of dividend.

Dividend can be declared and paid by a company only out of the profits or free reserves (other than moneys provided by Central or State Govt.) as the payment of dividend from any other source will amount to payment of dividend from capital units.

Provisions for Depreciation

Section 123 (2) provides that depreciation must be to the extent specified in Schedule II to the Companies Act, 2013. Further, when the assets are sold, discarded, demolished or destroyed in any financial year, the excess of the written down value over its sale proceeds as scrap, if any should be written off in the same financial year.

Declaration and Payment of Dividend

For the purpose of second proviso to sub-section (1) of section 123, a company may declare dividend out of the accumulated profits earned by it in previous years and transferred by it to the reserves, in the event of inadequacy or absence of profits in any year, subject to the fulfillment of the following conditions as per Companies (Declaration and Payment of Dividend) Rules, 2014:

(1) The rate of dividend declared should not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year: provided that this sub-rule should not apply to a company, which has not declared any dividend in each of the three preceding financial year.

(2) The total amount to be drawn from such accumulated profits should not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

(3) The amount so drawn should first be utilized to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.

(4) The balance of reserves after such withdrawal should not fall below 15% of its paid up share capital as appearing in the latest audited financial statement.

(5) No company should declared dividend unless carried over previous losses and depreciation not provided in previous year are set off against profit of the company of the current year the loss or depreciation, whichever is less, in previous years is set off against the profit of the company for the year for which dividend is declared or paid.

<u>Transfer to Reserves</u>

I The Board of Directors are free and can appropriate a part of the profits to the credit of a reserve or reserves as per section 123 (1) of the Companies Act, 2013.

II Appropriation of a part of profit is sometimes made under law.

(A) For example, under the Bank Regulation Act, a fixed percentage of the profit of a banking company must first be transferred to the General Reserve before any dividend can be distributed.

(B) Transfer of a part of profit to a reserve is also necessary where the company has undertaken, at the time of raising of loan, that before any part of its profits is distributed, a specified percentage of the profit every year should be credited to a reserve for the repayment of the loan and until the time for repayment arrives, the amount should remain invested in a specified manner.

III Apart from appropriations aforementioned, it may also be necessary to provide for losses and arrears of depreciation and to exclude capital profit, as mentioned earlier, to arrive at the amount of divisible profit.

<u>Declaration of Dividend</u>

As per Section 123 of the Companies Act, 2013, Board of Directors of a company may declare dividend including interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared:

Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend should not be declared at a rate

higher than the average dividends declared by the company during the immediately preceding there financial years.

The amount of the dividend, including interim dividend, should be deposited in a scheduled bank in a separate account within five days from the date of declaration of such dividend.

No dividend should be paid by a company in respect of any share therein except to the registered shareholder of such share or to his order or to his banker and should not be payable except in cash: Provided that nothing in Section 123 should be deemed to prohibit the capitalization of profits or reserves of a company for the purpose of issuing fully paid-up bonus shares or paying up any amount for the time being unpaid on any shares held by the members of the company:

Provided further that any dividend payable in cash may be paid by cheque or warrant or in any electronic mode to the shareholder entitled to the payment of the dividend.

Dividend on preference shares

(a) Holders of preference shares are entitled to receive a dividend at a fixed rate before any dividend is declared on equity shares.

(b) But such a right can be exercised subject to there being profits and the Directors recommending payment of the dividend.

Dividend on partly paid shares:

➢ A company may if so authorised its Article, pay a dividend in proportion to the amount paid on each share (Section 51 of the Companies Act, 2013).

Calls in Advance

Calls paid in advance do not rank for payment of dividend.

Payment of Dividend

As per Section 124 of the Companies Act, 2013:

(1) Where a dividend has been declared by a company but has not been paid or claimed within thirty days from the date of the declaration to any shareholder entitled to the payment of the dividend, the company should, within seven days from the date of expiry of the said period of thirty days, transfer the total amount of dividend which

remains unpaid or unclaimed to a special account to be opened by the company in that behalf in any scheduled bank to be called the Unpaid Dividend Account.

(2) The company should, within a period of ninety days of making any transfer of an amount under this section to the Unpaid Dividend Account, prepare a statement containing the names, their last known addresses and the unpaid dividend to be paid to each person and place it on the website of the company, if any, and also on any other website approved by the Central Government for this purpose, in such form, manner and other particulars as may be prescribed.

(3) If any default is made in transferring the total amount or any part thereof to the Unpaid Dividend Account of the company, it should pay, from the date of such default, interest on so much of the amount as has not been transferred to the said account, at the rate of 12% per annum and the interest accruing on such amount should ensure to the benefit of the members of the company in proportion to the amount remaining unpaid to them.

(4) Any person claiming to be entitled to any money transferred to the Unpaid Dividend Account of the company may apply to the company for payment of the money claimed.

(5) Any money transferred to the Unpaid Dividend Account of a company in pursuance of this section which remains unpaid or unclaimed for a period of seven years from the date of such transfer should be transferred by the company along with interest accrued, if any, thereon to the Fund "Investor Education and Protection Fund" established section 125 and the company should send a statement in the prescribed form of the details of such transfer to the authority which administers the said Fund and that authority should issue a receipt to the company as evidence of such transfer.

(6) All shares in respect of which unpaid or unclaimed dividend has been transferred to "Investor Education and Protection Fund" should also be transferred by the company in the name of Investor Education and Protection Fund along with a statement containing such details as may be prescribed:

Provided that any claimant of shares transferred above should be entitled to claim the transfer of shares from Investor Education and Protection Fund in accordance with such procedure and on submission of such documents as may be prescribed.

(7) If a company fail to comply with any of the requirements of this section, the company will be punishable with fine which will not be less than five lakh rupees but which may extend to twenty-five lakh rupees and every office of the company who is in default will be punishable with fine which will not be less than one lakh rupees but which may extend to five lakh rupees.

QUESTION NO 8

Due to inadequacy of profits during the year ended 31st March, 20X2, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From the following particulars, ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

	₹
17,500 9% Preference shares of ₹ 100 each, fully paid up	17,50,000
8,00,000 Equity shares of ₹ 10 each, fully paid up	80,00,000
General Reserves as on 1.4.20X1	25,00,000
Capital Reserves as on 1.4.20X1	3,00,000
Revaluation Reserves as on 1.4.20X1	3,50,000
Net Profit for the year ended 31st March, 20X2	3,00,000

Average rate of dividend during the last five year has been 12%

SOLUTION

Amount that can be drawn from reserves for 10% dividend

10% dividend on ₹ 80,00,000		₹ 8,00,000
Profits available		
Current year profit	3,00,000	
Less: Preference dividend	(1,57,500)	(1,42,500)
Amount which can be utilized from reserves		6,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 20X1:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. ₹ 12,25,000 [10% of (80,00,000 +17,50,000 + 25,00,000)]

Condition III

The balance of reserves after drawl ₹ 18,42,500 (₹ 25,00,000 - ₹ 6,57,500) should not fall below 15% of its paid up capital ie. ₹ 14,62,500 (15% of ₹ 97,50,000]

Since all the three conditions are satisfied, the company can withdraw ₹ 6,57,500 from accumulated reserves. (as per Declaration and Payment of Dividend Rules, 2014.)

QUESTION NO 9

Rajianand Carpets Limited started its business in 1992 and closed its accounting on 31st December. The position in different years is given below:

Year	Depreciation charge Rs.	Net profit or net loss Rs.	Dividend declared Rs.
1992	15,000	10,000 (loss)	
1993	18,000	26,000	10,000
1994	20,000	30,000 (loss)	
1995	30,000	35,000	10,000
1996	28,000	10,000 (loss)	
1997	32,000	18,000	

The company wants to know the amount of divisible profit in its hand as at 31st December 1997 in order to determine the rate of dividend that can be declared.

QUESTION NO 10

Due to inadequacy of profit during the year the company proposes to declare dividend out of general reserve. From the following particulars you are to ascertain the amount that can be drawn applying the Companies (Declaration of Dividend out of Reserve) Rules,1975:

	Rs.
5,000, 8% preference shares of Rs.100 each fully paid	5,00,000
2,00,000 equity shares of Rs.10 each fully paid	20,00,000
General reserve	6,00,000
Capital reserve on revaluation of assets	1,00,000
Share premium	1,00,000
Profit and Loss account (credit balance)	18,000
Net profit for the year	1,02,000

Average rate of dividend during the last five years; 15%

DIVIDEND DISTRIBUTION TAX

1. Meaning

(a) The Finance Act, 1997, has introduced Chapter XIID (Sections 115O and 115Q) on "Special Provisions Relating to Tax on Distributed profits of Domestic Companies" [Hereinafter referred to as "DDT" (Dividend Distribution tax)]. The ICAI has also issued Guidance Note on Accounting for Corporate Dividend Tax.

(b) The salient features of DDT are as below:

(i) DDT is in addition to the income-tax chargeable in respect of the total income of a domestic company.

(ii) With effect from 1st Oct, 20X1 dividend and income distribution tax is leviable on gross dividend/ income and not on the net dividend/ income distributed to shareholders and unit holders as per Income-tax Act, 1961.

(iii) The dividends chargeable to DDT may be out of the current profits or accumulated profits.

(iv) The rate of DDT is 15% (excluding surcharge of 12% plus secondary and higher education cess is (2+1) 3%).

(v) DDT should be payable even if no income-tax is payable by the domestic company on its total income.

(vi) DDT is payable to the credit of the Central Government within 14 days of

(a) declaration of any dividend,

(b) distribution of any dividend, or

(c) payment of any dividend. Whichever is the earliest.

(vii) DDT paid should be treated as the final payment of tax on the dividends and no further credit therefore should be claimed by the company or by any person in respect of the tax so paid.

(viii) The expression "dividend" should have the same meaning as is given to "dividend" in Section 2 of the Companies Act, 20X1.

To make clear the undertaking of the concept of grossing for calculation of CDT, an example has been given as follows:

EXAMPLE

X Ltd., a domestic company, has distributed on 5th April 20X1, dividend of ₹ 230 lakh to its shareholders. Compute the Dividend Distribution tax payable by X Ltd.

SOLUTION

Calculation of corporate dividend tax

Particulars	₹ in lakh
Dividend distributed by X Ltd.	230
Add: Increase for the purpose of grossing up of dividend $\left[\frac{15}{100-15} \times 230\right]$	40.59
Gross dividend	270.59
Dividend distribution tax @ 15% [15% of ₹ 270.59 lakhs]	40.59
Add: Surcharge @ 12%	4.88
	45.47
Add: Education cess @ 2% and SHEC @ 1%	1.36
Dividend Distribution tax	46.83

2. Accounting for DDT

As per AS 4 (Revised), Final dividend declared after the balance sheet date is recognized in the financial year in which it has been approved by the shareholder, i.e., there is no provision for dividend on the balance sheet date (to be disclosed by way of note only).

In view of this, DDT on dividend, being directly linked to the amount of the dividend concerned, should also be reflected in the accounts of the same financial year even though the actual tax liability in respect thereof may arise in a different year.

3. Disclosure and Presentation of DDT in Financial Statements

- Dividend on shares is an appropriation of profit which is not shown in the Statement of Profit and Loss as per the Schedule III to the Companies Act, 2013. It is shown as an appropriation or allocation of profit in the "Notes to Accounts" of the "Reserves and Surplus" item of the Balance sheet.
- Since dividend are appropriation to profits which is not the part of disclosure in the Statement of Profit and Loss, therefore, a question arises with regard to discourse and presentation of DDT, as to whether the said tax should also be disclosed as appropriation or should be disclosed along with the normal income-tax provision for the year.
- The liability in respect of DDT arises only if the profits are distributed as dividends whereas the normal income-tax liability arises on the earning of the taxable profits

- Since the DDT liability relates to distribution of profits as dividends which are disclosed as appropriation / allocation of profit in the 'Notes to Accounts' of 'Reserves and Surplus', it is appropriate that the liability in respect of DDT should also be disclosed therein.
- It is felt that such a disclosure would give a proper picture regarding payments involved with reference to dividends.
- DDT liability should be recognized in the accounts of the same financial year in which the dividend concerned is recognized.
- DDT liability should be disclosed separately in the 'Notes to Accounts' of 'Reserves and Surplus', as follows:

Dividend	XXXXX	XXXXX
Dividend Distribution tax thereon	XXXXX	

The accounting treatment of Dividend Distribution tax in the financial statements of a company can be explained with the help of following example:

On 31st March, 20X1 X Ltd. declared dividend amounting to ₹ 425 lacs for the year 20XX-20X1. The Dividend Distribution tax liability (15% of corporate dividend tax including surcharge @ 12% Education Cess @ 2% and SHEC @ 1% i.e. 17.304%) arises as per Income-tax Act, 1961. In this case, calculate the grossing-up of dividend and separately disclose the charge for DDT in the 'Notes to Accounts' of 'Reserves and Surplus'.

SOLUTION

Calculation of grossing -up of dividend:

Particulars	**₹ in lakh**
Dividend distributed by X Co.	425
Add: Increase for the purpose of grossing up of dividend $\left[\frac{15}{100-15} \times 230\right]$	75
Gross dividend	500
Dividend Distribution tax @ 17.304%	86.52

(An Extract)

- 'Notes to Accounts' of 'Reserves and Surplus'
- for the year ended 31st March, 20X1

	₹ (lacs)	₹ (lacs)
Dividend	425.00	
Dividend Distribution tax	86.52	511.52

The Dividend Distribution tax should be disclosed separately under, the head 'Other Current Liabilities'. The relevant extracts of the Balance Sheet of X Ltd. can be shown as follows:

Balance Sheet as on 31st March, 20X1

'Other Current Liabilities'	₹ (lacs)
Dividend declared	425.000
Declared Distribution tax	86.52

PRACTICAL PROBLEMS ON FINANCIAL STATEMENTS

QUESTION NO 11

The following is the Trial Balance of Omega Limited as on 31.3.20X2:

(Figures in ₹ '000)

	Debit		Credit
Land at cost	220	Equity Capital (Shares of ₹ 10 each)	300
Plant & Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.3.X2)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1670		1670

Additional Information:

(i) The authorised share capital of the company is 40,000 shares of ₹ 10 each.

(ii) The company on the advice of independent valuer wish to revalue the land at ₹ 3,60,000.

(iii) Declared final dividend @ 10%

(iv) Suspense account of ₹ 4,000 represent cash received for the sale of some of the machinery on 1.4.20X1. The cost of the machinery was ₹ 10,000 and the accumulated depreciation thereon being ₹ 8,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost. You are required to prepare Omega Limited's Balance Sheet as on 31.3.20X2 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.20X2 as per Schedule III. Ignore previous years' figures & taxation.

QUESTION NO 12

You are required to prepare Balance sheet and statement of Profit and Loss from the following trial balance of Haria Chemicals Ltd. for the year ended 31st March, 20X1.

Haria Chemical Ltd.
Trial Balance as at 31st March, 20X1

Particulars	₹	Particulars	₹
Inventory	6,80,000	Equity Shares	
Furniture	2,00,000	Capital (Shares of ₹ 10 each)	25,00,000
Discount	40,000	11% Debentures	5,00,000
Loan to Directors	80,000	Bank loans	6,45,000
Advertisement	20,000	Trade payables	2,81,000
Bad debts	35,000	Sales	42,68,000
Commission	1,20,000	Rent received	46,000
Purchases	23,19,000	Transfer fees	10,000
Plant and Machinery	8,60,000	Profit & Loss account	1,39,000
Rentals	25,000	Depreciation provisions :	
Current account	45,000	Machinery	1,46,000
Cash	8,000		
Interest on bank loans	1,16,000		
Preliminary expenses	10,000		
Fixtures	3,00,000		
Wages	9,00,000		
Consumables	84,000		
Freehold land	15,46,000		

Tools & Equipment's	2,45,000		
Goodwill	2,65,000		
Trade receivables	4,40,000		
Dealer aids	21,000		
Transit insurance	30,000		
Trade expenses	37,000		
Distribution freight	54,000		
Debenture interest	55,000		
	85,35,000		85,35,000

Additional information: Closing Inventory on 31-3-20X1: ₹ 8,23,000.

QUESTION NO 13

You are required to prepare a Statement of Profit and Loss and Balance Sheet from the following Trial Balance extracted from the books of the International Hotels Ltd., on 31st March, 20X2:

Authorised Capital divided into 5,000 6% Preference Shares of ₹ 100 each and 10,000₹

	Dr.	Cr.
	₹	₹
Authorised Capital divided into 5,000 6%		
Preference Shares of ₹ 100 each and ₹ 10,000		
Equity Shares of ₹ 100 each		15,00,000
Subscribed Capital		
5,000 6% Preference Shares of ₹ 100 each		5,00,000
Equity Capital		8,05,000
Purchases - Wines, Cigarettes, Cigars, etc.	45,800	
- Foodstuffs	36,200	
Wages and Salaries	28,300	
Rent, Rates and Taxes	8,900	
Laundry	750	
Sale - Wines, Cigarettes, Cigars, etc.		68,400
- Food		57,600

Coal and Firewood	3,290	
Carriage and Coolidge	810	
Sundry Expenses	5,840	
Advertising	8,360	
Repairs	4,250	
Rent of Rooms		48,000
Billiard		5,700
Miscellaneous Receipts		2,800
Discount received		3,300
Transfer fees		700
Freehold Land and Building	8,50,000	
Furniture and Fittings	86,300	
Inventory on hand, 1st April, 20X1		
Wines, Cigarettes. Cigars, etc.	12,800	
Foodstuffs	5,260	
Cash in hand	2,200	
Cash with bankers	76,380	
Preliminary and formation expenses	8,000	
2,000 Debentures of ₹ 100 each (6%)		2,00,000
Profit and Loss Account		41,500
Trade payables		42,000
Trade receivables	19,260	
Investments	2,72,300	
Goodwill at cost	5,00,000	
General Reserve		2,00,000
	19,75,000	19,75,000
Wages and Salaries Outstanding	1,280	
Inventory on 31st March, 20X2		
Wines, Cigarettes and Cigars, etc.	22,500	
Foodstuffs	16,400	

Depreciation: Furniture and Fittings @ 5% p.a.: Land and Building @ 2% p.a.

The Equity capital on 1st April, 20X1 stood at ₹ 7,20,000, that is 6,000 shares fully paid and 2,000 shares ₹ 60 paid. The directors made a call of ₹ 40 per share on 1st October 20X1. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹ 90 per share as fully paid. The Directors declare a dividend of 8% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

QUESTION NO 14

From the following particulars furnished by Pioneer Ltd. prepare the Balance Sheet as at 31st March, 20X1 as required by Schedule III of the Companies Act. Give notes at the foot of the Balance Sheet as may be found necessary-

		Debit ₹	Creit ₹
Equity Capital (Face value of ₹ 100)			10,00,000
Calls in Arrears		1,000	
Land		2,00,000	
Building		3,50,000	
Plant and Machinery		5,25,000	
Furniture		50,000	
General Reserve			2,10,000
Loan from State Financial Corporation			1,50,000
Inventory :			
Finished Goods	2,00,000		
Raw Materials	50,000	2,50,000	
Provision for Taxation			68,000
Trade receivables		2,00,000	
Advances		42,700	
Dividend Payable			60,000
Profit and Loss Account			86,700
Cash Balance		30,000	
Cash at Bank		2,47,000	
Loan (Unsecured)			1,21,000
Trade payables (For Goods and Expenses)			2,00,000
		18,95,700	**18,95,700**

The following additional information is also provided:

(1) 2,000 equity shares were issued for consideration other than cash.

(2) Trade receivables of ₹ 52,000 are due for more than six months.

(3) The cost of assets:

Building	₹ 4,00,000
Plant and Machinery	₹ 7,00,000
Furniture	₹ 62,500

(4) The balance of ₹ 1,50,000 in the loan account with State Finance Corporation is inclusive of ₹ 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

(5) Balance at Bank includes ₹ 2,000 with Perfect Bank Ltd. which is not a Scheduled bank.

(6) The company had contract for the erection of machinery at ₹ 1,50,000 which is still incomplete.

PROBLEMS & SOLUTIONS FOR SELF PRACTICE

QUESTION 15

State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

(i) Share application money received in excess of issued share capital.

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

(iv) Uncalled liability on shares and other partly paid investments.

(v) Calls unpaid.

(vi) Intangible Assets under development.

(vii) Money received against share warrant.

ANSWER

(i) Current Liabilities/ Other Current Liabilities

(ii) Shareholder's Fund/ Reserve & Surplus

(iii) Current liabilities/ Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholder's Fund/ Share Capital

(vi) Fixed Assets

(vii) Shareholder's Fund/ Money received against share warrants

QUESTION 16

The following extract of Balance Sheet of Star Ltd. (Non-investment) company was obtained:

Balance Sheet (Extract) as on 31st March, 20X1

Liabilities	₹
Authorised capital :	
60,000 14% preference shares of ₹ 100	60,00,000
6,00,000 Equity shares of ₹ 100 each	6,00,00,000
	6,60,00,000
Issued and subscribed capital :	
45,000, 14% preference shares of ₹ 100 each fully paid	45,00,000
3,60,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	2,88,00,000
Share suspense account	60,00,000
Reserves and surplus:	
Capital reserves (₹ 4,50,000 is revaluation reserve)	5,85,000
Securities premium	1,50,000
Secured loans:	
15% Debentures	1,95,00,000
Unsecured loans:	
Public deposits	11,10,000
Cash credit loan from SBI (short term)	3,95,000
Current Liabilities:	
Trade Payables	10,35,000
Assets:	
Investment in shares, debentures, etc.	2,25,00,000
Profit and Loss account (Dr. balance)	45,75,000

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Star Ltd. is an investment company?

ANSWER

Computation of effective capital:

	Where Stare Ltd. is a non-investment company ₹	Where Star Ltd. is an investments company ₹
Paid-up share capital -		
45,000, 145 Preference shares	45,00,000	45,00,000
3,60,000 Equity shares	2,88,00,000	2,88,00,000
Capital reserves (5,85,000 - 4,50,000)]	1,35,000	1,35,000
Securities premium	1,50,000	1,50,000
15% Debentures	1,95,00,000	1,95,00,000
Public Deposits	11,10,000	11,10,000
(A)	5,41,95,000	5,41,95,000
Investments	2,25,00,000	-
Profit and Loss account (Dr. balance)	45,75,000	45,75,000
(B)	2,70,75,000	45,75,000
Effective capital (A-B)	2,71,20,000	4,96,20,000

QUESTION 17

On 31st March, 20X1 Bose and Sen Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 20X1:

Credit Balances:

	₹
Equity shares capital, fully paid shares of ₹ 10 each	70,00,000
General Reserve	15,49,100
Loan from State Finance Corporation	10,50,000
(Secured by hypothecation of Plant & Machinery Repayable within one year ₹ 2,00,000)	
Loans: Unsecured (Long term)	8,47,000

Sundry Creditors for goods & expenses	14,00,000
(Payable within 6 months)	
Profit & Loss Account	7,00,000
Provision for Taxation	8,16,900
	1,33,63,000

Debit Balances:

	₹
Calls in arrear	7,000
Lands	14,00,000
Buildings	20,50,000
Plant and Machinery	36,75,000
Furniture & Fixture	3,50,000
Inventories: Finished goods	14,00,000
Raw Materials	3,50,000
Trade Receivables	14,00,000
Advances: Short -term	2,98,900
Cash in had	2,10,000
Balances with banks	17,29,000
Preliminary Expenses	93,100
Patents & Trademarks	4,00,000
	1,33,63,000

The following additional information is also provided in respect of the above balances:

(i) 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii) Cost of Building ₹ 28,00,000

(iii) Cost of Plant & Machinery ₹ 49,00,000

Cost of Furniture & Fixture ₹ 4,37,500

(iv) Trade receivables for ₹ 3,80,000 are due for more than 6 months.

(v) The amount of Balances with Bank includes ₹ 18,000 with a bank which is not a scheduled Bank and the deposit of ₹ 5 lakhs are for a period of 9 months.

(vi) Unsecured loan includes ₹ 2,00,000 from a bank and ₹ 1,00,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 20X1 as required under Schedule III of the Companies Act, 2013.

ANSWER

Bose and Sen Ltd.
Balance Sheet as on 31st March, 20X1

	Particulars	Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities			
1	**Shareholder's funds**		
a	Share capital	1	69,93,000
b	Reserves and Surplus	2	21,56,000
2	**Non-current liabilities**		
a	Long-term borrowings	3	16,97,000
3	**Current liabilities**		
a	Trade Payables		14,00,000
b	Other current liabilities	4	2,00,000
c	Short-term provisions	5	8,16,900
	Total		1,32,62,900
Assets			
1	**Non-current assets**		
a	Fixed assets		
	Tangible assets	6	74,75,000
	Intangible assets (Patents & Trade Marks)		4,00,000
2	**Current assets**		
a	Inventories	7	17,50,000
b	Trade receivables	8	14,00,000
c	Cash and bank balances	9	19,39,000
d	Short-term loans and advances		2,98,900
	Total		1,32,62,900

Notes to accounts

1	**Share Capital**		₹
	Equity share capital		
	Issued, subscribed and called up 7,00,000 Equity Shares of ₹ 10 each	70,00,000	
	(Out of the above 4,20,000 Shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(7,000)	69,93,000
		Total	**69,93,000**
2	**Reserves and Surplus**		
	General Reserve		15,49,100
	Surplus (Profit & Loss A/c)	7,00,000	
	Less: Preliminary expenses	(93,100)*	6,06,900
		Total	21,56,000
	* Preliminary expenses have been written off in line with Accounting Standards.		
3	**Long-term borrowings**		
	Secured		
	Term Loan		
	Loan from State Finance Corporation		8,50,000
	(₹ 10,50,000 - ₹ 2,00,000)		
	(Secured by hypothecation of Plant and Machinery		
	Unsecured		
	Bank Loan	2,00,000	
	Loan from related parties	1,00,000	
	Others	5,47,000	8,47,000
		Total	16,97,000
4	**Other current liabilities**		
	Current maturities of long-term debt- loan Instalment repayable within one year		2,00,000

5	**Short-term provisions**		
	Provisions for taxation		8,16,900
6	**Tangible assets**		
	Land		14,00,000
	Buildings	28,00,000	
	Less: Depreciation	(7,50,000)	20,50,000
		(b.f.)	
	Plant & Machinery	49,00,000	
	Less: Depreciation	(12,25,000 (b.f)	36,75,000
	Furniture & Fittings	4,37,500	
	Less: Depreciation	(87,500) (b.f.)	3,50,000
		Total	74,75,000
7	**Inventories**		
	Raw Material		3,50,000
	Finished goods		14,00,000
			17,50,000
8	**Trade receivables**		
	Debts outstanding for a period exceeding six months		3,80,000
	Other Debts		10,20,000
		Total	14,00,000
9	**Cash and bank balances**		
	Cash and cash equivalents		
	Cash at bank with Scheduled Banks	12,11,000	
	With others	18,000	12,29,000
	Cash in hand		2,10,000
	Other bank balances		
	Bank deposits for period of 9 months 5,00,000		5,00,000
		Total	19,39,000

QUESTION 18

From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part-I, Schedule III of the Companies Act, 2013.

Particulars		Debits ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory :			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payable (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building ₹ 30,00,000, Plant& Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due.

The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Schedule Bank.

(vi) Transfer ₹ 20,000 to general reserve is proposed by Board of directors.

(vii) Board of directors has declared dividend of 5% on the paid up capital.

ANSWER

Alpha Ltd.

Balance Sheet as on 31st March, 20X1

Particulars	Notes	₹
Equity and Liabilities		
1 **Shareholders' funds**		
a Share capital	1	49,95,000
b Reserves and Surplus	2	11,82,907
2 **Non-current liabilities**		
Long-term borrowings	3	13,17,500
3 **Current liabilities**		
a Trade Payables		8,00,000
b Other current liabilities	4	3,38,093
c Short-term provision	5	6,40,000
d Short-term borrowings		
	Total	**94,73,500**
Assets		
1 **Non-current assets**		
Fixed assets		
Tangible assets	6	56,25,000
2 **Current assets**		
a Inventories	7	12,50,000
b Trade receivables	8	10,00,000
c Cash and bank balances	9	13,85,000
d Short-term loans and advances		2,13,500
	Total	**94,73,500**

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of ₹ 100 each (of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
		Total	49,95,000
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations :		
	Transfer to General reserve	(20,000)	
	Dividend Payable (Refer WN)	(2,49,750)	
	DDT on dividend (Refer WN)	(50,843)	1,12,907
		Total	**11,82,907**
3	**Long- term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000-37,500)		
	(Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
		Total	**13,17,500**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500
	Dividend (Refer WN)	2,49,750	
	DDT on dividend (Refer WN)	50,843	3,00,593
			3,38,093

5	**Short-term provisions**		
	Provisions for taxation		6,40,000
6	**Tangible assets**		
	Land and Building	30,00,000	
	Less: Depreciation	(2,50,000) (b.f.)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500) (b.f.)	2,50,000
		Total	**56,25,000**
7	**Inventories**		
	Raw Materials		2,50,000
	Finished goods		10,00,000
		Total	**12,50,000**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
		Total	**10,00,000**
9	**Cash and bank balances**		
	Cash and cash equivalents		
	Cash at bank		
	With Scheduled Banks	12,25,000	
	With others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Other bank balances		Nil
		Total	**13,85,000**

Working Note:

Calculation of grossing-up of dividend

Particulars	₹
Dividend distributed by Alpha Ltd. (5% of 49,95,000)	2,49,750
Add: Increase for the purpose of grossing up of dividend $\left[\frac{15}{100-15} \times 2{,}49{,}750\right]$	44,074
Gross dividend	2,93,824
Dividend distribution tax @ 17.304%	50,843

QUESTION 19

Ring Ltd. was registered with a nominal capital of ₹ 10,00,000 divided into shares of ₹ 100 each. The following Trial Balance is extracted from the books on 31st March, 20X2:

Particulars	₹	**Particulars**	₹
Buildings	5,80,000	Sale	10,40,000
Machinery	2,00,000	Outstanding Expenses	4,000
Closing Stock	1,80,000	Provision for Doubtful	6,000
Loose Tools	46,000	Debts (1-4-20X1)	
Purchases (Adjusted)	4,20,000	Equity Share Capital	4,00,000
Salaries	1,20,000	General Reserve	80,000
Director's Fees	20,000	Profit and Loss A/c	50,000
Rent	52,000	(1-4-20X1)	
Depreciation	40,000	Creditors	1,84,000
Bed Debts	12,000	Provision for depreciation:	
Investment	2,40,000	On Building 1,00,000	
Interest accrued on investment	4,000	On Machinery 1,10,000	2,10,000
Debenture Interest	56,000	14% Debentures	4,00,000
Advances Tax	1,20,000	Interest on Debentures	28,000
Sundry expenses	36,000	accrued but not due	

Debtors	2,50,000	Interest on Investments	24,000
Bank	60,000	Unclaimed dividend	10,000
	24,36,000		24,36,000

You are required to prepare statement of Profit and Loss for the year ending 31st March, 20X2 and Balance sheet as at that date after taking into consideration the following information :

(a) Closing stock is more than opening stock by ₹ 1,60,000;

(b) Provide to doubtful debts @ 4% on Debtors

(c) Make a provision for income tax @ 30%.

(d) Depreciation expense included depreciation of ₹ 16,000 on Building and that of ₹ 24,000 on Machinery.

(e) The directors declared a dividend @ 25% and transfer to General Reserve @ 10%

(f) Bills Discounted but not yet matured ₹ 20,000.

ANSWER

Ring Ltd.

Profit and Loss Statement for the year ended 31st March, 20X2

	Particulars	Note No.	(₹ In lacs)
I	Revenue from operations		10,40,000
II	Other income (interest on investment)		24,000
III	Total Revenue [I+II]		10,64,000
IV	Expenses:		
	Cost of purchase [4,20,000+ 1,60,000]		5,80,000
	Changes in inventories [20,000-1,80,000]		(1,60,000)
	Employee Benefits Expense		1,20,000
	Finance Costs (debenture interest)		56,000
	Depreciation and Amortisation Expenses		40,000
	Other Expenses	8	1,24,000
	Total Expenses		7,60,000
V	Profit before Tax (III-IV)		3,04,000
VI	Tax Expenses @ 30%		(91,200)
VII	Profit for the period		2,12,800

Balance Sheet of Ring Ltd. as at 31st March, 20X2

Particulars	Note No.	₹
I Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	4,00,000
(b) Reserves and Surplus	2	2,22,442
(2) Non-Current Liabilities		
(a) Long-term Borrowings (14% debentures)		4,00,000
(3) Current Liabilities		
(a) Trade Payable (Sundry Creditors)		1,84,000
(b) Other Current Liabilities	3	1,62,358
(c) Short -term Provisions	4	91,200
Total		**14,60,000**
II ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	5	5,70,000
(b) Non-current Investments		2,40,000
(2) Current Assets		
(a) Inventories	6	2,26,000
(b) Trade Receivables	7	2,40,000
(c) Cash and bank balances		60,000
(d) Short Term Loans and Advances (Advances Payment of Tax)		1,20,000
(e) Other Current Assets (Interest accrued on investments)		4,000
Total		**14,60,000**

Note: There is a Contingent Liability for bills discounted but not yet matured amounting ₹ 20,000.

Notes to Accounts:

1	**Share Capital**		
	Authorised Capital		
	10,000 Equity Shares of ₹ 100 each Issued Capital		10,00,000
	4,000 Equity Shares of ₹ 100 each		4,00,000
	Subscribed Capital and fully paid		
	4,000 Equity Shares of ₹ 100 each		4,00,000
			4,00,000
2	**Reserve and Surplus**		
	General Reserve [₹ 80,000 + ₹ 21,280]		1,01,280
	Balance of Statement of Profit & Loss Account		
	Opening Balance	50,000	
	Add: Profit for the period	2,12,800	
		2,62,800	
	Appropriations		
	Transfer to General Reserve @ 10%	(21,280)	
	Equity Dividend payable [25% of ₹ 4,00,000]	(1,00,000)	
	Dividend Distribution Tax (W.N.1)	(20,358)	1,21,162
			2,22,442
3	**Other Current Liabilities**		
	Unclaimed Dividend		10,000
	Outstanding Expenses		4,000
	Interest accrued on Debentures		28,000
	Equity Dividend payable	1,00,000	
	Dividend Distribution Tax	20,358	1,20,358
			1,62,358
4	**Short-Term Provision**		
	Provision for Tax	91,200	

5	**Tangible Assets**		
	Buildings	5,80,000	
	Less: Provisions for Depreciation	1,00,000	4,80,000
	Plant and Equipment	2,00,000	
	Less: Provision for Depreciation	1,10,000	90,000
			5,70,000
6	**Inventories**		
	Closing Stock of Finished Goods	1,80,000	
	Loose Tools	46,000	2,26,000
7	**Trade Receivables**		
	Sundry Debtors	2,50,000	
	Less: Provision for Doubtful Debts	(10,000)	2,40,000
8	**Other Expenses**		
	Rent		52,000
	Director's Fees		20,000
	Bad Debts		12,000
	Provisions for Doubtful Debts		4,000
	(4% of ₹ 2,50,000 less ₹ 6,000)		
	Sundry Expenses		36,000
			1,24,000

Working Note

Calculation of Dividend distribution tax

Particulars		₹
(i)	Grossing-up of dividend	
	Dividend distributed by Ring Ltd. 25% of 4,00,000	1,00,000
	Add: Increase for the purpose of grossing up of dividend	17,647
	[1,00,000 x (15/(100-15)]	
	Gross dividend	1,17,647
(ii)	Dividend distribution tax @ 17.304% of ₹ 1,17,647	20,358

QUESTION 20

Provisional Balance Sheet of P Ltd. as at 31^{st} March, 2014 was as under:

Liabilities	₹	₹	Asset	₹
Share Capital			Fixed Assets (at cost less depreciation)	7,00,000
50,000 equity shares of ₹ 10 each, ₹ 7 per share called up	3,50,000			
Less: Calles in arrears on 10,000 Shares @ ₹ 2 per share	(20,000)		Cash & bank balances	2,00,000
	3,30,000		Other Current assets	6,00,000
Add: Calls in advance on 40,000 shares @ ₹ 3 per share	1,20,000	4,50,000		
20,000 10% Redeemable preference shares of ₹ 10 each, fully paid up		2,00,000		
Reserves & Surplus :				
General Reserve		3,00,000		
Profit & Loss Account		2,70,000		
Trade Payables		2,80,000		
		15,00,000		15,00,000

Calls in arrear are outstanding for 6 months. Calls in advance were also received 6 months back. Interest @ 10% p.a. on calls in advance and 12% p.a. on calls in arrear are allowed/ charged.

The Board of Directors have recommended that:

(i) Dividend for the year 2013-14 be declared @ 20% on equity shares.

(ii) Money on calls in advance be refunded. Calls in Arrear with interest received.

(iii) The preference shares, which are redeemable at a premium of 10% any time after 31^{st} March, 2014 may be redeemed by issue of 10% Debentures of ₹ 100 in cash.

Show Journal Entries to give effect to the above proposals including payment and receipt of cash and redraft the Statement of Profit and Loss and Balance Sheet of P Ltd.

ANSWER

Journal Entries

P Ltd.

		Dr.	Cr.
		₹	₹
Interest on Calls in Arrear A/c	Dr.	1,200	
To Profit & Loss A/c			1,200
(Being interest @ 12% p.a. on ₹ 20,000 for 6 months credited to Profit and Loss Account			
Bank A/c	Dr.	21,200	
To Calls in Arrear A/c			20,000
To Interest on Calls in Arrear A/c			1,200
(Being interest on calls in arrear received)			
Profit & Loss A/c	Dr.	6,000	
To Interest on Calls in Advance A/c			6,000
(Being interest @ 10% on ₹ 1,20,000 for 6 months allowed on calls in advance)			
Profit & Loss A/c	Dr.	90,000	
To Preference Dividend			20,000
To Equity Dividend			70,000
(Being dividend @ 10% on Preference share capital & 20% on Equity share capital payable			
Calls in Advance A/c	Dr.	1,20,000	
Interest on Calls in Advance A/c	Dr.	6,000	
To Bank A/c			1,26,000
(Being amount of calls in advance along with interest refunded)			
Bank A/c	Dr.	2,20,000	
To 10% Debenture A/c			2,20,000
Being 2,200 Debentures of ₹ 100 each issued in cash)			

Profit & Loss A/c	Dr.	20,000	
To Premium on Redemption of Preference shares a/c			20,000
Being premium payable on redemption)			
Profit & Loss A/c	Dr.	1,55,200	
General Reserve A/c	Dr.	44,800	
To Capital Redemption Reserve A/c			2,00,000
(Transfer to capital redemption reserve)			
Preference Share Capital A/c	Dr.	2,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	20,000	
To Preference Shareholder A/c			2,20,000
(Amount due on redemption of preference shares)			
Preference Shareholders A/c	Dr.	2,20,000	
To Bank A/c			2,20,000
(Amount paid to preference shareholders)			

Note: The preference shares are redeemed by fund generated by issue of debentures, as specifically required by the question. However, the required amount has been transfer to CRR as per section 55 of the Companies Act, 2013 to remain capital intact.

Statement of Profit & Loss of P Ltd. For the year ended 31st March, 2014

Particulars	Notes no.	₹
a **Profit**		**2,70,000**
Other Income	5	1,200
b **Expenses**		
Other Expenses	6	(6,000)
c **Profit before tax**		**2,65,200**
Less: Provision for tax		-
Profit after tax		**2,65,200**

Balance Sheet of P Ltd. as on 31st March 2014

Particulars	Notes no.	₹
Equity and Liabilities		
1 Shareholder's funds		
a Share capital	1	3,50,000
b Reserves and Surplus	2	4,55,200
2 Non-current liabilities		
a Long-term borrowings	3	2,20,000
3 Current liabilities		
a Trade Payables		2,80,000
b Other current liabilities	4	90,000
Total		13,95,200
Assets		
1 Non-current assets		
a Fixed assets		7,00,000
2 Current assets		
a Cash and cash equivalents		95,200
b Other current assets		6,00,000
Total		13,95,200

Notes to accounts

		₹	₹
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid-up		
	50, equity shares of ₹ 10 each, ₹ 7 paid up		3,50,000
	Total		**3,50,000**
2	**Reserved and Surplus**		
	Capital redemption reserve		2,00,000
	General reserve	3,00,000	

	Less: Utilised for redemption of preference share		(44,800)	2,55,200
	Profit after tax		2,65,200	
	Less: Adjustments/ Appropriations			
	Premium on redemption	(20,000)		
	Preference Dividend	(20,000)		
	Equity Dividend	(70,000)		
	Capital Redemption Reserve	(1,55,200)		
			(2,65,200)	
		Total		**4,55,200**
3	**Long-term borrowings**			
	Secured			
	10% Debentures			2,20,000
		Total		**2,20,000**
4	**Other current liabilities**			
	Dividend payable			90,000
		Total		**90,000**
5	**Other Income**			
	Interest on calls in arrear			1,200
6	**Other Expenses**			
	Interest on calls in advances			6,000

Working Notes:

Cash and Bank balance as on 31st March, 2014

		₹
Cash and bank balance (given)		2,00,000
Add:	Recovery of calls in arrear and interest thereon	21,200
	Proceeds from issue of 10% Debentures	2,20,000
		4,41,200
Less:	Payment of calls in advance and interest thereon	(1,26,000)
	Redemption of preference shares	(2,20,000)
		95,200

ACCOUNTING STANDARD:2

VALUATION OF INVENTORIES

QUESTION NO 1 (AUDIT PAPER 2009)

Grow More Private Limited a Wholesaler in Food and Other Agro Products has valued the year end Inventory of Net Realizable Value on the ground that AS-2 does not apply to inventory of Agriculture Products Comment.

SOLUTION

1. Principle: AS-2 does not apply to Producers Inventories of Livestock, Forest Product and Mineral Ores and Gases. These can be valued at Net Realizable value as per established practices.
2. Analysis and Conclusion:
   (a) However, the above principle does not apply in Trader's Inventory of Food and Agro Products. In the above case, Grow More Ltd. is only a Trader (Wholesaler) and not the producer. Hence, they cannot value their inventory at Net Realizable Value.
   (b) As AS-2, the Company should value the Inventory at lower of cost or Net Realisable Value. If the Management of M/s. Grow More Ltd. does not agree, the Auditor should qualify the Report.

QUESTION NO 2 (MAY 2006 4 MARKS)

Varada Ltd. purchased goods at the cost of Rs. 40 Lakhs in October. Till the end of the Financial year, 75% of the Stocks were sold. The Company wants to disclose Closing Stock at Rs. 10 Lakhs. The expected Sale value is Rs. 11 Lakhs and a commission at 10% on sale is payable to the Agent. What is the correct value of Closing Stock.

SOLUTION

Principle: Inventories are valued at – (a) Cost or (b) Net Realisable Value, whichever is lower.

Particulars	Amount (Rs.)
1. Cost Inventory (Rs. 40 Lakhs x 25% Unsold)	10.00 Lakhs
2. NRV (Expected Sales Value Rs.11 Lakhs Less cost to make the sale 10% Rs. 1.10 Lakh)	9.90 Lakhs
3. Value of Inventory under AS 2 = Least of the above	9.90 Lakhs

QUESTION NO 3

Gajanan Ltd. manufacturing garments and fancy terry towels has valued at the year end, its Closing Stock of Inventories of Finished Goods, (for which firm contracts have been received and goods are packed for export, but the ownership of which has not been transferred to the foreign buyers) at the Realisable Value inclusive of Profit and the export cash Incentives. Give your views on the above.

SOLUTION

1. General Principle: AS-2 requires that inventories should be valued at lower of cost and NRV. A departure from the general principle can be made if – (a) the AS is not applicable, or (b) having regard to the nature of industry say, plantations, inventories may be valued at market prices or price subsequently realized.
2. Special Items (Para 2) :AS-2 also states that Producers' Inventories of Livestock, Agriculture Crops, etc. are measured at NRV based on established practices if – (a) sale is assured under a Forward Contract or a Government Guarantee, or (b) where market is homogenous, and there is a negligible risk of failure to sell.
3. Analysis: In the given case the sale is assured under a Forward Contract but the goods are not of a nature covered by exceptions under Para 2. Hence, the Closing Stock of Finished Goods should have been valued at cost, as it is lower than the realizable value (as it includes profit). Also, Export Cash Incentives should not be included for valuation purposes.
4. Conclusion: Hence, the Company's policy of valuation is not correct.

QUESTION NO 4

State with reference to AS, how will you value the inventories in the following case. For kilogram of Finished Goods consisted of Material cost Rs. 100 per kg. Direct Labour Cost Rs. 20 per kg. and Direct Variable Production Overhead Rs.10per kg. Fixed Production charges for the year on normal capacity of 1,00,000 kg. is Rs.10 Lakhs. 2,000 kg. of Finished Goods are on stock at the year end.

SOLUTION

Computation of Value of stock (2000 kgs)

Particulars	Rs.
Direct Material (2,000 kgs. x Rs. 100 per kg.)	2,00,000
Direct Labour Cost (2,000 kgs. x Rs. 20 per kg.)	40,000
Direct Variable Production Overhed (2,000 kgs. x Rs.10 per kg.)	20,000

Fixed Production Overheads $\left(\frac{\text{Rs.10 Lakhs}}{\text{1 Lakh Kgs.}} \times \text{2,000 Kgs}\right)$	20,000
Value of Closing Stock	2,80,000

QUESTION NO 5 (FIXED OVERHEADS)

Lambodar Ltd's normal production volume is 50,000 units and the Fixed Overheads are estimated at Rs. 5,00,000 Give the treatment of Fixed Production. OH under AS-2 if actual production during a period was – (a) 42,000 units (b) 50,000 units and (c) 60,000 units.

SOLUTION

Fixed Production OH Recovery Ratio (based on Normal Capacity) =

$\frac{\text{Rs. 5,00,000}}{\text{50,000 units}}$ = Rs. 10 per unit.

The treatment of Fixed OH in different cases is as under:-

Particulars	Situation (a)	Situation (b)	Situation (c)
1. Normal Production	50,000 units	50,000 units	50,000 units
2. Actual Production	42,000 units	50,000 units	60,000 units
3. Difference in Production (1-2)	8,000 units (Short) Actual < Normal	Nil Actual = Normal	10,000 units (Excess) Actual > Normal
4. Recovery Rate to be used as per AS-2	Normal Rate = Rs.10 per unit	Normal Rate = Rs. 10 per unit	Revised Rate = $\frac{\text{Rs.500,000}}{\text{60,000 units}}$ = Rs. 8.3 pu
5. Inventoriable Costs i.e. Recovered Costs	42,000 units = Rs.10 = Rs.4,20,000	50,000 units x Rs.10 = Rs.5,000,000	60,000 units x Rs. 8.33 = Rs. 5,00,000
6. Balance treated as Period Costs	Rs. 80,000	Nil	Nil

QUESTION NO 6 (SALES AT SEPARATION POINT: JOINT COST)

Vaiabh Industries produces four Joint Products L,M, N and P from a joint process, incurring a cost of Rs. 571,200. Allocate the Joint Costs with the following information.

Particulars	L	M	N	P
Quantity Produced (in '000s)	10000 Kgs.	12000 Kgs.	14000 Kgs.	16000 Kgs.
Sales Price per Kg.	Rs.13	Rs. 17	Rs.19	Rs.22
Stock Qty. at the end of year	1,625 Kgs.	400 Kgs.	Nil	1,550 Kgs.

Also determine the value of Closing Stock in respect of the above products.

SOLUTION

As per AS-2, costs of Joint Products should be apportioned on a rational and consistent basis

The Sales Value at Split off Point may be used for apportionment in the given case.

Particulars	L	M	N	P
1. Production Quantity	10000 Kgs.	12000 Kgs.	14000 Kgs.	16000 Kgs.
2. Sale Price per Kg	Rs.13	Rs. 17	Rs.19	Rs.22
3. Total Sale Value (1x2)	Rs.130,000	Rs.2,04,000	Rs.2,66,000	Rs.3,52,000
4. Joint Costs apportioned (based on Sale value) (Based on 3)	Rs. 78,000	Rs. 1,22,400	Rs.159,600	Rs.2,11,200
5. Average Joint Costs per Kg. (4/1)	Rs. 7.80	Rs. 10.20	Rs.11.40	Rs.13.20
6. Closing Stock Qty. (given)	1,625 Kg.	400 Kg.	Nil	1,550 Kg.
7. Value of Closing Stock (5x6)	Rs. 12,675	Rs. 4,080	Nil	Rs. 20,460

Note: It is presumed that the NRV of the products as at the Balance Sheet date are higher than the respective costs.

QUESTION NO 7 (TREATMENT OF BY PRODUCT)

In a manufacturing proves of Vijaya Limited, one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of Cost of production process is here under:-

Items	Units	Amount (Rs.)	Output (Unit)	Closing Stock on 31st March
Raw Material	15000	1,60,000	MP1-6,250	800
Wages	-	82,000	MP2-5,000	200
Fixed Overhead	-	58,000	BP-1,600	-
Variable Overhead	-	40,000	-	-

Average Market Price of MP1 and MP2 is Rs. 80 per unit and Rs. 50 per unit respectively. By- Product is sold at Rs. 25 per unit. There is a Profit of Rs. 5,000 on sale of By-Product after incurring Separate Processing Charges of Rs. 4,000 and Packing Charges of Rs. 6,000, Rs. 6,000 was realized from Sale of Scrap, Calculate the value of Closing Stock of MP1 and MP2 as on 31st March.

SOLUTION

1. Joint Cost = Rs.1,60,000 + Rs. 82,000 + Rs 58,000 + Rs. 40,000
= Rs.3,40,000

2. Estimated NRV Charges of By Product = Final Sales value (-) Separate Processing Charges(-)Packing = (1,600 Units x Rs.25(-)Rs.4,000 (-) Rs.6,000 = Rs. 30,000

3. Net Joint Cost = Total Joint Cost (-) NRV of By Product (-) Proceeds from Sale of Scrap
= Rs. 3,40,000 (-) Rs. 30,000 (-) Rs. 6,000 = Rs. 3,04,000

4. Value of Inventory:

Particulars	MP1	MP2
(a) Production Quantity	6,250 units	5,000 units
(b) Sale Value of Production Quantity	80x6250 = Rs. 5,00,000	50x5,000 = Rs. 2,50,000
(c) Joint Cost apportioned based on Sale value 2-1	Rs. 2,02,667	Rs. 1,01,333
(d) Average Joint Cost per unit (c/a)	Rs. 32.43	Rs. 20.60
(e) Closing Stock Units (given)	800 units	200 units
(f) Value of Closing Stock (dxe)	Rs. 25,944	Rs. 4,054

Note: It is assumed that Net Realisable Value is more than Cost.

QUESTION NO 8 (TREATMENT OF ABNORMAL LOSS)

Akshay Pharma Ltd. ordered 16,000 kg. of certain material at Rs. 160 per unit. The Purchase Price includes GST Rs. 10 per kg. in respect of which full GST Credit is admissible. Freight incurred amounted to Rs. 1,40,160. Normal Transit Loss is 2%. The Company actually received 15,500 kg. and consumed 13,600 kg. of Material. Compute the Cost of Inventory under AS-2 and the amount of Abnormal Loss.

SOLUTION

1. **Quantity Reconciliation:**

   Total Purchase Quantity = (given) = 16,000 kg.

   Normal Loss 2% on 16,000 = 320 kg.

   Balance Effective Quantity = 16,000(-) 320 = 15,680 kg.

   Actually Received (given) = 15,500 kg.

   Balance Abnormal Loss 15,680 (-) 15,500 = 180 kg.

   Consumption Quantity = (given) = 13,600 kg.

   Closing Stock (bal.fig) = 15500(-)13,600 = 1900 kg.

2. **Computation of Effective Cost per kg.**

Particulars	Rs.
Net Cost Per unit (excluding Excise Duty for which CENVAT Credit is available) = 160(-) 10 =	150
Total Purchase Cost for 16,000 kg. ordered Add: Freight Charges	24,00,000 1,40,000
Total Cost of Inventory	25,40,050
Effective Quantity (i.e. Gross Ordered Quantity Less Normal Loss) = 16,000 (-) 320 =	15,680
Effective Cost Per Kg. $\frac{\text{Rs. } 25,40,160}{15,680 \text{ Kg.}}$	Rs. 162.00

3. **Valuation of Inventory and Abnormal Loss**

Particulars	Rs.	Treatment
(a) Cost of Material Consumed = 13,600 Kg. at Rs.162	22,03,200	Shown in Income Statement as Expense

(b) Cost of Abnormal Loss = 180 Kg. at Rs.162	29,160	Shown in Income Statement as Expense/Loss
(c) Cost of Closing Stock = 1,900 Kg. at Rs.162	3,07,800	Shown in Balance Sheet

QUESTION NO 9

In a production process, normal waste is 5% of input, 5,000 MT of input wee put in process resulting in a wastage of 3% MT. Cost per MT of input is Rs. 1,000. The entire quantity of waste is on stock at the year – end. State with reference to how you will value the inventories in the above case.

SOLUTION

1. Principle: Abnormal Amounts of Waste Materials, Labour or other Production Costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.
2. Analysis and Conclusion: In this case, Normal Waste is 5% of 5000 MT = 250 MT and Abnormal Waste is 300 MT (-) 250 MT = 50 MT.
   (a) Cost of Normal Waste 250 MT will be absorbed and included in determining the cost of inventories (Finished Goods) at the year end.
   (b) Cost of Abnormal Waste = Rs. 50,000 (50 MT x Rs.1,000) will be charged in the P&L Statement.

QUESTION NO 10 (INTEREST ON BANK OVERDRAFT)

Can PT Ltd. a Wire Netting Company, while valuing its Finished Stock at the year end include interest on Bank Overdraft as an element of cost, for the reason that Overdraft has been taken specifically for the purpose of financing Current Assets like Inventory and for meeting day to day working expenses?

SOLUTION

1. Nature of Interest: As per AS-2, "Interest and other Borrowing Costs are usually considered as not relating to bringing the inventories to their present location & condition, and hence usually, excluded in the cost of inventories".
2. Qualifying Assets: AS-16 identifies inventories which require a substantial period of time to bring them to a saleable condition as a Qualifying Assets, and permits capitalization of borrowing costs directly attributable to the asset as part of the Cost of the Asset.

3. Conclusion: In the given case, PI Ltd. can capitalize the interest cost on Bank Overdraft, only if its Inventories are is the nature of a Qualifying Asset as per AS-16. Otherwise, the entire amount will be treated as expense.

QUESTION NO 11 (REFER COST ACCOUNTS)

From the following data, find out value of Inventory as on 30th April using (a) LIFO Method, and (b) FIFO Method –

(a)	Purchased on 1st April	10 units at Rs. 70 per unit
(b)	Sold on 6th April	6 units at Rs. 90 per unit
(c)	Purchased on 9th April	20 units at Rs. 75 per unit
(d)	Sold on 18th April	14 units at Rs. 100 per unit

SOLUTION

1. Closing Stock (in Units) : 10 (-) 6 + 20 (-)14 = 10 units.
2. Valuation –

Value of Inventory under LIFO Basis	Value of Inventory under FIFO Basis
4 units from 1st April – 4 x Rs.70 = Rs.280	10 Units from 9th April – 10 x Rs.75 = Rs.750
6 units from 9th April – 6 x Rs.75 =Rs.450	
Total Cost = Rs. 730	Total Cost = Rs. 750

QUESTION NO 12

In order to value the inventory of Finished Goods HR Ltd. has adopted the Standard

Cost of Raw Materials, Labour and Overheads. The Income Tax Officer wants to know the method, as per AS-2 for the valuation of Raw Material. Comment.

SOLUTION

1. The use of Standard Cost of Production has been suggested by AS-2 as a matter of convenience only. AS-2 suggests that Standard Cost system may be used for convenience if the results approximate the actual cost.
2. For Inventory Valuation, AS-2 recognises the use of absorption costing based on normal capacity. If the Company can adopt absorption costing for value of inventory, then the Standard Cost system need not be adopted.

QUESTION NO 13 (RETAIL VALUE METHOD)

HP is a leading distributor of Petrol. A detail Inventory of Petrol in hand is taken when the books are closed at the end of each month. At the end of the month, the following information is available.

Sales – Rs. 47,25,000, General Overheads Cost – Rs.1,25,000, Inventory at beginning – 1,00,000 Litres at Rs. 15 per Litre.

Purchases: (a) June 1 Two Lakh Litres at 14.25 (b) June 30 One Lakh Litres at 15.15 (c) Closing Inventory 1.30 Lakh Litres Compute the following by the FIFO as per AS-2.

(a) Value of Inventory on June 30.

(b) Amount of Cost of goods sold for June.

(c) Profit/Loss for the month of June.

SOLUTION

1. **Value of Inventory as on June 30:**

Particulars	Rs.
0.30 Lakh Litres from June 1 Purchase Lot (0.30 Lakh Litres x Rs.14.25 Per Litre)	4,27,500
1 Lakh Litres from June 30 Purchase Lot (1 Lakh Litres x Rs.15.515 Litre)	15,15,000
Value of Inventory s on June 30	19,42,500

2. **Cost of Goods Sold:**

Particulars	Rs.
Opening Stock (1 Lakh Litres x Rs.15)	15,00,000
Add: Purchases (2 Lakh Litres x Rs.14.5) + (1 Lakh Litres x Rs.15.15)	43,65,000
Less: Closing Stock	19,42,000
Cost of Gods Sold	39,22,500

3. **Profit/Loss for June:**

Sales (Rs. 47,25,000) – Cost of Goods Sold (Rs.39,22,500) – General Overheads Cost (Rs. 1,25,000) = Profit Rs. 6,77,500

QUESTION NO 14 (RETAIL VALUE)

Shri Ganesh operates a retail business. For a financial year, the following data is given -

Particulars	At Retail Price	At cost
Value of Opening Inventory	Rs. 80,000	Rs. 60,000
Value of Purchases	Rs. 1,40,000	Rs. 1,20,000

Calculate the cost of Closing Stocks, if the Sales made during the period is Rs.2,00,000 (APPLY WEIGHTED AVERAGE METHOD)

SOLUTION

Value of Closing Inventory at Retail Prices	= Opening Stock + Purchases (-) Sales = Rs.80,000 + Rs.1,40,000 (-) Rs.2,00,000 = Rs. 20,000
Average Percentage of Cost to Retail Prices	$= \frac{\text{Total Average Cost}}{\text{Total Average Retail Value}}$ $= \frac{60,000 + 1,20,000}{80,000 + 1,40,000}$ = 81.82%
Value of Closing Inventory at Cost Prices	= Retail values Less Margin of 18.18% = Rs.20,000 (-) 18.18% thereon = Rs.16,364.

QUESTION NO 15

Inventories of a Car Manufacturing Company include the value of items, required for the manufacture of a model, which was removed from the production line five years back, at Cost Price. As an Auditor, give your comments.

SOLUTION

1. AS-2 provides that the cost of inventories may not be recoverable if those inventories which are damaged, have become partially/fully obsolete, or if their selling prices have declined.
2. The Auditor should examine whether appropriate allowance has been made for the defective/obsolete/damaged inventories in determining the NRV. Having regard to this, NRV of inventory items, whichever was removed from the production line 5 years back, is likely to be much lower than the cost, as shown in the books of account. Thus, it becomes necessary to write down the inventories to NRV.

3. Since the Company has valued these inventories at cost, it has resulted in over statement of inventory and profits. Hence, the Auditor should qualify his report.

QUESTION NO 16 (SIMPLE VALUATION OF STOCK)

Best Ltd. deals in 5 products – P Q, R, S & T which are neither similar nor interchangeable. While closing its accounts for the year ending 31st March, the Historical Cost and NRV of the items of Closing Stock are determined as follows:-

Items	P	Q	R	S	T
Historical Cost (Rs.)	5,70,000	9,80,000	4,25,000	4,25,000	1,60,000
Net Realizale Value (Rs.)	4,75,000	10,32000	2,89,000	4,25,000	2,15,000

What is the Value of Closing Stock for the year ending 31st March as per AS-27.

Note: Refer Principle relating to item-by-item write-down given above.

SOLUTION

In the given case, since Inventories are not interchangeable, they are to be valued independently.

Item	Historical Cost (Rs.)	NRV (Rs.)	Valuation (Rs.) = Least of (2) or (3)
P	5,70,000	4,75,000	4,75,000
Q	9,80,000	10,32,000	9,80,000
R	3,16,000	2,89,000	2,89,000
S	4,25,000	4,25,000	4,25,000
T	1,60,000	2,15,000	1,60,000
			Inventory Value = 23,29,000

QUESTION NO 17

Closing Inventory at Cost of a Company amounted to Rs. 956,700. The following items were included at cost in the total –

(a) 350 Shirts, which had cost Rs. 380 each and normally sold for Rs. 750 each. Owing to a defect in manufacture, they were all sold after the Balance Sheet date at50% of their normal price. Selling expenses amounted to 5% of the proceeds.

(b) 700 Trousers, which had cost Rs. 520 each. These too were found to be defective. Selling expenses for the batch totaled Rs. 3800. They were sold for Rs. 950 each.

What should the inventory value be according to AS-2 after considering the above items?

QUESTION NO 18 (VALUATION OF RAW MATERIAL)

A Raw Material costing Rs. 150 has Net Realisable Value (which can be the Replacement Cost) Rs.130. The Finished Goods for which this Raw Material is used, has other cost to incur Rs.60. At what Price should the Raw Material be valued, if Finished Goods has a Net Realizable Value – (1) Rs. 210 or above (2) less than Rs. 190

SOLUTION

Note: In all cases given above Cost of Finished Goods (RM at actuals 150+ Conversion 60) = Rs. 210.

1. SP Rs. 210 or above: If Sale Price is Rs. 210 or above the cost of FG can be recovered/realized fully. Hence, there is no need to write down RM Inventory to Rs. 130. So, Raw Material will be valued at Rs. 150.
2. SP less than Rs.190: In this case, since cost of finished goods is not realizable fully, the Raw Material Inventory should be written down to Replacement Cost, i.e. Rs.130

QUESTION NO 19 (VALUATION OF WIP)

On 31st March, a Business Firm finds that cost of a partly finished unit on that date is Rs.530. The unit can be finished in its next financial year, by an additional expenditure of Rs. 310. The Finished Unit can be sold for Rs.750 subject to payment of 4% brokerage on Selling Price The firm seeks your advice regarding -

(a) The amount at which the unfinished Unit should be valued as at 31st March for preparation of Final Accounts, and

(b) The desirability or otherwise of producing the Finished unit.

SOLUTION

Particulars	Amount
1. Estimated Net Realisable Value of Final Product = Sale value 750 less 4% Brokerage 30 less Further Processing Costs 310 = 750 – 30 – 310	410
2. Actual Cost incurred till date on the partly finished unit (including RM cost therein)	530

3. Since the entire actual cost of Rs.530 is not recovered by use in finished production, the partly finished unit should be valued at its value in use, i.e. NRV Rs.410. So Inventory should be written down by	530-410 =
4. Considering actual costs till date Rs.530 + additional expected cost Rs. 310 it is not worthwhile to process this item further.	120

QUESTION NO 20 (VALUATION OF RAW MATERIAL)

Hari Ltd. purchased Raw Material at Rs. 400 per kg. The Company does not sell Raw Material but uses it in the production of Finished Goods. The Finished Gods in which Raw Material is used are expected to be sold at below cost. At the end of the accounting year, the Company is having 10,000 kg. of Raw Material in Stock as the Company never sells the Raw Material, does not know the Selling Price of Raw Material and hence cannot calculate the Realizable Value of the Raw Material for valuation of Inventories at the end of the year. However, Replacement cost of Raw Material is Rs.300 per kg. How will you value the Inventory of Raw Material?

SOLUTION

Hind: Refer principle relating to RM valued at NRV given above.

Inventory should be valued at Replacement Cost of 10,000 Kgs. x Rs.300 per Kg. = Rs. 30,00,000.

QUESTION NO 21

Himavan Pvt. Ltd. carries on the business of distribution of stationery goods on retail basis in a town area. It has obtained a dealership of toilet goods manufactured by a large manufacturing concern.

On account of keen competition from other Companies, this Company was forced to sell the goods with the consent of the Manufacturer, at 25% below the cost price of their goods. Almost about the end of the financial year, the Manufacturer has supplied to the Distributor Company, goods (free of cost), of such quantity and value so as to enable it to recover the loss of 25% and to leave an overall surplus of 10% on the total value of goods sold by the Distributor.

Before finalizing the accounts of the Distributor Company, the Directors seek your advice as to the price at which Closing Stock of goods should be valued as supplied by Manufacturer free of Cost, since the entire volume of stock has remained unsold.

QUESTION NO 22

Nidhi Ltd. purchased Raw Materials at a basic price of Rs. 10,000 on which GST of Rs. 1,500 is paid. Cost of Inventory (of Raw Materials at this stage would be Rs. 11,500). The material is thereafter processed. For this purpose, Conversion Costs (Labour and Direct Overheads, and other Fixed Production Overheads) amounting to Rs. 1,800 are incurred. Excise Duty Liability on Finished Goods amounting Rs.1,700 is being paid by the Company. The Company is entitled for a GST credit of Rs. 1500. Compute the value of Inventory.

SOLUTION

1. Raw Materials: Since Materials have been fully consumed, there is no inventory as such. In case of Inventory Raw Material, it will be valued net of Excise Duty since the Company is entitled to CENVAT Credit thereon.
2. Finished Goods: Valuation of Finished Goods will be as under:-

Particulars	Rs.
Cost of Materials (net of GST, since GST Credit is available)	10,000
Cost of Conversion (given)	1,800
GST on Finished Product (given)	1,700
Total value of FG Inventory	13,500

QUESTION NO 23 (EMPTY BOTTLES)

Night Ltd. sells beer to customers. Some of the customers consume the beer in the bars run by Night Limited. While leaving the bars, the Consumers leave the empty bottles in the bars and the Company takes possession of these empty bottles. The Company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the Company by calling for tenders. Keeping this in view:-

(a) Decide whether the Stock of Empty Bottles is an Asset of the Company.

(b) If so, whether the Stock of Empty Bottles existing as on the date of Balance Sheet is to be considered as Inventories of the Company and valued as per AS-2, or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

SOLUTION

EAC Opinions – Stock of Empty Bottles – Nov. 07 – CA Journal Page 776

1. Asset: Where the enterprise takes possession of the empty bottles left behind by the customers at its bar, it constitutes an Asset for the enterprise, being a resource controlled by the Company as a result of past events from which future economic benefits are expected to flow to it.

2. Inventory: It is in the nature of Inventory, as it is consumed in the production process (i.e. primary packing of beer).
3. Conclusion: Since the bottles are acquired by the Company without incurring any cost, they (the total inventory) should be recorded at a Nominal Value of Rs. 1 which is the value at which they should figure in the Balance Sheet and should not be recognized as Income.

QUESTION NO 24

A Ltd. produces chemical, X which has following production cost per unit.

Raw Material = Rs. 5

Direct Labor = Rs. 2

Direct Expenses = Rs. 3

Normal capacity = 5,00 units per annum

Actual production = 4,000 units

Fixed Production Overhead =Rs. 20,000 per annum.

The Company has 2,000 units of unsold stock lying with it at the end of year. You are required to value the closing Stock.

(Ans; Rs. 28,000)

QUESTION NO 25

The Company incurred Rs. 20,00,000 as fixed production overhead per year. It normally produces 1,00,000 units in a year. In 2009-10 how ever its production has been only 40,000 units. At the year end 31.3.2010 the closing stock was 10,000 units. The cost of unit is below:

Material	=	Rs. 500 per unit
Labour	=	Rs. 250 per unit
Fixed Production overhead	=	Rs. 20,00,000 p.a.
Fixed administration	=	Rs. 10,00,000 p.a.

Calculate the value of closing stock

(Ans:Rs. 77,00,000)

QUESTION NO 26

The Company deals in three products X, Y and Z, which are neither similar nor interchangeable. at the time of closing of its account for the year 2001-2002. The historical cost and net realizable values of the items of closing stock are determined as below:

Items	Historical cost (Rs. in Lakhs)	Net realizable value (Rs. in Lakhs)
X	20	14
Y	16	16
Z	8	12
	44	42

What will be the value of closing Stock?
(Ans: Rs. 38)

QUESTION NO 27

Y Ltd. purchased 500 units of raw material @ Rs. 150 per unit gross less 10% Trade discount sales tax is chargeable @ 5% on the net price. The excise duty element on product is Rs. 12 per unit against which MODVAT can be claimed. The company spent Rs. 1,000 on transportation and Rs. 500 for loading and unloading Calculate the cost of purchase of raw material.

(Ans: Rs.72,375)

QUESTION NO 28

XYZ Ltd produced 10,00,000 units of product A during 2009-10 per unit cost is as follows:

Raw Material	Rs.	100
Direct Wages	Rs.	50
Direct Expenses	Rs.	2
	Rs.	152

Production overhead is Rs. 20,00,000 of which 40% is fixed. The company sold 8,00,000 units and 2,00,000 units were in stock as on 31st March, 2010. Normal capacity is 5,00,000 units.

Calculate the value of closing stock

(Ans: Rs. 3.08 Crores)

QUESTION NO 29

Cost of Production of product X is given below:

Raw Material per unit	Rs.	120
Wages per unit	Rs.	80
Overhead per unit	Rs.	50
	Rs.	250

As on the balance sheet date the replacement cost of raw material is Rs. 110 per unit There were 1000 units of raw material on 31.3.2011.

Calculate the value of closing stock of raw material in following conditions.

(a) If finished product is sold at the rate of Rs.275 per unit, what will be value of closing stock of raw material.

(b) If finished product is sold at the rate of Rs.230 per unit, what will be value of closing stock of raw material.

(Ans: (a) Rs. 1,20,000 (b) Rs.1,10,000)

QUESTION NO 30

Induga Ltd. imports raw materials of Rs. 10,00,000, which are kept in bonded warehouse till import duty on the same is paid. When the goods are ex-bonded, the duty is paid at the rate prevailing at that time. If goods are re-exported directly from bonded warehouse, no import duty is payable. On 31.3.2010 raw material of value of Rs. 5,00,000 was in the bonded warehouse. The rate of import duty was 10% of value of raw materials.

It is also noticed that where any goods remain in the bonded warehouse beyond a specified period, interest becomes payable on the duty for the period from the expiry of the specific period till the date of clearance of goods at the rate 2% of he custom duty payable. Raw materials lying on 31.3.2010 crossed the specified period by 100 days.

Calculate the value closing stock of raw material on 31.3.2010. Ans: Rs. 5,50,000

(NOTE: interest on duty is not a part of cost of inventory)

QUESTION NO 31

A company does not value it's W.I.P. because the quantity of work-in-progress cannot be determined accurately and in any case, there is not much variation between the opening and closing W.I.P. quantities. Comment on the above statement of the company.

Ans: Statement of company is not in accordance with AS-2.

QUESTION NO 32

A company is engaged in the manufacturing of organic chemicals Production of one intermediate product (say X) is in excess of its immediate requirement for captive consumption. Further factors are:

(i) X is not marketable and therefore, the market price is not known.

(ii) The estimated expenditure the further processing of X is Rs. 6000 per ton.

(iii) The company has been valuing the stock of X by theoretically converting it into equivalent units of finished products and then valuing the same on the principle of cost or net realizable value, whichever is lower.

Comments:

(a) Whether the present practice of valuating the X at the lower of cost and net realizable value of the end-product by theoretically converting it into equivalent finished product is in order.

(b) Whether the company can value at cost the stock X since X will have to undergo further processing to become marketable and net realizable value of X in its present form cannot be ascertained.

(c) If the answer of above (a) & (b) is negative, suggest the correct method for valuation of X. Ans: (a) NO

(b) NO – If net realizable after processing of X is ascertainable. (c) At cost

QUESTION NO 33 (NOV.2014 5 MARKS)

Capital Cables Ltd. has normal wastage of 4% in the production process. During the year 2013-14 the Company used 12,000 MT of Raw Material costing Rs.150 per MT. At the end of the year 630 MT of Wastage was in Stock. The Accountant wants to know how this wastage is to be treated in the books. Explain in the context of AS-2 the treatment of Normal Loss and Abnormal Loss and also find out the amount of Abnormal Loss if any.

SOLUTION

1 Principle: Abnormal Amounts of Waste Material, Labour or other Production costs are excluded from cost of inventories and such costs are recognized as Expenses in the period in which they are incurred.

2 Analysis and Conclusion: Normal Waste is 4% of 12,000 MT = 480 MT & Abnormal Waste is 630 MT (-) 480 MT = 150MT.

(a) Cost of Normal Waste 480 MT wil be absorbed in the cost of Production and included in determining the Cost of Inventories (Finished Goods) at the year end.

(b) Cost of Abnormal Waste will be charged in the Profit and Loss Statement.

3. Computation

(a) Effective Material Cost of Output $= \dfrac{12{,}000 \text{ MT} \times \text{Rs.}150}{12{,}000 \text{ MT} - 4\% \text{ Normal Waste}}$

$= \dfrac{18{,}00{,}000}{11{,}520}$

= Rs.156.25 Per MT

(b) Cost of Abnormal Waste = 150 MT x Rs.156.25 = Rs.23,437.50

Alternatively, this may be taken at 150 MT x Rs.150 = Rs.22,500

QUESTION NO 34 (MAY 2014 5 MARKS)

Calculate the value of Raw Materials and Closing Stock based on the following information:

Particulars	Raw Material X	Particulars	Finished Goods Y
Closing Balance	500 Units	Closing Balance	1200 Units
Cost Price including GST	Rs.200 per unit	Material Consumed	Rs.220 per unit
GST Credit is receivable	Rs.10 per unit	Direct Labour	Rs. 60 per unit
Freight Inward	Rs.20 per unit	Direct Overhead	Rs. 40 per unit
Unloading Charges	Rs.10 per unit		
Replacement Cost	Rs.150 per unit		

Total Fixed Overhead for the year was Rs. 2,00,000, on normal capacity of 20,000 units.

Calculate the value of the Closing Stock when –

(i) Net Realizable Value of the Finished Goods Y is Rs.400

(ii) Net Realizable Value of the Finished Goods Y is Rs.300

SOLUTION

1. Principle:

   (a) Raw Materials and Supplies held for use in production are valued at cost. However, they can be valued below cost (i.e. NRV) in the following peculiar situations.

   - Sale below cost : When the Finished Products in which the Raw Material is incorporated, are expected to be sold below cost.
   - Price Decline: When there is a decline in the price of materials, and it is estimated that the cost of Finished Goods will be exceed NRV.

   (b) Finished Goods will be valued at Cost (or) Net Realisable Value, whichever is lower.

2. Valuation of Finished Goods Stock: In the given case the Valuation of FG Stock will be as under:-

   (a) Cost per unit of Finished Goods: (Material +Direct Labour + Direct Overhead + Fixed Production OH)

   $$= 220 + 60 + 40 + \frac{2,00,000}{20,000} = \text{Rs.}330 \text{ per unit}$$

   (b) Valuation of FG will be –

Particulars	If NRV is rs.400 p.u.	If NRV is rs.300 p.u.
Value p.u. (Lower of cost Rs.330 & NRV)	330	300
Total Value of Finished Goods Stock	Rs.330 x 1200 units = Rs.3,96,000	Rs.300 x 1200 units = Rs.3,60,00

3. Valuation of Raw Material Stock: In the given case, the Valuation of RM Stock will be as under:-

   (a) Cost p.u. of Raw Material:

Particulars	Cost p.u.
Purchase Price net of GST (since GST eligible for Credit) 200-10	190
Add: Freight Charges	20
Add: Unloading cost p.u.	10
Total Cost p.u.	220

(b) Total Value of Raw Material Closing Stock:

Particulars	Finished Goods of valued at Cost	Finished Goods of valued at NRV
* Raw Material cost p.u.	Rs. 220	Rs.220
* Replacement cost p.u.	Rs. 150	Rs.150
* Relevant Value p.u.	Rs.220 (since FG is valued at Cost)	Rs. 150 (since FG is valued NRV)
* Total value for 500 units	500x Rs.220 = Rs.1,10,000	500x Rs.150 = Rs. 75,000

Note: Replacement Cost of the Raw Material is assumed as its Net Realisable value.

QUESTION NO 35 NOV 2015 5 MARKS

In the books of Prashant Ltd., Closing Inventory as on 31stMarch2015 amount to Rs.1,62,000 (on the basis of FIFO Method).

The Company decides to change from FIFO Method to Weighted Average Method for ascertaining the Cost of Inventory from the year 2014-15. On the basis of Weighted Average Method, Closing Inventory as on 31st March 2015 amounts to Rs. 1,47,000. Realisable Value of the Inventory as on 31st March 2015 amounts to Rs. 1,95,000.

Discuss the disclosure requirements of change in accounting policy as per AS-1.

SOLUTION

1. Principle: Change in an Accounting Policy should be disclosed -
   (a) When such change has a material effect in the current period, and
   (b) When such change is reasonably expected to have a material effect in later Periods.
2. Analysis and Conclusion: Due to the change in valuation of Inventory from FIFO to Weighted Average Method, the Inventory has been valued at Rs. 147,000, which is lower by Rs. 16,000 than the old method (Rs. 1, 63,000). Consequently, the Profit is lower by Rs. 16,000. Hence the change in Accounting Policy should be disclosed in Notes to Accounts.

QUESTION NO 36 MAY 2015 5 MARKS

Mr. Mehul gives the following information relating to items forming part of inventory as on 31.03.2015. His Factory produces Product X using Raw Material A.

1. 600 units of Raw Material A (Purchased at Rs.120). Replacement Cost of Raw Material A as on 31.03.2015 is Rs. 90 per unit.
2. 500 units of Partly Finished Goods in the process of producing X and Cost incurred till date Rs.260 per unit. These units can be finished next year by incurring Additional Cost of Rs. 60 per unit.
3. 1,500 units of Finished Product X and Total Cost incurred Rs. 320 per unit. Expected Selling price of Product X is Rs. 300 per unit.

Determine how each item of inventory will be valued on 31.03.2015. Calculate the Value of Total Inventory as on 31.03.2015.

SOLUTION

Item	Valuation Principle	Result
Raw Material	Since the Finished Product using this Raw Material is expectable be sold below cost, Raw Material may be valued of NRV, i.e. Replacement cost of Rs.90.	600 x Rs.90 = Rs. 54000
WIP	• Cost Rs. 260 • Estimated NRV = Sale Price Rs.300 – Cost to Complete Rs.60 = Rs.240 • Hence, valued at least of the above, i.e. Rs.240 p.u.	500 x Rs.240 = Rs.1,20,000
Finished Goods	Cost Rs.320 or Net Realisable Value Rs.300, whichever is lower. Hence valued at Rs.300 p.u.	1500 x Rs.300 = Rs. 4,50,000
	Total	Rs. 6,24,000

QUESTION NO 37 MAY 2015 FINAL 5MARKS

From the following information, value the Inventories as on 31st March, 2015.

Raw Material has been purchased at Rs.125 per Kg. Prices of Raw Material are on the decline. The Finished Goods being manufactured with the Raw Material is also being sold at below Cost. The Stock of Raw Material is of 15,000kg. and the Replacement Cost of Raw Material is Rs.100 Per Kg.

Cost of Finished Goods per Kg. is as under:-

Particulars	Rs. per Kg.
Material cost	125
Direct Labour Cost	20
Direct Variable Production Overhead	10

Fixed Production Overhead for the year for a normal capacity of 1,00,000 kgs. of production is rs.10 Lakhs. At the year end, there were 2,000 Kgs. of Finished Goods in stock. Net Realisabale value of Finished gods is rs.140 Per Kg.

SOLUTION

1. Conversion Cost Per Kg. of Finished Product

   = Direct Labour + Direct Variable Production OH + Fixed Production OH

   $= \text{Rs. } 20 + \text{Rs. } 10 + \frac{\text{Rs. 10 Lakhs}}{\text{1 Lakh Kgs.}} = \text{Rs. 40 Per Kg.}$

2. Inventory Valuation is as under: - (A) For Finished Goods

(a)	Cost per Kg. for Finished Product = Material + Conversion	125+40 = Rs. 165 Per Kg.
(b)	Net Realizable value of Finished Product if sold after Conversion	Given = Rs. 140 per kg.
(c)	Hence, Valuation Rate for finished goods = (a) or (b), whichever is lower.	Rs.140 Per kg.
(d)	Value of Inventory 2,000 kg. of Finished Product	2,000 Kg. x Rs.140 = Rs.2,80,000

(B) For Raw Materials

(a)	Cost of Raw Material	Given = Rs. 125 Per kg.
(b)	Replacement Cost of Material, i.e. Sale without Conversion	Given = Rs.100 Per Kg.
(c)	Valuation Rate for Raw Material (i.e. least o Cost or NRV, least of (a) and (b)	Rs. 100 per Kg.
(d)	Value of Inventory 15,000 kg. of Raw Material	15,000 kgs x Rs.100 = Rs.15,00,000

Note: When the Finished Products in which the Raw Material is incorporated, are expected to be sold below Cot (NRV rs.140 Vs. Cost Rs.165), it is preferable to sell the product without Conversion. In such case, the Raw Materials will be valued below cost, i.e. at NRV, being the Replacement cost.

QUESTION 39

JATIN Ltd. purchased *raw* materials for 1,25,000 less a rebate of 2%. It paid 25,000 as import duty, including ₹ 10,000 towards a special duty. According to local tax laws, it will get a credit of the amount paid towards the special duty, while determining its customs liability. It spent ₹ 8,000 on ocean freight, clearing agent's charges of 2,000, 4,000 on warehouse rent and 1,500 on the watchman's salary.

QUESTION 40

Per kg. of finished goods consisted of:

Material cost	Rs 100 per kg.
Direct labour cost	20 per kg.
Direct variable production overhead	10 per kg.

Fixed production charges for the year on normal capacity of one lakh kg. is 10 lakhs. 2,000 kg. of finished goods are on stock at the year end. Calculate value of inventories.

(Nov. 2000 - 4 Marks)

QUESTION 41

Total Unit	: 10,000 (closing stock)
Contract sales	: 6,000 units
Normal units	: 4,000 units
Cost per unit	: 150
Contract selling price	: 200
Market Price	: 90

QUESTION 42 (NOV 2002:3MARKS)

Inventories of a Car manufacturing company include the value of items, required for the manufacture of model which was removed from the production line five years back, at cost price. As an Auditor Comment.

ANSWER

(1) Provision of AS 2

The cost of inventories may not be recoverable if those inventories are damaged, have become wholly or partially obsolete, or if their selling prices have declined. Accordingly, the auditor should examine whether appropriate allowance has been made for the defective, damaged, obsolete and slow-moving inventories in determining the net realizable value.

(ii) Analysis and Conclusion

In this case, items required be the manufacture of a model which has been withdrawn from the production line five veal's ago are included in the stock at cost price resulting in overstatement of inventory and profit. As it appears from the facts given that the net realizable value of these items is likely to much lower than the cost at which these are being shown in the books of account. Accordingly, it becomes necessary to write down the inventory to 'net realizable value' if the items of inventories become wholly or partially obsolete. Under the circumstance, the auditor should qualify the report appropriately.

QUESTION 43 *(NOV. 1995)*

The company deals in purchase and sale of timber and has included notional interest charges (calculated on the paid-up share capital and free reserves) in the value of stock of timber as at the Balance Sheet date as part of cost of holding the timber.

ANSWER

1) Provision of AS 2

An item of expenditure will be included in the cost of inventories, if it has been incurred in bringing the inventories to their present condition and location. An expenditure can't be included in the valuation of closing stock if it has not been actually incurred. In other words, notional expenses are excluded from inventory valuation.

2) Analysis and Conclusion

Thus, in the present cases, inclusion of notional interest in valuing the closing stock of timber can't considered to be fair, reasonable or in conformity with GAAP. As an auditor, we need to ensure that the basis of valuation of inventory is clearly stated in the form of a note. We also need to ensure that the basis of valuation is followed consistently.

QUESTION 44

The management tells you that the WIP is not valued since it is difficult to ascertain the same, in view of the multiple processes involved and in any case, the value of opening and closing WIP would be more or less the same. Advise.

ANSWER

(i) Provision of AS 2 *(May 2001)*

Inventory includes raw material, work-in-progress and finished goods and should be valued at cost or NRV whichever is lower.

(ii) Analysis and Conclusion

In this case work-in-progress is also a component of inventory and should be valued at cost or NRV whichever is lower.

QUESTION 45

CC Ltd. a Pharmaceutical Company, while valuing its finished stock at the year end wants to include interest on Bank Overdraft as an element of cost, for the Reason that overdraft has been taken specifically for the purpose of financing curl-cut assets like inventory and for meeting day to day working expenses.

ANSWER

(i) Provision of AS 2

Cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. However, it makes clear that interest and othet- borrowing costs are usually not included in the cost of inventories because generally such costs at-c not related in bringing the inventories to their present location and condition.

(ii) Conclusion

Therefore, the proposal of CC Ltd. to include interest on bank overdraft as an element of cost is not acceptable because it does not form part of cost of production.

QUESTION 46 (RTP MAY, 2012)

A company is engaged in the manufacture of electronic products and systems. As per Chief Accountant a prototype system was installed at one of the customer's locations in June 2010 for getting acceptance on the performance of the system. The Chief Accountant has stated that as the ownership of the system installed for field trials was vested with the company, for accounting & control purposes, the prototype system installed at customer's location in 2010 was capitalised in the accounts for the year 20 10-1 1 at its bought-out cost. State whether the accounting treatment adopted by the company is correct or not?

ANSWER:

(i) Provision of AS 2

inventories mean assets held for sale in the ordinary course of business, or in the process of production for such sale, or for consumption in the production of goods or services for sale, including maintenance supplies and consumable other than machinery spares.

(ii) Provision of AS 10

Fixed asset is an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.

(iii) Analysis and Conclusion

Accordingly, the system installed by the company at customer's site for his acceptance, based on the field trials of the system, is an item of inventory, it is not a fixed assets. installation of such prototype system at customer's sites for their acceptance is akin to sale of goods on approval basis. Therefore, the capitalization of such prototype system at its bought out cost is not correct.

QUESTION 47

(Study Material) A Ltd. purchased 1,00,000 MT for 100 each MT of raw material and introduced in the production process to get 85,000 MT as output. Normal wastage is 15%. In the process, company incurred the following expenses:

Direct Labour	10,00,000
Direct Variable Overheads	1,00,000
Direct Fixed Overheads	1,00,000
(including interest 40,625)	

On the above 80,000 MT was sold during the year and remaining 5,000 MT remained in closing stock. Due to fall in demand iii market the selling price for the finished goods on the closing day was estimated to be 105 per MT. Calculate the value of closing stock.

QUESTION 48

(Study Material) Ambica Stores is a departmental store, which sell goods on retail basis. It makes a gross profit of 20% on net sales. The following figures for the year-end are available:

Opening Stock	Rs.50,000
Purchases	Rs.3,60,000
Purchases Returns	Rs.10,000
Freight Inwards	Rs.10,000
Gross Sales	Rs.4,50,000
Sales Returns	Rs.11,250
Carriage Outwards	Rs 5,000

Compute the estimated cost of the inventory on the closing date.

ANSWER.

Calculation of Cost for Closing Stock

Particulars	Rs
Opening Stock	50,000
Purchase less return (3,60,000-10,000)	3,50,000
Freight Inwards	10,000
	4,10,000
Less:COGS (4,50,000 -11,250) – profit @ 20%	3,51,000
Closing Stock	59,000

QUESTION 49 (STUDY MATERIAL)

Particular	Kg.	Rs
Opening Stock: Finished Goods	**1,000**	25,000
Raw Materials	**1,100**	11,000
Purchase	**10,000**	1,00,000
Labour		76,500
Overhead (Fixed)		75,000
Particular	**Kg.**	**Rs**
Sales	10,000	2,80,000
Closing Stock: Raw Materials	900	
Finished Goods	1,200	

The expected production for the 'year was 15,000 kg. of the finished product. Due to fall in market demand the sales price for the finished goods was 20 per kg. and the replacement cost for the raw metatarsal was 9.50 per kg. n the closing day. You are required to calculate the closing stock as on that *date.*

ANSWER

(i) Calculation of Cost per Unit

Particulars	Rs
Raw Material consumed (1100+10000-900) @10 per unit	1,02,000
Director Labour	76,500
Fixed Overhead $\frac{(75,000 \times 10,200)}{15,000}$	51,000
Cost of production	2,29,500
Cost of closing stock per unit (2,29,500 ÷ 10,200)	22.50

(ii) Conclusion

Since NRV is lower than cost hence Finished goods is valued at 20 *i.e.* NRV and raw material is valued at replacement cost *i.e.* 9.5.

Finished Goods (1,200 X 20)	24,000
Raw Materials (900 X 9.50)	8,550
	32,550

QUESTION 50 (STUDY MATERIAL)

The closing inventory at cost of a company amounted to 2,84,700. The following items were included at cost in the total:

(a) 400 coats, which had cost 80 each and normally sold for 150 each. Owing to a defect in manufacture, they were all sold after the balance sheet date at 50%of their normal price. Selling expenses amounted to 5% of the proceeds.

(b) 800 skirts, which had cost 20 each. These too were found to be defective. Remedial work in April cost 5 per skirt, and selling expenses for the batch totalled 800. They were sold for 28 each.

What should the inventory value be according to AS 2 after considering the above items?

ANSWER

Valuation of Closing Stock

Particulars	**Rs**	**Rs**
Closing Stock at Cost		2,84,700
Less: Cost of 400 coats (400x 80)	32,000	
Less: Net Realisable Value (400 X 75) - 5%	(28,500)	(3,500)
Value of closing Stock		**2,81,200**

NOTE: THERE IS NO LOSS ON SKIRTS DUE TO WHICH WE HAVE NOT CONSIDERED ANY DECLINE.

QUESTION 51 (MAY 2013) 4 MARKS

On 31St March, 2013 a business firm finds that cost of a partly finished unit on that date is 530. The unit can be finished in 2013-14 by an additional expenditure of 310. The finished unit can be sold for 750 subject to payment of 4% brokerage on selling price. The firm seeks your advice regarding:

(i) The amount at which the unfinished unit should be valued as at 31st March, 2013 for preparation of final accounts and

(ii) The desirability or otherwise of producing -the finished unit.

(May, 2010 & 2013-4 Marks)

ANSWER

(i) Statement showing value at which unfinished unit should be presented in final account:

Cost of partial processed goods	530
NRV {(750-4%)-310}	410
Whichever Is lower	410

(ii) **Desirability of producing finished unit**

On the basis of above calculation, it can be said production should not be continued due to loss on goods manufactured.

QUESTION 52 (MAY 2011)

Best Ltd. deals in Five Products - P, Q, R, Sand T which are neither similar nor interchangeable. At the time of closing of its Accounts for the year ending 31st March 2011, the Historical Cost and Net Realizable Value of the items of the Closing Stock are determined as follows :-

Items	Historical Cost (R)	Net Realizable Value (R)
P	5,70,000	4,75,000
Q	9,80,000	10,32,000
R	3,16,000	2,89,000
S	4,25,000	4,25,000
T	1,60,000	2,15,000

What will be the Value of Closing Stock for the year ending 31St March 2011 as per AS-2 "Valuation of Inventories"?

ANSWER

Statement of Valuation of Inventory

Particulars	Rs
Item P	4,75,000
Item Q	9,80,000
Item R	2,89,000
Item S	4,25,000
Item-T	1,60,000
Total	**23,29,000**

QUESTION 53

XY Ltd. was making provisions for non-moving stocks based on no issues for the last L2 months upto 31.3.11. Based on technical evaluation the company wants to make provisions during year 3 1.3.12.

Total value of stock - 100 lakhs.

Provisions required based on 12 months issue 3.5 Iakhs

Provisions required based on technical evaluation ' 2.5 lakhs.

Does this amount to change in accounting policy ? Can the company change the method of provision? *(Nov., 2009, May 2003 & 2012 - 4 Marks)*

ANSWER

(i) Provision of AS

The decision of making provisions for non-moving stocks on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving stocks should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can !ie made.

(ii) Analysis and Conclusion

In the given case, considering the total value of stock, the change in the amount of required provision of non-moving stock from ₹ 3.5 lakhs to 2.5 Iakhs is also not material.

The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2011-12.

"The company has provided for non-moving stocks on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been higher by Rs 1 Lakh.

QUESTION NO 54 (NOV 2012) (4MARKS)

" In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred. " provide example of such costs as per AS-2: Valuation of Inventories.

ANSWER

"In determining the cost of inventories, it is appropriate to exclude certain cost and recognize them as expenses in the period in which they are incurred. " Provide example of such costs as per AS-2: valuation of Inventories.]

Answer: As per Paragraph 13 of Accounting standards-2, "Valuation of Inventories" in determining the cost of inventories, it is appropriate to exclude following costs and recognize them as expenses in the period in which they are incurred:

(a) Abnormal amounts of wasted materials, labour, or other production cost:

(b) Storage cost, unless the production process requires such storage,

(c) Administrative overheads that do not contribute to bringing the inventories to their present location and condition.

(d) Selling and distribution cost:

ACCOUNTING STANDARD:10

PROPERTY,PLANT & EQUIPMENT

QUESTION NO 1

On 1st March, K Ltd. purchased 50,00,000 worth of land for a Factory Site. The Company demolished an old building on the property and sold the material for 1,00,000. The Company incurred additional cost & realized salvaged proceeds during March as follows:

Legal Fees for purchase contract and recording ownership	2,50,000
Title Guarantee Insurance	1,00,000
Cost for Demolition of Building	5,00,000

Compute the balance to be shown in the Land Account on 31st March Balance Sheet.

QUESTION 2

Fire Ltd. purchased equipment for its power plant from Urja Ltd. during the year 2006- 07 at a cost of 100 Lacs. Out of this they paid only 90% and balance 10% was to be paid after one year on satisfactory performance of the equipment. During the financial year 2007-08, Urja Ltd. waived off the balance 10% amount which was credited to Profit and Loss Account by Fire Ltd. as discount received.

ANSWER

In the given case, supplier has given a discount of 10 lacs which was payable at the time of acquisition of assets. The amount of discount of 10 Lacs should not be transferred to PL Account because it is related to acquisition of fixed assets, So it should be adjusted against the cost of assets. The following entries shall be passes as follows:

JOURNAL ENTRIES

1)	FIXED ASSETS DR	100	
	TO BANK (90%)		90
	TO PAYABLES(10%)		10
	(BEING ASSETS ACQUIRED)		
2)	PAYABLES DR	10	
	TO FIXED ASSETS		10
	(BEING DISCOUNT GIVEN BY SUPPLIER)		

QUESTION 3

ABC Ltd. is constructing a fixed asset. Following are the expenses incurred on the construction:

	Rs
Materials	10,00,000
Direct Expenses	2,50,000
Total Direct Labour	5,00,000
(1 / 10th of the total labour time was chargeable to the construction)	
Total office & administrative expenses	8,00,000
(5% is chargeable to the construction)	
Depreciation on the assets used for the construction of this asset	10,000

Calculate the cost of fixed assets.

QUESTION 4

M/s. Tiger Ltd. allotted 7,500 equity shares of 100 each fully paid upto Lion Ltd. in consideration for supply of a special machinery. The shares exchanged for machinery are quoted at National Stock Exchange (NSE) at 95 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of the machinery would be recorded in the books of Tiger Ltd.?

QUESTION 5

A new plant X was acquired in exchange of old plant B and on payment of 20,000. The carrying amount of the old plant B was Rs 1,75,000 (Historial cost less depreciation). The fair value of the Plant B on that date of exchange was Rs 1,50,000.

Suggest the accounting in the books of the enterprise.

QUESTION 6

One customer from whom Rs 5 lacs are recoverable for credit sales gives a motor car in full settlement of the dues. The directors estimate that the market rate of the motor car transferred is 5.25 lacs. As on the date of the Balance Sheet the car has not been registered in the name of the Auditee.

ANSWER

In the given case, cost of Car shall be recorded at 5 lacs because we had to recover 5 lacs from the customer. We have not paid anything additionally for acquiring this car. So our actual cost shall be recorded at 5 lacs which is equal to recoverable balance of debtors.

QUESTION 7

During the Current Year 2009-10 M/s L & C Ltd. made the following expenditure relating to its plant and machinery:

	Rs
General repair	4,00,000
Repairing of electric motorS	1,00,000
Partial replacement of parts of machinery	50,000
Substantial improvements to the electrical wiring system	
Which will increase efficiency of the plant and machinery	10,00,000

ANSWER

Expenditure that increases the future benefit from existing assets beyond its previously assessed standard of the format is included in the gross book value of fixed assets.

In the given case repairs amounting to 5,00,000 and partial replacement of parts of machinery should be charged to profit and loss statement. 10,00,000 incurred by substantial improvement to the electrical writing system which will increase efficiency should be capitalised.

QUESTION 8

Further during the year company made addition to its factory by using its own workforce, at a cost of Rs. 4,50,000 as wages and materials. The lowest estimate from an outside contractor to carry out the same work was Rs. 6,00,000. The directors contend that, since they are fully entitled to employ an outside contractor, it is reasonable to debit the factory building account with Rs. 6,00,000. Comment whether the director's contention is rieght in view of the provisions of Accounting Standard 10 "Accounting for Fixed Assets" ?

ANSWER

Additions to Factory Buildings: The contention of the Board to debit the Factory Building Account by Rs. 6,00,000 is incorrect. Despite the fact that addition to factory buildings have been made at a cost of Rs. 4,50,000. In the case of a fixed asset, which is held for the purpose of earning income and not for resale, it would be improper to value the asset in excess of the amount, which has been paid for it. The additions made to the factory buildings must appear in the balance sheet at a figure not exceeding its actual cost to the company. AS-10 on "Accounting for Fixed Assets", makes clear that gross book of self-constructed fixed assets should be computed on the basis actual cost incurred/allocated. Even internal profits, if any, are eliminated in arising at such costs. Hence the Board's contention is not correct.

QUESTION 9

PQR Ltd. constructed fixed asset and incurred the following expenses on its construction:

	Rs
Materials	16,00,000
Direct Expenses	3,00,000
Total Direct Labour	6,00,000
(1/15th of the total labour time was chargeable to be construction)	
Total office & Administrative Expenses	9,00,000
(4% is chargeable to the construction)	
Depreciation on assets used for the construction of this asset	15,000

Calculate the cost of the fixed asset.

ANSWER

As per Accounting standard - 10, "Accounting for Fixed Assets" cost of self constructed assets shall be calculated as follows:

Calculation of the cost of construction of Assets

Particulars	Rs.
Direct Materials	16,00,000
Direct Expenses	3,00,000
Direct Labour (Rs 6,00,000/15)	40,000
Office & Administrative Expenses (Rs. 9,00,000* 4%)	36,000
Depreciation	15,000
Cost of the Asset	19,91,000

QUESTION 10

Amna Ltd. contracted with a supplier to purchase a specific machinery to be installed in Department A in two months time. Special foundations were required for the plant, which were to be prepared within this supply lead time.

The cost of site preparation and laying foundation were Rs 47,290. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs 15,000 per month. The Technician's services were given to Department A by Department B, which billed the services at Rs 16, 500 per month after adding 10% profit margin.

The machine was purchased at Rs 52,78,000. Sales Tax was charged at 4% on the invoice. Rs 18,590 transportation charges were incurred to bring the machine to the factory. An Architect was engaged at a fee of Rs 10,000 to supervise machinery installation at the factory premises. Also. payment under the invoice was due in 3 months. However, the Company made the payment in 2nd month. The company operates on Bank overdraft @ 11%.

ANSWER

NOTE 1: As per the provisions of AS-10, we should consider all the expenses while computing the cost of fixed assets which are directly incurred for acquisition of fixed assets. The format was provided in class notes.

NOTE 2: The amount is payable in 3 months but company made the payment in 2nd month which indicates that company has made the payment in advance (1 month) at loss of interest due to bank overdraft. Such interest should not be considered as a part of cost of assets because installation period is only 2 months and we can not consider any expense for capitalization for ready for use assets. We should write off such interest in profit and loss account.

NOTE 3: We should always value all the assets at cost or market value whichever is lower. So we should ignore profit added by department in services of technician.

Statement showing calculation of cost of fixed assets

Particulars	Amount
Purchase Price	52,78,000
Sales tax(4%)	211120
Transportation charges	18590
Professional fees	10000
Technician services (15000x2)	30000
Site preparation Expenses	47290
	5595000

QUESTION NO 11 (C A FINAL NOV 2003)

Kapil Ltd. purchased machinery from Parveen Ltd. on 30.09.2001. The price was Rs.370.44 lakhs after charging 8% sales tax and giving a trade discount of 2% on the quoted price. Transport charges were 0.25% on the quoted price and installation charges 1% on the quoted price.

A loan of Rs.300 lakhs was taken on the trial from the bank on which interest at 15% per annum was to be paid. Expenditure incurred on the trial run was materials Rs.35,000, wages Rs.25,000 and overheads Rs.15,000.

The machinery was ready for use on 1.12.2001, but it was actually put to use only on 1.5.2002. Find out the cost of the machine and suggest the accounting treatment for the expenses incurred in the interval between the dates 1.12.2001 to 1.05.2002. the entire loan amount remained unpaid on 1.5.2002.

ANSWER:

Particulars	Computations	Rs. in lakhs
Quoted price	(370.44/108*100)*100/98	3,50.000
Less: discount 2%	2% of 3,50.000	7.000
Net price		3,43.000
Add: sales tax 8%	8% of 3,43.000	27.440
Add: Transportation	0.25% on quoted price of 3,50.000	0.875
Add: installation	1.00% of quoted price of 3,50.000	3.500
Add: trial run expense	Material+ wages+ OH=0.35+0.25+0.15	0.750
Add: Borrowing cost	300*15%*2/12 (30.9.2001 to 1.12.2001)	7.500
Total cost of asset		383.065

- Capitalization of Borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete. In the above case, this period ends on 1-12-2001 when the asset was ready for use.
- Other Borrowing costs (i.e, not capitalized under As-16) should be written off as an expense in the profit and loss account. Hence the interest for the period 1.12.2001 and 1.5.2002 on Rs.300 lakhs, amounting to Rs.18.75 lakhs should be expensed off.

ACCOUNTING STANDARD:1

DISCLOUSRE OF ACCOUNTING POLICIES

CONCEPT : 1

What are Accounting Policies?

1. Accounting Policies refer to – (a) the specific accounting principles and (b) the methods of applying those principles, adopted by the enterprise in the preparation and presentation of Financial Statements.
2. Example: Inventory is valued at Cost or Net Realisable Value, whichever is lower. This is principle. Cost can be determined either by First in First (FIFO) method or Weighted Average Cost (WAC) or other suitable methods.

CONCEPT : 2

Why should Accounting Policies be disclosed?

Accounting Policies should be disclosed in the Financial Statement for the following reasons

1. Better Understanding of Financial Statements: The view presented in the Financial Statements can be significantly affected by the accounting policies followed in their preparation and presentation. Disclosure enables proper understanding of the information presented in Financial Statements.
2. Inter-Firm Comparison: The accounting policies followed vary from enterprise to enterprise. Meaningful comparison of Financial Statements can be facilitated by appropriate disclosure of policies.
3. Compliance with Law: Disclosure of some accounting policies is required by law, for example, in the case of Companies, disclosure is mandatory.
4. ICAI Requirements: The ICAI has also provided guidelines for disclosure of significant accounting policies through AS-1, in order to bring uniformity in disclosure.

CONCEPT: 3

What are the purposes of AS-1?

1. To promote better understanding of Financial Statements, through the disclosure of significant accounting policies, and the manner in which accounting policies are disclosed in the Financial Statements.

2. To facilitate a more meaningful comparison between Financial Statements of different enterprises.
3. To bring uniformity in the disclosure of accounting policies by different enterprises, and ensure standards in the nature and degree of disclosure.

CONCEPT: 4

Write short notes on Fundamental Accounting Assumptions & their disclosure requirements. (Para 9, 10).

The fundamental accounting assumptions are –

1. Going Concern: The enterprise is normally viewed as a Going Concern, i.e. as continuing I operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of operations.
2. Consistency: The accounting policies are consistent from one period to another.
3. Accrual: Revenues and costs are accrued, i.e. recognized as they are earned or incurred and recorded in the Financial Statements of the periods to which they relate, and not when money is received or paid.

Disclosure Requirements:

If the above assumptions are followed	If the above assumptions are not followed
Disclosure is not required, since their acceptance and use are assumed.	Disclosure is necessary specifying that the general accounting assumptions are not followed.

QUESTION 1

Vinayak Chemicals Ltd. a Government Company, is engaged in production of fertilizers and various nitrogenous chemicals. As per the Company's accounting policy, expenses incurred upto Rs. 25,000 relating to future period an expenses in the current year.

The Statutory Auditors of the Company, opinion that the Company has not complied with AS- 1 which prescribes accrual basis of accounting. Does the aforesaid accounting policy of the Company violate the provisions of AS-1?

SOLUTION

1. Nature of Information: Information is material if its mis-statement (i.e. omission or erroneous statement), could influence the economic decisions of users, Materiality depends on the size and nature of the item, judged in the particular circumstances of its mis-statement. Materiality provides a cut-off point than merely a primary qualitative characteristic of the information.
2. Materiality: The selection and application of an accounting policy depends on materiality. AS-1 require that "Financial Statements should disclose all materials items, i.e. items the knowledge of which might influence the decisions, of the users of the Financial Statements. Accrual is one of the basic assumptions, hence materiality in refer into accrual concept is important.
3. Applicability of AS: AS are intended only for items which re material. Whether the sum of Rs. 25,000 is material or not, in respect of each item, or in the aggregate, would depend upon the facts of the case and that would provide the basis for its accounting treatment.
4. *Conclusion: The appropriateness of accounting policy depends on the considerations of materiality determined by the Auditor based on his professional judgement. The accounting policy would be proper, provided it does not cross the threshold of materiality.*

QUESTION 2

Write short notes on the choice available in accounting policies (Para 12 to 15)

OR

There is no single list of accounting policies that are applicable to all situations. Comment.

OR

Indicate any three areas in respect of which different accounting policies may be adopted by different enterprises.

OR

"Recognizing the need to harmonize the diverse Accounting Policies and Practices, Accounting Standards are framed. Give examples of areas in which different accounting policies may be adopted by enterprises.

SOLUTION

1. Alternative accounting policies: The differing circumstances in which enterprises operate and the situation of diverse and complex economic activities of the Company has given rise to acceptability of alternative accounting principles and methods of applying those principles.

2. Decision Making: The choice of the alternative principles and methods calls for considerable judgement by the Management of the enterprise.
3. Reduction in alternatives: Various Statements issued by ICAI, together with the measures of Government, other regulatory agencies and progressive managements have reduced the number of acceptable alternatives, particularly for corporate enterprises However, the availability of alternative accounting policies can at best be reduced not eliminated as different enterprises operate in different circumstances.
4. Illustrative List of areas of alternative accounting policies:
   (a) Methods of Depreciation, depletion and amortisation.
   (b) Conversion or translation of Foreign Currency items.
   (c) Recognition of profit on long-term contracts.
   (d) Valuation of (i) Inventories, (ii) Investments and (iii) Fixed Assets

CONCEPT : 5

What are the major considerations which govern the selection and application of accounting policies?

1. True and Fair View: The primary consideration in the selection of Accounting Policies by an enterprise is that the Financial Statements prepared and presented should represent a true and Fair View as under:-

In the case of the Balance Sheet	Of the State of Affairs of the enterprise as on a certain date.
In the case of Profit & Loss Account	Of the Profit or Loss for the period ended on that date.

2. Factors: To select and apply an accounting Policy, the following points are considered:-

Principle	Example
(a) Prudence: Prudence implies that Profits are not anticipated, they are recognized only when realized, through not necessarily in cash. However, provision is made for all known liabilities and losses, even if the amount is not certain and is only a best estimate, based on available information.	* Provision for Doubtful Debts, Provision for Discount on Debtors, etc. are based on prudence. The Accountant does not anticipate future gains, but provides for all known liabilities and losses.

	* If Stock is always valued at cost, and NRV reduced below cost, then anticipated loses (NRV<Cost) will be ignored. However, if the Stock is always valued at Market Price, it will mean that anticipated gains (NRV>Cost) is accounted. To avoid this, Stock is valued at Cost or NRV, whichever is lower.
(b) Substance over Form: This means that the accounting treatment and presentation in Financial Statements, of transactions and events, should be governed by their substance and not merely by the legal form.	* Ganesh Ltd. enters into an agreement with Vikky Ltd. for sale of goods at Rs.2,50,000 to be re-purchased in the next financial year for Rs.2,75,000. This is not a trading transaction, and effectively reflects a financing transaction, with the goods as underlying security/asset. This should be recorded only as a financing transaction.
	* In case of an asset required on Hire Purchase, ownership is not transferred till last instalment is paid. However, the asset is shown in the books of the Hire Purchaser.
(c) Materiality: Financial Statements should disclose all materials items, i.e. the knowledge of which might influence the decisions of the users of Financial Statements.	* Payment of penalties/fines for violation of law should be disclosed separately, even if the amount is negligible. It should not be clubbed together with "Office Expenses" or "Miscellaneous Expenses".

QUESTION 3

Write short notes on the concept of Prudence.

SOLUTION

1. Meaning: As per AS-1, Prudence is one of the major considerations governing the selection and application of accounting of policies.
2. Profit Recognition: As per the concept of Prudence, profit is not recognized to have been earned till – (a) it is realized in ash, or (b) a third party has legally become liable to pay the amount. Thus, till the time an amount becomes recoverable from an outsider,

profit is not deemed to be earned. Hence, it is not proper to record a sale unless the third party has committed itself to paying the price, and only on the happening of this will the profit be said to have arisen.

3. Loss Provisioning: In case of losses if it is reasonably certain that a loss will arise on the transaction already entered into, such loss should be immediately recognized.

QUESTION 4

Vakrathunda Ltd. sold its Building to another Company for Rs. 60 Lakhs on 18th January and gave possession of the property to the Buyer Company. However, documentation and legal formalities are pending. Due to this, Vakrathunda Ltd. has not recorded the sale, and has shown the amount received, as an Advance. The Book Value of the Building as at the end of the current financial year is Rs. 25 Lakhs. Do you agree with this treatment? If not, explain reasons therefore.

SOLUTION

Hint: Refer to the concept of Substance over Form given above.

- Analysis: In the above case, the economic reality and substance of the transaction is that the rights and beneficial interest in the property has been transferred, although legal title is not yet transferred.
- *Conclusion: The seller Company, Vakrathunda Ltd. should record the sale and recognize Profit Rs. 35 Lakhs in P&L A/c. and also de-recognize the Asset (Building) in its Books, in the current financial year of sale.*

CONCEPT :6

Disclosure Requirements

Indicate the requirements with regard to Disclosure of Accounting Policies as per AS-1 (Para 24-27). OR

Briefly enumerate the guidelines issued by the ICAI on "Disclosure of Accounting Policies".

1. Disclosure of Accounting Policies (Para 18) : All significant accounting policies adopted in the preparation and presentation of Financial Statements should be disclosed to facilitate better understanding of the Financial Statements.
2. Place of Disclosure (Para 19, 20): Disclosures should form part of the Financial Statements. It should be disclosed at one place, instead of being scattered over several Statements, Schedules and Notes.

3. Change in Accounting Policies: Change in an accounting policy should be disclosed –
   (a) When such change has a material effect in the current period, and
   (b) When such change is reasonably expected to have a material effect in later periods.
4. Manner of Disclosure:

Effect in Current Period	Expected Effect in later periods
(a) The impact of change on the Profit/ Loss and the Balance Sheet items in current period should be quantified, to the extent ascertainable.	(a) The fact of such change, and
(b) Where quantification is not possible, either wholly or in part, the fact of such change having a material effect should be disclosed.	(b) The fact that it is likely to have effect in later periods, Should be appropriately disclosed, in the period in which the change is adopted.

5. Disclosure of Accounting Assumptions: Fundamental Accounting Assumptions, viz. Going Concern, Consistency and Accrual, if followed, need not be disclosed. Even if one of them is not followed, the fact should be disclosed.
6. Disclosure is not a Remedy: Disclosure of Accounting Policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts.

QUESTION 5

Gajamukh Ltd. had accounted for its liability towards Retirement Benefits of its Employees on cash basis, and had disclosed the same in the Notes on Accounts. Since, it has not followed the fundamental accounting assumption of 'Accrual' the Auditors want to qualify the report. The Company feels that a Qualified Audit Report is not necessary, since AS-1 simply requires a disclosure if a fundamental accounting assumption has not been followed Comment.

SOLUTION

Conclusion: Mere disclosure is not sufficient and hence the Auditor should qualify his report in this case.

QUESTION 6

Is there any specific disclosure under AS-1 for a Company in Liquidation?

SOLUTION

1. For a Company in liquidation, the fundamental accounting assumption of Going Concern is apparently not valid.
2. The Carrying Amounts of assets and liabilities would reflect the Realisable value.
3. The information should be disclosed by the Company under AS-1 on Disclosure of Accounting Policies.

QUESTION 7

Company follows the following policy for retirement benefits:

Contribution to pension fund is made based on actuarial valuation at the year end in respect of employees who have opted for pension scheme. Contribution to the gratuity fund is made based on actuarial valuation at the year end Leave encashment is accounted for on Pay AS YOU GO Method Comment.

SOLUTION

As per AS-1 : The "Accrual" is fundamental accounting assumptions, therefore, any accounting policy cannot be contrary to fundamental accounting assumption. Policy followed for leave encashment on the basis of 'PAY AS YOU GO' is not in accordance with accrual assumptions. Therefore, the accounting policy as regards leave encashment is not correct, in fact it is contrary to AS-15 'Employee Benefits'.

QUESTION 8

JJ Ltd. manufactures a special type of computer. This company has a software division for developing programme with respect to specialized area such as medical imaging. During the year ended 31st March 2010 the company manufactured a prototype computer to be used for demonstrating the medical imaging software programme and not for sale. The cost of manufacturing of prototype computer was Rs. 50 Lakhs. The amount was included in fixed production overheads of hardware division. Comment.

SOLUTION

Cost of prototype computer, which is manufactured by the JJ Ltd. and is not meant for sale, should not be included in fixed production overheads. Accounting policy is necessary to write off the cost of these prototype computers and same to be disclosed.

QUESTION 9

UFC Company is engaged in the business of financial services and is undergoing right liquidity position, since most of the assets of the company are blocked in various claims/petitions in a Special Court. UFC has accepted Inter-Corporate Deposits (ICDs) and it is making its best efforts to settle the dues. There were claims at varied rates of interest from lenders from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non-provision of interest from the due date to date of repayment was effected in the financial statements. On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of 'claims against the company not acknowledged as debt', and the same has been disclosed by way of a note in the accounts instead of making a provision in the profit and loss accounts. Is that correct?

SOLUTION

AS-1 recognizes 'prudence' as one of the major consideration governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profit are not anticipated but recognised only when realized though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

Accrual is one of the fundamental accounting assumptions as per AS-1. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be placed in a disadvantageous position by non-payment of interest in respect of overdue amount. From the aforesaid it is apparent that the company has an obligation on account of the overdue interest. In this situation, the company should provide for the liability (since it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case. However, in respect of the overdue interest amounts, which are settled, the liability therefore should be accrued to the event of amounts settled. Non-provision of the overdue interest liability amounts to violation of accrual basis of accounting.

QUESTION 10

Draft the accounting policies to be disclosed in the financial statement for the following items:

(a) Revenue recognition – sales of goods

(b) Depreciation

(c) Inventories

SOLUTION

(a) Sales are recognised when goods are invoiced and dispatched to customers and are recorded inclusive of excise duty and net of trade discounts and sales tax.

(b) Depreciation is charged on straight line method based on useful life specified in Schedule II of the Companies Act, 2013 except for the following assets in respect of which depreciation is charged at the rates mentioned below:-

(i) Kutcha Roads 47.50%

(ii) Enabling works 20%

(c) Inventories are valued as under:

Poultry for livestock breeding	At cost
Raw material and packing materials	At cost or net realizable value, whichever is lower.
Work-in-process	At cost or net realizable value, whichever is lower.

QUESTION NO 11 (AS1)

Describe briefly the term "Accounting policies".

ANSWER:

Accounting policies refers to

a. The specific accounting principles (e.g., lower of cost and net realizable value as the basis of valuation of inventories) as well as

b. The methods of applying those principles (e.g., cost formula such as FIFO applied in calculating the cost of inventories)

c. Adopted by an enterprise in the preparation and presentation of financial statements.

QUESTION NO 12 (AS-1)

Indicate any three areas in respect of which different accounting policies may be adopted by different enterprises. [CA Inter, May 1995 (3 Marks)]

OR

Enumerate various areas in which different policies could be adopted.

[CA Final, May 1992 (4 Marks)]

OR

Mention any six areas in which different accounting policies may be adopted by different enterprises. [CA Final, May 1995 (6 Marks)]

ANSWER :

Major Areas in which different accounting policies may be adopted by different enterprises includes:

- Methods of depreciation, depletion and amortisation, e.g., WDV method, SLM
- Treatment of expenditure during construction, e.g., capitalization, written off, deferment
- Conversion or translation of foreign currency items, e.g. average rate, TT
- Valuation of inventories, e.g. FIFO, weighted average method
- Treatment of goodwill, e.g., capitalization method, super profit method
- Valuation of investments, e.g. lower of cost and fair value
- Treatment of retirement benefits, e.g., Pay-as-you-go
- Recognition of profit on long-term contracts, e.g. proportionate completion method
- Valuation of fixed assets, e.g., historical cost, revalued amount
- Treatment of contingent liabilities, e.g., provision, discloser, no treatment

QUESTION NO 13(AS1)

Write a short note on fundamental accounting assumptions.

[CA Inter May 2001, Nov. 1994 (4 Marks)]

ANSWER

Fundamental Accounting Assumptions

The following have been generally accepted as fundamental accounting assumptions: —

a. Going Concern

An enterprise is considered as a going concern if it is able to continue in operation for the foreseeable future, generally a period not to exceed one year and also have no intention or necessity of liquidation or of curtailing the

b. Consistency **c. Accrual**

Revenues and costs are recognised as and when they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

QUESTION NO 14(AS1)

What are the major considerations, which govern the selection and application of accounting policies? [CA Inter Nov 1995 (6 Marks)]

OR

What are the major considerations governing the Accounting Policies?

[CA Final Nov. 1992(6 Marks)]

ANSWER

Considerations in the Selection of Accounting Policies

The primary consideration is that the financial statements should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended on that date.

The major considerations governing the selection and application of accounting

a. Prudence

Due to uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty.

b. Substance over Form

The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form e.g., in a finance lease transaction, the lessor in substance funding the transactions whereas the risk and reward incidence attached to the ownership of assets is passed to the lessee. Therefore, it is recorded in the books of lessee as fixed assets and in the books of lessor as receivables.

c. Materiality

Items the knowledge of which might influence the decisions of the user of the financial statements

Part II of Schedule VI of the Companies Act, 1956 requires that any expenses exceeding 1% of revenue or Rs. 5000 whichever is higher, shall be shown separately. Similarly, an item of 10% or more of value of raw material consumed shall be shown separately.

QUESTION NO 15 (AS1)

Write a short note on discloser of accounting policy.

[CA PE-II Level May 2003, Nov 2002 (4 Marks)] [CA Inter Nov 1999, May 1999 (4 Marks)]

OR

Indicate the requirements with regard to discloser of accounting policies.

[CA Inter, May 1995 (4 Marks)]

OR

'Discloser of significant accounting policy adopted in the preparation and presentation of the financial statements enhance the intangibility of financial statements.' Discuss.

[CA Final Nov. 1995, Nov. 1992 (5 Marks)]

OR

Briefly describe, the requirements of Accounting Standard-1 in regard to discloser of significant accounting policies.

[CA Final May 1995, Nov 1994, May 1991 (8 Marks)]

OR

Indicate the requirements with regard to discloser of accounting policies. Can disclosure of accounting policies or of changes therein remedy a wrong or inappropriate treatment of the item in the accounts?

ANSWER

Discloser of accounting policies

a. All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed normally in one place.

b. Such disclosure should form part of the financial statements

c. Any change in the accounting policies having a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed.

d. If having material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable, e.g. cost formula used for inventory valuation is changed from FIFO to weighted average method, it may increase or decrease the reported profit.

   If amount is not ascertainable, the fact should be indicated, e.g., incidence of excise duty on the finished goods has been provided and the valuation of finished goods has been increased accordingly. However, it has no impact on the profit or on the net current assets.

e. If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are not followed, the fact should be disclosed.

f. Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts.

QUESTION NO 16 (AS1)

Inventories of a car manufacturing company include the value of items, required for the manufacturing of a model-which was removed from the production line five years back, at cost price. As a company auditor how would you react on the above situations?

[CA Inter, Nov 2002 (4 Marks)]

ANSWER

Inventory valuation: AS-2 on "Valuation of Inventories" provides that the cost of inventories may not be recoverable if those inventories are damaged, have become wholly or partially obsolete, or if their selling prices have declined. Accordingly, the auditor should examine whether appropriate allowance has been made for the defective, damaged, obsolete and slow-moving inventories in determining the net realizable value.

In this case, items required for the manufacture of a model, which has been withdrawn from the production line five years ago, are included in the stock at cost price resulting in overstatement of inventory and profit. As it appears from the facts given that the net realizable value of these items is likely to much lower than the cost necessary to write down the inventory to "net realizable value" if the items of inventories become wholly or partially obsolete. Under the circumstance, the auditor should qualify the report appropriately.

QUESTION NO 17

ABC Ltd. was making provision for non-moving stocks based on no issues for the last 12 months up to 31.3.2005.

The company wants to provide during the year ending 31.3.2006 based on technical evaluation.

Total value of stock	Rs. 100 lakhs
Provision required based on 12 months issue	Rs. 3.5 lakhs
Provision required based on technical evaluation	Rs. 2.5 lakhs

Does the amount to change in Accounting Policy ? Can the company change the method of provision ?

ANSWER

No, the decision of making provision for non-moving stock on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of the company requires that provision for non-moving stock should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

In the given case, considering the total value of stock, the change in the amount of required provision of non-moving stock from Rs. 3.5 lakhs to Rs. 2.5 lakhs is also not material. The disclosure can be made for such change in the following line by notes to accounts in the annual accounts of ABC Ltd. for the year 2005-2006.

"The company has provided for non-moving stocks on the basis of technical evaluation unlike preceeding years. Had the same method been followed as in the previous year, the profit for the year and corresponding effect on the year end net assets would have been higher by Rs. 1,00,000.

QUESTION NO 18

Comment on the appropriateness of the following accounting policies. Where inappropriate, give reasons.

(a) Amount of exchange differences arising on translation on Balance Sheet date is taken to profit and loss account excepting in case of gain on current assets and liabilities in a country from where, on account of restrictions, the ability of the overseas unit is seriously impaired in transferred funds. In addition, as a matter of abundant prudence, gain on long-term liabilities is held as a reserve in order to meet only translation loss that may arise in one or more subsequent periods.

(b) Construction contracts entered into on or after 1st April 2003, and the entire duration of which falls within one single accounting year are accounted for an completed contract method, and all other construction contracts are accounted for an percentage of completion method.

(c) In the area of construction contracts, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the percentage of labour hours incurred up to the reporting date, to estimated total labour hours for each contract.

(d) Effective 1st April 2003, the Company has adopted and applied the prescriptions under AS-26 (Intangible Assets), and expenses incurred on intangible items from the said date are recognised as intangible Assets, only if future economic benefits from such items flow to the enterprise and the costs are measurable. Keeping materiality of items in view, all expenses recognised as Intangible Assets are written off, where the initial cost of recognised is Rs. 5,000 or less, even if they do not meet the criteria.

(e) The company have prepared and reported segment information in conformity with the accounting policies adopted for preparing and presenting financial statements of the company as a whole. In the case of assets, which are used jointly by two business segments, values are apportioned between the two on a rational and realistic basis, while the joint revenues, which do not pertain to either, are taken on Head Office account.

ANSWER

Evaluation of accounting policies :-

(a) Inappropriate, Unrealised gains on long term liabilities cannot be held as a reserve, but should be credited to P&L from year to year.

(b) Inappropriate. Even in cases where the contract duration is less than one single accounting year, it is essential to adopt only Percentage Completion method. Such a need arises, for Interim Financial Reporting (AS 25 - where an interim period as treated as an accounting period, shorter than one full accounting year).

(c) Appropriate.

(d) Appropriate, However, an item to be recognised as an intangible asset, should pass both (a) definition and (b) recognition criteria. The policy talks only about recognition criteria. Further, the policy cannot cite, materiality and value being less than Rs. 5000 as reasons for write off, in cases where an item cannot be in the first place recognised as an Intangible Assets.

(e) Inappropriate, in the case of assets, which are used jointly by two business segments, values can be apportioned between the two only if the revenues generated from the assets are similarly apportioned.