Dedicated to

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Thank You

Best of Luck…..!!!!!!

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Chapter-1 – Buy Back Of Shares *VVImp

(Section 68 of Companies Act 2013)

Part 1

As per the Provisions of Section 68 of Companies Act 2013, Buy Back means Cancellation of Equity shares. A Company can not Invest in its own Equity shares, but it can cancel its Equity shares if Company has surplus funds. The main objective of Buy Back of shares may be as follows:-

I. After Buy Back, the Percentage of Holding of shares by Promoters may be Increased.

e.g. (Buy Back of 2000 shares, shares held by promoter 6000 out of 10,000 shares)

Before B.B	After B.B
$\frac{6000}{10000} * 100 = 60\%$	$\frac{6000}{(10000-2000)} * 100 = 75\%$

II. After Buy Back, the EPS for the Company may also be increased

e.g. EAE = 2,00,000 , shares = 10,000, Buy Back = 2,000

	Before	After
EPS =	$\frac{200000}{10000} = \boxed{20}$	$\frac{200000}{8000} = \boxed{25}$

In addition to above Given Explanation, there are certain condition u/s 68 to Protect the interest of Debenture holders other Financers and creditors in company which are required to be satisfied before making any Buy Back of Equity shares. The following units are to be noted for better understanding of section 68.

Unit I : Basic Conditions u/s 68

Condition I : The Company should Issue* Different kind of shares Equal to Face value of Buy Back of shares

*Different kind means Pref. Shares capital

OR

Condition II : The company should create "Capital Redemption Reserve" from its *Free Reserve equal to face value of Buy Back of shares

* Free Reserve : Reserves which are available for Payment of Dividends

P&L Balance

General Reserves

"Revenue Reserve"

Journal Entries

(i) Equity shares Capital A/c Dr xxxx

To Equity shares Buy Back A/C xxxx

(Being Capital Cancelled)

(ii) Equity shares Buy Back a/c Dr xxxx

To bank A/C xxxx

(Being Payment made to shareholders)

(iii) Bank a/c Dr xxxx

To P.S. Capital xxxx

(Being New Issue of PSC made)

OR

Free Reserve a/c Dr	xxxx	
To Capital Redemption Res.		xxxx
(Being CRR Created)		

Important Notes :-

1. As per Section 68, Security Premium can be considered as a "Free Reserve" For the purpose of Buy Back of shares and we can use it like General Reserve and P&L Balance.

2. As per Section 55, CRR can be used only for Bonus Issue. It means that CRR can not be used for any other purpose.

3. We can apply condition I & condition II in combination as well.

e.g. i) E.S. Capital to be bought Back : 2000 shares of 100 each

ii) N. Issue of 8% P.S. Capital : ₹ 50,000 (100 each)

iii) R&S : a) P&L Balance : 40,000

b) G. Res : 1,20,000

Pass Journal Entries u/s 68.

Journal

Solution

I	E.S. Capital a/c Dr	2,00,000	
	To Equity shares Buy Back A/C		2,00,000
	(Being 2000 Equity shares of 100 each Cancelled)		
II	Equity shares Buy Back a/c Dr	2,00,000	
	To Bank		2,00,000
	(Being Payment made for cancelled shares)		
III	Bank a/c Dr	50,000	
	To 8% P.S. Capital		50,000
	(Being 500 shares of 100 each issued) For the Purpose of B. Back		

IV	G. Reserve a/c Dr	1,20,000	
	P&L a/c Dr	30,000 (1,50,000-120000)	
	To C. R. R. A/C		1,50,000
	(Being CRR created)		

Units II : Additional Concepts to be Considered"

Concept 1 : "Premium on Buy Back"

If Buy Back Price is higher than face value per shares then the excess payment over and above face value is to be considered as " Premium on Buy Back " and It will be considered as a loss for Company and It will be written off out of "Free Reserves".

PL GR SPR

Journal

(i) E.S. Capital a/c Dr xxxx (Face value)
Premium on B. Back Dr xxxx (B. Back Price- Face value)
To E.S. Buy Back A/C xxxx
(Being capital cancelled)

(ii) E.S. Buy Back A/C xxxx
To Bank xxxx
(Being Payment made)

(iii) Bank a/c Dr xxxx
To P.S. Capital xxxx
(Being New Issue made)

OR

Free Reserves a/c Dr xxxx
To CRR xxxx
(Being CRR created)

"Face Value of Buy Back"

(iv) Free Reserve a/c Dr xxxx
To Premium on B. Back xxxx
(Being loss on Buy Back written off)

Concept 2 : Treatment of Expenses on Buy Back
(i.e., Advertisement, Legal Exp. etc.)

As Per the Provisions, Expenses on Buy Back shall be written off in same manner as we write off Premium on Buy Back. It means that free Reserves can be used to write off Expenses on Buy Back.

Journal

(i) Expenses on Buy Back A/C Dr xxxx
To Bank xxxx
(Being Expenses incurred)

(ii) Free Reserve a/c Dr xxxx
To Expenses on B. Back xxxx
(Being Expenses written off)

Q-1 (Solution) (Basic Problem : Concept Based)

In the Books of New Era Ltd.

Journal Entries (In Lacs)

(i) E. S. Capital a/c Dr 600 [2400*25%]
Premium on Buy Back Dr 300 [600/10*5]
To Equity shares Buy Back A/C 900
(Being E. S. Capital cancelled)

(ii) Equity shares Buy Back a/c Dr 900
To Bank 900
(Being Payment made for B. Back)

(iii) Bank a/c Dr 150
To Investments 148
To P&L (Gain) 2
(Being Investments Sold)

(iv) Bank a/c Dr	200 (2*100)	
To P.S. Capital		200
(Being New Issue of Pref. shares made)		
(v) G. Reserve a/c Dr	400	
To CRR		400
(Being CRR Created)		
(vi) Security Premium A/C Dr	300	
To Premium on B. Back		300
(Being Loss on Buy Back written off)		
(vii) CRR a/c Dr	400	
SPR a/c Dr	50	
To Bonus shares		450
(Being Bonus shares Provided)		
@ 1:4 on 1800 Lacs of Equity Capital		
(viii) Bonus shares a/c Dr	450	
To E. S. Capital		450
(Being Bonus shares issued)		

Part 2

Q-2 (Solution)

In the Books of XYZ Ltd.

Journal Entries

(i) E. S. capital a/c Dr	100000		(10000*10)
Premium on Buy Back Dr	150000		(10000*15)
To Equity shares Buy Back A/C		250000	
(Being 10000 Shares of 10 each cancelled)			
(ii) Equity shares Buy Back A/C Dr	250000		
To Bank		250000	
(Being Payment made for Buy Back)			
(iii) Bank a/c Dr	30000		
To P. S. Capital		30000	
(Being New Issue of 3000 Pref shares @ 10 each made)			
(iv) General Reserve a/c Dr	70000		
To CRR		70000	
(Being CRR created)			
(v) Securities Premium a/c Dr	80000		
General Reserve (Bal. Fig) Dr	70000		
To Premium on B. Back		150000	
(Being Premium on Buy Back written off)			
(vi) Expenses on Buy Back A/C Dr	8000		
To Bank		8000	
(Being Expenses on Buy Back Paid)			
(vii) G. Reserve a/c Dr	8000		
To Expenses on B. Back		8000	
(Being Expenses written off)			

Q-3 (Solution)

In the books of Gunshot Ltd.

Journal Entries

(i) E. S. capital a/c Dr	160000 (16000*10)	
Premium on B. Back Dr	160000 (16000*10)	
To Equity shares Buy Back A/C		320000
(Being 16000 shares of ₹ 10 each cancelled)		
(ii) Equity shares Buy Back a/c Dr	320000	
To Bank		320000
(Being Payment made for Buy Back)		
(iii) General Reserve a/c Dr	160000	
To C. R. R. A/C		160000
(Being CRR created equal to face value of Buy Back)		
(iv) Security Premium a/c Dr	100000	
G. Res. a/c Dr	60000	
To Premium on B. Back		160000
(Being Premium on B. B written off)		
(v) Bank a/c Dr	320000	
To Investments		300000
To P&L A/C (Gain)		20000 (Bal. fig)
(Being Investments Sold)		

Q-5 (solution) *IMP

In the books of Anu Ltd.

Journal Entries (In crores)

(i) 12% P. S. capital a/c Dr	75	
To 12% Pref. shareholders		75
(Being PSC made due to Pref. shareholders)		

(ii) 12% Pref. shareholders Dr	75	
To Bank		75
(Being Payment made to Pref. shareholders)		
(iii) Revenue Reserve a/c Dr	75	
To CRR		75
(Being CRR created Equal to face value of PSC)		
(iv) E. S. capital a/c Dr	5 (50 Lacs*10)	
Premium on B. Back Dr	20 (50 Lacs*40)	
To Equity shares Buy Back A/C		25
(Being 50 Lacs shares of 10 each cancelled)		
(v) Equity shares B. Back A/C Dr	25	
To Bank		25
(Being Payment made for B. Back)		
(vi) Securities Premium a/c Dr	20	
To Premium on B. Back		20
(Being Premium on B. Back written off)		
(vii) Revenue Reserve a/c Dr	5	
To CRR		5
(Being CRR created Equal to face value of B. Back)		

Balance sheet

Name of Company : Anu Limited

B/S as at 1.4 x 1

Equity & Liabilities	Notes	₹
A. Equity :		
i) Share capital	1	20
ii) Reserves	2	280
B. Current Liablities		
Trade Payable	-	40

	Total (a)	340
A. Non Current Assets :		
i) PPE → AS-13	-	Nil
ii) N. C. Investments (at cost)	-	100
B. Current Assets	3	240
	Total (b)	340

Notes to A/CS :

Note 1 : Share Capital		
Authorised share capital		100
Issued & Paid up capital :-		
A. 12% P. S. capital	75	
Redemption of P. S. capital	(75)	Nil
B. Equity share capital	25	
Buy Back of E.S.C	(5)	20
		20
Note 2 : Reserve & Surplus		
i) Capital Reserve		15
ii) Securities Premium :		
Given in B/S	25	
Premium on B. Back	(20)	5
iii) Revenue Reserve :		
Given in B/S	260	
CRR for PSC	(75)	
CRR for ESC	(5)	180
iv) CRR (75+5)		80
		280
Note 3 : Current Assets		
Given in B/S	340	
Payment for PSC	(75)	
" " Buy Back	(25)	240

Q-8 (solution) (*VVI)

In the books of M Ltd.

Journal Entries

Particulars	Dr	Cr	
(i) Equity S. Capital a/c Dr	600000		(30 Lacs*20%)
Premium on Buy Back a/c Dr	300000		(600000/10*5)
To Equity shares Buy Back A/C		900000	
(Being capital cancelled for Buy Back)			
(ii) Equity shares Buy Back Dr	900000		
To Bank		900000	
(Being Payment made for Buy Back)			
(iii) Security Premium a/c Dr	300000		
To Premium on B. Back		300000	
(Being Premium on B. Back written off)			
(iv) Bank a/c Dr	2500000		
P&L a/c Dr	500000		(Loss)
To Investments		3000000	
(Being Investment Sold)			
(v) 9% P. S. Capital a/c Dr	2000000		
Premium on Redemption Dr	200000		(10%)
To 9% Pref. holders		2200000	
(Being Amt made due for Redemption)			
(vi) 9% Pref. holding a/c Dr	2200000		
To Bank		2200000	
(Being Payment made)			
(vii) Revenue Reserve Dr	2000000		
To CRR		2000000	
(Being CRR created)			

(viii) Security Premium a/c Dr	200000	
To Prem. on Redemption		200000
(Being Premium on Red. Written off)		
(ix) Debentures a/c Dr	330000 (Face value)	
To Invest in own Deb.		300000
To Profit on cancellation (P&L)		30000 (Bal. fig)
(Being own Debentures cancelled)		

Note :We have not created any CRR for Buy Back of Equity shares because company has already issued PSC for the Purpose of Buy Back and It is already recorded in B/S.

Balance Sheet

Name of Company : M Limited

B/S as at 1.4.2013

Equity & Liabilities	Notes	₹
Equity :		
i) Share Capital	1	2400000
ii) Reserves	2	5340000
Non Current Liabilities		
i) Long Term Borrowings	3	70000
Current Liabilities	-	40000
	Total (a)	7850000
Assets		
Non Current Assets		
i) PPE	-	2750000
ii) Non Current Investments	4	1700000
Current Assets	5	3400000
	Total (b)	7850000

Note 1 : Share Capital		
i) Authorised Capital		5000000
ii) Issued, Subscribed & Paid up Capital :		
A. Equity S. Capital	3000000	
Buy Back (20%)	(600000)	2400000
B. 9% P. S. Capital	2000000	
Redemption of PSC	(2000000)	NIL
		2400000
Note 2 : Reserve & Surplus		70000
A. Capital Reserve		
B. Revenue Reserve :		
Given (4000+1800)	5800000	
CRR created	(2000000)	
Loss on SOI	(500000)	
Profit on own Deb	30000	3330000
C. Security Premium :		
Given	500000	
Prem. on. BB	(300000)	
Prem. on. Red.	(200000)	Nil
D. CRR		2000000
	Total	5340000
Note 3 : Long term Borrowings		
Debentures		400000
Own Deb. Cancelled		(330000)
	O/s Bal.	70000
Note 4 : Non Current Investments		
Given in B/S		5000000
Sold		(3000000)
Cancelled		(300000)
		1700000

Note 5 : Current Assets		
Given		4000000
Buy Back		(900000)
Redemption of PSL		(2200000)
S. O. Invest		2500000
		3400000
		Q.4,Q.6,Q.9 → H.W
Q-7 (solution) * VVI (8-10 marks) *Part 3*		
In the books of Extra Limited		
Journal Entries		
(i) 9% P. S. Capital a/c Dr	2000000	
Premium on Redemption Dr	200000	
To 9% Pref. holders		2200000
(Being P. S. Capital made due for Redemption)		
(ii) 9% Pref. sh.holders Dr	2200000	
To Bank		2200000
(Being Payment made for Redemption)		
(iii) Revenue Reserve a/c Dr	2000000	
To CRR		2000000
(Being CRR created equal to Face Value of PSC)		
(iv) Security Premium a/c Dr	200000	
To Prem. on Redemption		200000
(Being Premium on Redemption written off)		
(v) E. S. Capital a/c Dr	3000000 (3L*10)	
Premium on B. Back Dr	6000000 (3L*20)	
To Equity shares Buy Back A/C		9000000
(Being Amt made due for BuyBack)		
(vi) Equity shares Buy Back a/c Dr	9000000	
To Bank		9000000
(Being Payment made for Buy Back)		

(vii) Revenue Reserve a/c Dr 3000000

To CRR 3000000

(Being CRR created equal to face value of B. Back)

(viii) Security Premium a/c Dr 5800000

Revenue Res. a/c Dr 200000

To Premium on B. Back 6000000

(Being Premium on B. Back written off)

(ix) Debentures a/c Dr 220000

To Investment in own Deb. 200000

To Gain on Cancellation 20000

(P&L : Rev. Res.)

(Being own Debentures cancelled)

Cancelled

(x) ESOP o/s a/c Dr 500000 (50000*10)

To G. Reserve 500000

Rev. Res.

(Being Unexercised options Reversed for 50000 shares @ 10)

(xi) Bank a/c Dr 1000000 (50000*20)

Exercised

To ESOP' o/s 1000000

(Being cash Received for Exercised options)

(xii) ESOP o/s Dr 1500000

To ESC (50000*10) 500000

To SP (Bal. fig) 1000000

Balance Sheet

Name of Company : Extra Limited

B/S as at 1.4.x1

Equity & Liablities	Notes	₹
Equity :		
A. Share Capital	1	7500000
B. Reserve & Surplus	2	7120000
Non Current Liab :		
A. Long Term Debts	3	180000
Current Liab	4	6000000
Total (A)		20800000
Assets		
Non current Assets :-		
A. PPE	-	5000000
B. Non current Investments	5	11800000
Current Assets	6	4000000
Total (B)		20800000

Notes to A/CS :

Note 1 : Share Capital

(a) Equity S. Capital	10000000	
Buy Back of capital	(3000000)	
Issued under ESOP	500000	7500000
(b) Pref. S. Capital	2000000	
Redemption of PSC	(2000000)	NIL
		7500000

Note 2 : Reserves		
A Capital Reserve		800000
B Revenue Reserve (PL, GR)		
Given Balances	5000000	
CRR for PSC	(2000000)	
CRR for ESC	(3000000)	
Premium on B. Back	(200000)	
Reversal of ESOP	500000	
Gain on cancel. Deb.	20000	320000
C Securities Premium		
Given Balance	6000000	
Redemption of PSC	(200000)	
Premium on B. B.	(5800000)	
Premium on ESOP	1000000	1000000
D Capital Redemption Reserve		
CRR for Redemption	2000000	
CRR for B. Back	3000000	5000000
	Total	7120000
Note 3 : Long Term Borrowings		
Debentures	400000	
Own Deb. cancelled	(220000)	180000
Note 4 : Current Liabilities		
Given Balance	7000000	
ESOP' o/s (Settled)	(1000000)	6000000
(100000*10)		
Note 5 : Non Current Investments		
Given Investment	12000000	
Cancelled (own Deb)	(200000)	11800000

Note 6 : Current Assets

Given Balance	14200000	Buy Back	(9000000)
Redemption of PSC	(2200000)	ESOP'(50000*20)	1000000
			4000000

Concept 3 : Methods for Buy Back

As per the Provisions, A Company can Buy Back its shares by the following methods :-

I Open market method: It is valid for Listed Companies only. The company can cancel its shares by Purchasing from secondary market.

II Tender method: It is followed by unlisted companies only. Under this method, Quotations are asked at offered prices.

III ESOP' : The Company can also cancel its issued shares to employees under ESOP's.

Concept 4 : Proportionate Cancellation
(Tender method)

In case Company receives Excess Quotations than its target then Company should cancel all quotations on the basis of % of Proportionate cancellation.

$$\boxed{\text{\% of Proportionate Cancellation} = \frac{\text{Target of Buy Back}}{\text{Total Received Quotations}} * 100}$$

Q-10 (solution)

I Calculation of % of Proportionate cancellation
(Price Range : 44)

$$\text{\% of Proportionate Cancellation} = \frac{200000 \text{ Shares}}{250000 \text{ Shares}} * 100 = 80\%$$

II Statement showing cancellation of shares

Shareholders	Quotation Received	Quotation Accepted (80%)	Quotation Rejected (20%)
A	50000	40000	10000
B	55000	44000	11000
C	60000	48000	12000
D	85000	68000	17000
	250000	200000	50000

Q.11. Discussed in class:

H.W → Q.14,Q.16,Q.17,Q.19

Part 4

V.V.V. Imp *Unit III: Calculation of Maximum Allowed Number of shares under Buy Back — **Master Problem**

As per the Provisions of Companies Act, A Company can not Buy Back its own shares more than the Allowed Number of shares. The Maximum Allowed Number of shares can be Calculated as Follows:-

Conditions	Max.Allowed Shares
I Shares outstanding Test	xxxx
OR	
II Shares Resource Test	xxxx
OR	
III Debt Equity Ratio Test	xxxx

"Whichever is Lower, will be Considered as Max. Allowed Shares to be bought Back u/s : 68"

Explanation on Tests

Test I: Shares outstanding test

$$\frac{\text{No .of Equity shares o/s in B/s under}}{\text{Paid up Equity S.Capital}} \times 25\% = xxxx$$

Note: It means that company can not buy Back its own shares for more than 25% of its o/s shares in a financial year under test I.

OR

Test II: Shares Resource Test

No Company can Buy Back its own shares for more than 25% of its " Paid up Equity Capital & free Reserves

$$\text{free Reserves} \rightarrow PL \quad GR \quad SPR$$

$$\text{Max. Possible Shares Under Test II} = \frac{(\text{Paid up Capital} + \text{Free Reserves}) * 25\%}{\text{Offered Price for Buy Back}}$$

OR

*Imp Test III: Debt Equity Ratio test

" As per the Provisions, *Debt **Equity Ratio can not be more than twice after such Buy Back"

"Note : It Means that 50% of Debt shall be maintained under Equity"

*Debt = Long Term Debt + Short Term Debts

Long Term Debt → Loans; Short Term Debts → Current Liab.

**Equity = "Paid up Equity Capital + free Reserves"

$$\text{Debt Equity Ratio} = \frac{\text{Debt (LTD + STD)}}{\text{Equity (ESC+Free.res.)}} = 2$$

Step I : Calculation of minimum Equity to be maintained

$$\frac{\text{Debt}}{2} = \text{Equity (minimum to be maintained)}$$

Step II : Max. Allowed shares

Assume max. Allowed shares = x

10 x → Number of shares; 10 → Face value

$$X = \frac{(\text{Present Equity} - \text{minimum Equity}) - \text{CRR to be Created Additionally}}{\text{Offered Price}}$$

Q-12 (Solution)

Calculation of Maximum Allowed Number of shares under B.Back

Test I : shares o/s Test

$\left(\frac{₹1250000}{10}\right)$ 125000 shares *25% = 31,250

Test II : Shares Resource Test

$\left(\frac{\text{(Paid up capital + free Res)*25\%}}{\text{Offered Price}}\right)$

$\frac{(1250000+1875000)*25\%}{20 \text{ per shares}}$ = 39063 shares

Test III : Debt Equity Ratio [Cannot be more than twice]

(i) Minimum Equity to be maintained = $\frac{\text{Debt}}{2}$ = 2262500

$\left(\frac{\text{(Loans + Current Liab)}}{2}\right)$ $\left(\frac{2875000+1650000}{2}\right)$

(ii) Present Equity as per B/S = ESC + free Reserves

= 1250000 + 1875000

= 3125000

(iii) Max. Possible shares

(Assume max. No. of shares = x) (CRR = 10x)

CRR

$X = \frac{(3125000 - 2262500) - 10x}{20}$

20x = 862500-10x

30x = 862500

x = 28750

Test I = 31250 , Test II = 39063 , Test III = 28750

Whichever is Lower = $\boxed{28750}$

Conclusion : In the given case , company wants to buy back only 25000 shares which is within the Limits because maximum allowed limit is 28750 shares.

Journal Entries

(i) Equity shares capital a/c Dr 2,50,000 (25,000*10)		
Premium on B. Back a/c Dr 2,50,000 (25,000*10)		
To Equity shares Buy Back A/c		5,00,000
(Being 25000 Equity shares Cancelled for B. Back)		
(ii) Equity shares Buy Back A/c Dr	5,00,000	
To Bank		5,00,000
(Being Payment made for Buy Back)		
(iii) Securities Premium a/c Dr	2,50,000	
To Premium on B. Back		2,50,000
(Being Premium on B. Back written off)		
(iv) Rev. Reserve a/c Dr	2,50,000	
To CRR		2,50,000
(Being CRR Created)		

Balance Sheet

Name of Company : Competent Limited

B/s as at 1.4.2012

Equity & liab	Notes	₹
Equity:		
A. Share capital	1	10,00,000
B. Reserves	2	16,25,000

Noncurrent Liab :		
C. Long term debt	3	28,75,000
Current Liab:	-	16,50,000
	Total	71,50,000

Assets	Notes	₹
Non Current Assets	-	46,50,000
PPE		
Current Asset	4	25,00,000
	Total	7150000

Note 1 : share Capital

Paid up Capital	12,50,000
Buy Back of shares	(250000)
	10,00,000

Note 2 : Reserves

(i) Revenue Res. :	Given	1500000	
	CRR Created	(250000)	1,25,0000
(ii) SP Res :	Given	250000	
	Buy Back	(250000)	NIL
(iii) P & L			125000
(iv) CRR			250000
	Total		1625000

Note 3 : Long term Debts

Debentures	1875000
Unsecured Loan	1000000
	2875000

Note 4 : Current Assets

Given	30,00,000
Payment for B. Back	(500000)
	2500000

Q-13 (solution)

Calculation of

Max number of Allowed shares

Test I : Shares o/s Test

$$\left(\frac{330 \text{ Crores}}{10}\right) = 33 \text{ Crores shares} * 25\% = 8.25 \text{ Crores}$$

Test II: Shares resources test

$$\frac{[(Esc + \text{free res.}) * 25\%]}{\text{Offered price (mp + 20\%)}} \quad \frac{[330 + 420] \times 25\%}{30} = 6.25 \text{ Crores}$$

Test III : Debt Equity Test [Ratio cannot be more than Twice]

	Case I	Case II	Case III
Loan Funds	1800	1200	1500
Minimum Equity to be maintained	900 (1800/2)	600 (1200/2)	750 (1500/2)
Present Equity	*750	750	*750
Allowed max. shares	*N.A	Refer W.N#	*N>A

* No Buy Back is allowed under case I and Case III because Company does not have Surplus Equity over required Equity.

W.N# Case II (Assume max. shares = x)

$$X = \frac{(750 \text{ Crores} - 600 \text{ Crores}) - 10x}{30}$$

30x = 150 Crores - 10x

40x = 150 Crores

$\boxed{x = 3.75 \text{ crores}}$

Test 1 = 8.25 , Test 2 = 6.25 , Test 3 = 3.75

Whichever is Lower = 3.75 Crores

Journal

(1) Equity S. Capital a/c Dr 37.5 (3.75*10)

Premium on B. Back a/c Dr 75 (3.75*20)

To Equity shares Buy Back A/c 112.50

(Being Amt. made due for Buy Back)

To Equity shares Buy Back A/c 112.50

(Being Amt. made due for Buy Back)

(2) Equity shares Buy Back Dr 112.50

To Bank 112.50

(Being payment made for buyback)

(3) securities premium Dr 75

To Premium on B. Back 75

(Being premium written off)

(4) G. Res. a/c Dr 37.5

To CRR 37.5

(Being CRR Created)

H.W → Q.20,Q.23,Q.25

Part 5

Q-22 (solution)

In the Books of Umang Ltd.

Journal Entries

(i) Equity S. Capital a/c Dr	5000000 (5L*10)	
Premium on Buy Back a/c Dr	2500000 (5L*5)	
To Equity shares Buy Back A/C		7500000
(Being 500000 shares of 10 each made due for Buy Back)		
(ii) Equity share Buy Back Dr	7500000	
To Bank		7500000
(Being Payment made for Buy Back)		
(iii) Bank a/c Dr	2500000	
P&L (Loss) a/c Dr	500000	
To Investments		3000000
(Being Investment Sold)		
(iv) Bank a/c Dr	2000000	
To P. S. Capital		2000000
(Being New Issue of PSC made)		
(v) G. Reserve a/c Dr	3000000	
To CRR		3000000
(Being CRR created)		
(vi) Securities Premium a/c Dr	1500000	
G. Res a/c	1500000	
To Prem. on. B. Back		2500000
(Being Premium on BB written off)		

Q.24 (Solution) *V.V Important

A. Calculation of Allowed max. Buy Back

Test 1 : Shares out Standing Test

$\frac{₹ 780 \text{ Lacs}}{10}$ 7800000 Shares * 25% 1950000 Shares

OR

Test 2 : Shares Resource Test

$$\frac{(\text{Paid up ESC + Free Res.}) * 25\%}{\text{Offered Price}}$$

$$\frac{\left[\underset{(ESC)}{₹ 78000000} + \left(\underset{(GR+PL+SP)}{₹ 82500000} - \underset{(PSC+Prem)}{₹ 26400000}\right)\right] * 25\%}{30} = 1117500 \text{ Shares}$$

OR

Test 3 : Debt Equity Ratio Test

I Minimum Equity to be maintained $= \frac{₹ 69900000 \text{ (Deb + Loan + CL)}}{2}$

$= ₹ 34950000$

II Assume max. Buy Back = X

$$X = \frac{\underset{\text{(Present Equity)}}{(₹78000000 + ₹56100000)} - \underset{\text{(minimum)}}{34950000} - 10X}{30}$$

30X = 99150000 - 10X

40X = 99150000

X = 2478750

Test I or Test II or Test III whichever is Lower = 1117500 shares

Journal Entries

(i) 9% P. S. Capital a/c Dr	24000000	
Premium on Redemption a/c Dr	2400000	
To 9% Pref. shareholders a/c Dr		26400000
(Being Amt made due for Redemption)		
(ii) 9% Pref. shareholder a/c Dr	26400000	
To Bank		26400000
(Being Redemption of PSC made)		
(iii) Securities Premium Dr	2400000	
To Prem on Red.		2400000
(Being Prem. on Red written off)		
(iv) G. Reserve a/c Dr	24000000	
To CRR		24000000
(Being CRR created equal to face value of PSC		
(v) Equity S. Capital a/c Dr	11175000 (1117500*10)	
Premium on BB a/c Dr	22350000 (1117500*20)	
To Equity shares Buy Back A/C		33525000
(Being Buy Back made due)		
(vi) Equity shares Buy Back A/C Dr	33525000	
To Bank		33525000
(Being Payment made for B. Back)		
(vii) G. Res. a/c Dr	11175000	
To CRR		11175000
(Being CRR created equal to face value of BB)		
(viii) Securities Premium a/c Dr	22350000	
To Prem on BB		22350000
(Being Prem. on BB written off)		

(ix) Debentures a/c Dr	7500000		
To Invest in own Deb.		6000000	
To Gain on cancellation		1500000 (P&L)	
(Being own Deb. Cancelled)			
			*7,80,00,000
(x) CRR a/c Dr	13365000		- 1,11,75,000
To Bonus Shares		13365000	66825000
(Being bonus shares provided on *₹ 66825000 in the ratio of 1:5)			
(xi) Bonus shares a/c Dr	13365000		
To E. S. Capital		13365000	
(Being New Issue of Capital made by way of Bonus)			

Unit IV: Other conditions for B. Back

Discussion has been made in class
but Note can be
Referred from
Class Book

Thank You
Best of Luck.....!!!!!!
CA. Parveen Jindal

Chapter 2

Part 1

VVI* Chapter-2 : Internal Reconstruction (10-12 marks)

(Section 66 of Companies Act 2013)

Coverage

Unit I :	Unit II:	Unit III:	Unit IV :
Compromise Arrangements	Share Surrenders	Alteration of S. Capital	Formation of Scheme

*V.V.IMP Unit I : Compromise Arrangements

As per the Provisions, Internal Reconstruction is the process by which a Company can write off its Losses (PL Debit Balance) out of sacrifices which is made by its shareholders, financers & creditors. The entire process will be routed through a Nominal A/C in the Name of "Capital Reduction A/C" or "Reconstruction A/C". The Following basic Entries may be considered while execution of scheme:-

Step I : At the time of sacrifices made by Parties (i.e., shareholders, Financers, creditors etc.)

Share Capital a/c Dr	xxxx	
Loans a/c Dr	xxxx	
Creditors a/c Dr	xxxx	
To Capital Reduction A/C		xxxx
(Being Sacrifices made by Investors)		

Step II : At the time of writing off losses

Capital reduction a/c Dr	xxxx	
To PL (Dr)		xxxx
(Being Losses written off)		

Capital Reduction A/C

Particular	₹	Particular	₹
To PL (Dr)	xxxx	By S. Capital	xxxx
To Capital Res. (Bal. Fig)	xxxx	By Loans/Deb.	xxxx
(Refer special Note)		By Creditors	xxxx
	xxxx		xxxx

* Sacrifices can never be Less than Losses otherwise Company will have to be liquidated.

Special Note

The sacrifices may be higher than losses. If it is so, the excess amount will be considered as capital profit and It will be transferred to "Capital Reserve" as Follows:-

Journal : Capital Reduction Dr xxxx
To Cap. Res. xxxx
(Being surplus in Reduction A/C Transferred)

*VVI

Additional concepts to be considered in Compromise Arrangements :-

Concept 1 : Revaluation of Assets (Tangible/Intangible)

If Company Revalues its Assets at the time of Internal Reconstruction scheme for "True & Fair Presentation" of its B/S then the Following entries shall be passed :-

Case I : If Market value of Assets becomes higher than book value of Assets

Assets a/c Dr xxxx
To Cap. Reduction xxxx
(Being upward Revaluation made)

Case II : If Market value of Assets becomes Less than Book value of Assets

Capital Reduction a/c Dr xxxx

To Assets xxxx

(Being Downward Revaluation made)

Special Note

If market value of any Assets is not given then we will carry it at its original book value.

Exception

If market value of "Goodwill" is not given in the question then we can not carry it at book value but we will write off it fully assuming it has no value

Journal: Cap. Reduction Dr xxxx

To GW xxxx

(Being GW written off in the absence of market value)

Concept 2 : Treatment of Fictitious Assets

(i.e., Advertisement Suspense, Deferred Revenue Expenditure,)
Discount on Issue of Debentures, Preliminary Exp etc.
Underwriting Comm etc.

As per the Provisions, Company should write off all fictitious Assets if these Assets are carried in B/S at the time of Internal Reconst. whether it is required by question or not because these Assets shall always have "Nil" value.

Journal: Cap. Reduction a/c Dr xxxx

To Fictitious Assets xxxx

(Being Fictitious Assets written off)

*Imp Concept 3 : Treatment of "Reserves" if Given in B/S

(i.e., General Res., Securities Premium etc.)

If Company has Reserves (Any kind) at the time of Internal Reconstruction then the company will use all the available Reserves whether it is required by question or not required by question.

Journal: Reserves a/c Dr	xxxx	
To Cap. Reduction A/C		xxxx
(Being Reserve Utilised)		

Concept 4 : Arrangement of New Funds

(New Issue of Shares/ Debentures etc.)

Journal : Bank a/c Dr	xxxx	
To S. Capital		xxxx
To Debentures		xxxx
(Being New Issue of Shares/ Deb. Made)		

*VVI Concept 5 : Conversion / Re-design /Reduction/Written Down in Face value of Shares / Debentures

If Sacrifice is made by Shareholders / Debenture holders at the time of Internal Reconstruction then Face value per share or Face value per debenture should be revised to Reconcile the number the shares. The Following Presentation may be considered :-

Share Capital / Deb. a/c Dr (Old face value)	xxxx	
To S. Capital/ Deb. (New face value)		xxxx
To Cap Red (Difference)		xxxx
(Being face value per share converted)		

Concept 6 : Change in Name of Company

As per the Provisions, A company will add two special words with its Name after Internal Reconstruction. "& Reduced". The company will be Given 5 Years to fight back. In case company is not able to recover from losses within 5 years then it will be liquidated.

Part 2

Q-1 (Solution)

In the books of Rocky Ltd.

Journal Entries (In Lacs)

(i) E. S. Capital a/c Dr (₹10)	500	
To E. S. Capital (₹2.5)		125
To Capital Reduction A/C (₹7.5)		375
(Being Equity shares of 10 each converted into 2.5 each)		
(ii) O/S Remuneration a/c Dr	10	
To Cap. Reduction A/C		10
(Being Remuneration waived off by Directors)		
(iii) O/S Interest on Deb. a/c Dr	48	
To Cap. Reduction		48
(Being O/S Int. waived off by Deb. Holders)		
(iv) 12% Debentures a/c Dr	400	
To 13% Debentures		400
(Being 12% Deb. Converted into 13% Deb.)		
(v) Bank a/c Dr	125	
To E. S. Capital		125
(Being New Issue of shares made)		
(vi) Trade creditors a/c Dr	165	
To E. S. Capital		65
To Bank/Cash		80 (100*80%)
To Cap. Reduction A/C		20 (100*20%)
(Being Full Settlement made of creditors)		
(vii) Land & Building a/c Dr	46 (230-184)	
To Cap. Red. A/C		46
(Being upward Revaluation made)		

Particulars	Dr	Cr
(viii) Cap. Reduction a/c Dr	92	
To P&M		66 (286-220)
To Stock		22 (142-120)
To Debtors		4 (80-76)
(Being Downward Revaluation made)		
(ix) Capital Reduction a/c Dr	413	
To GW		15
To Discount on Deb.		8
To PL (Dr)		390
(Being GW & Fictitious Assets written off including losses)		
(x) Cap. Reserve a/c Dr	6	
To Cap. Reduction A/C		6
(Being Reserve utilised)		

Balance Sheet

Name of Company : Rocky Limited "& Reduced"

B/S as at 31.3.2018

Equity & Liab.	Notes	₹
Equity :		
a) Share Capital	1	315
b) Reserve	-	-
Non-Current Liab:		
a) Long Term Debts	2	400
Current Liab :		
a) Other Current Liab.	3	11
b) Short term Provisions	-	33
	Total	759

Assets		
Non Current Assets :		
a) PPE	4	491
Current Assets :		
a) Inventories	5	120
b) Trade Receivable	6	76
c) Cash & Cash Equivalents	7	72
	Total	759

W. N# **Capital Reduction A/C**

To P&M	66	By E. S. Capital	375
To Stock	22	By O/S Remuneration	10
To Debtors	4	By O/S Interest	48
To PL (Dr)	390	By Creditors	20
To GW	15	By L&B	46
To Discount	8	By Cap. Res	6
	505		505

Notes to A/CS :-

1. Share Capital :-

E. S. Capital of 10 each (Given)	500
Reduction in face value of ESC by 7.5 each	(375)
New Issue for cash	125
New Issue to creditors	65
Total	315

2. Long Term Borrowings :-

13% Debentures	400
Total	400

3. Other current Liab. :-

O/S Expenses	11
Total	11

4. PPE

	L&B	P&M	Furniture	Total
Balance as per B/S	184	286	41	511
Revaluation (+-)	46	(66)	-	(20)
Total	230	220	41	491

5. Inventories & Trade Receivables

	Inventories	T. Receivables
B/S Balance	142	80
Revaluations	(22)	(4)
	120	76

6. Cash & Cash Equivalents

Balance as per B/S	27
N. Issue for Cash	125
Creditors Paid	(80)
	72

Q-2 (Solution)

In the books of Green Limited

Journal Entries

	Dr	Cr
(i) Equity share Final Call Dr	1000000	
To Equity S. Capital		1000000
(Being Final Call made due on 100000 shares @ 10)		
(ii) Bank a/c Dr	1000000	
To Equity S. final call		1000000
(Being Collections made)		
(iii) Equity S. Capital (₹ 50) Dr	7500000 (150000*50)	
To Equity S. Capital (₹20)		3000000 (150000*20)
To Cap. Reduction A/C (₹30)		4500000 (150000*30)
(Being 150000 shares of 50 each converted into 20 each)		

(iv) 12% First Debenture a/c Dr	300000	
12% Second Debenture a/c Dr	700000	
Creditors a/c Dr	200000	
To Mr. X		1200000
(Being Amt. made due to X)		
(v) Mr. X a/c Dr	1200000	
Bank a/c Dr	200000	
To Cap. Reduction		700000
To 14% Debentures		700000 (Bal.fig)
(Being Settlement made with Mr. X)		
(vi) 12% First Debentures Dr	200000	
12% Second Debentures Dr	300000	
Creditors Dr	100000	
To Mr. Y		600000
(Being Amt. made due to Mr. Y)		
(vii) Mr. Y a/c Dr	600000	
To Cap. Reduction		300000
To 14% Deb.		300000
(Being settlement made Mr. Y)		
(viii) Capital Reduction a/c Dr	4000000	
To Goodwill		2000000
To PL (Dr)		2000000
(Being GW & losses written off)		
(ix) Capital Reduction a/c Dr	1500000	
To Computers		1500000
(Refer Capital Reduction A/C)		

Balance Sheet

Name of Company : Green Limited "& Reduced"

B/S as at 31.3.2018

Equity & Liab.	Notes	₹
Equity :-		
(i) Share Capital	1	3000000
(ii) Reserves	-	-
Non Current Liab:-		
(i) Long Term Debts	2	1000000
Current Liab:-		
(i) Trade Payables	3	200000
	Total	4200000
Assets		
Non Current Assets :-		
(i) PPE	4	3000000
Current Assets :-		
(ii) Cash & C. E.	5	1200000
	Total	4200000

W.N# Capital Reduction A/C

To GW	2000000	By E.S. Capital	4500000
To PL (Dr)	2000000	By Mr. X	700000
To Computers (Bal fig)	1500000	By Mr. Y	300000
	5500000		5500000

Notes to A/CS :

1. Share Capital :-

50000 Shares of 50 each, fully Paid up	2500000
100000 shares of 50 each, 40 Paid up	4000000

Final call @ 10 on 100000 shares	1000000
Reduction in S. Capital	(4500000)
Total	3000000
(150000 shares of 20 each)	

2. **Long Term Debts :-**

14% First Debentures :	
Issued to Mr. X	700000
Issued to Mr. Y	300000
	1000000

3. **Trade Payables :**

O/S Balance in B/S	500000
Cancelled by x	(200000)
Cancelled by y	(100000)
O/S Bal.	200000

4. **PPE :**

(i) Building	1000000
(ii) Plant	1000000
(iii) Computers (25L-15L)	1000000
	3000000

5. **Cash & C. E**

Balance as per B/S	Nil
Final Call Received	1000000
Received from Mr.x	200000
	1200000

Q-3 (Solution)

In the books of Toy Ltd.

Journal Entries

Particulars	Dr	Cr
(i) E. S. Capital a/c Dr	250000	
To E. S. Capital (250000*2/5)		100000
To 5% P. S. Cap. (100000*20%)		20000
To 6% Debentures (3000*10)		30000
To Cap. Reduction (Bal. fig)		100000
(Being Claim of Equity holders settled)		
(ii) Bank a/c Dr	25000 (2500*10)	
To 5% Debentures		25000
(Being new issue of Deb. made)		
(iii) Capital Reduction Dr	100000	
To GW		75000
To P&M		12500
To L. Premises		12500
(Being Downward Revaluation made)		

Capital Reduction A/C

To GW	75000	By E. S. Cap.	100000
To P&M	12500		
To L. Premises	12500		
	100000		100000

HW: Q.29

Part 3

Q-4 (Solution)

In the books of BCR Ltd.

Journal Entries

Particulars	Dr	Cr
(i) O/S Interest on U. loan a/c Dr	150000	
To Cap. Reduction A/C		150000
(Being o/s Int. is waved off by unsecured financers)		
(ii) O/S Interest on Debentures a/c Dr	55000	
To Cap. Reduction A/C		55000
(Being 50% of o/s Int. on Debentures waived off)		
(iii) 11% P. S. Capital a/c Dr	500000	
To 15% Debentures		250000 (50%)
To Cap. Reduction		250000 (50%)
(Being claim of Pref. holders Settled)		
(iv) Current Liab. a/c Dr	50000	
To Cap Reduction		50000
(Being reduction made in current liab.)		
(v) Bank a/c Dr	100000	
To E. S. Capital		100000
(Being additional subscription made by existing shareholders)		
(vi) Equity S. Capital (₹10) Dr	1500000	
To Equity S. Capital (₹10)		500000
To Cap. Reduction		1000000
(Being 100000 shares of 10 each cancelled)		
(vii) Capital Reduction a/c Dr	1900000	
To PL (Dr)		1640000
To Debtors (PFDD)		260000
(Being Losses & Debtors written off)		

(viii) Fixed Assets a/c Dr 400000
To Cap. Reduction 400000
(Being upward Revaluation made)

(ix) Cap. Reduction a/c Dr 5000
To Cap. Reserve 5000
(Being surplus in Reduction A/C transferred)

Balance Sheet

Name of Company : BCR Limited "& Reduced"

B/S as at 31.3.2018

	Notes	₹
Equity :		
(i) Share Capital	1	600000
(ii) Reserves	2	5000
Non Current Liab :		
(i) Long Term Debts	3	1250000
Current Liab :	4	1035000
	Total	2890000
Non Current Assets :		
(i) PPE	5	900000
Current Assets :		
(i) Inventory	-	600000
(ii) Trade Receivable	6	1190000
(iii) Other C. Assets	-	200000
	Total	2890000

W.N#

Capital Reduction A/C

To PL (Dr)	1640000	By o/s Int. on U. loan	150000
To Debtors	260000	By o/s Int on Deb.	55000
To Cap. Res (Bal. fig)	5000	By P. S. Capital	250000
		By C. Liab.	50000
		By F. Assets	400000
		By E. S. Capital	1000000
	1905000		1905000

Notes to A/CS :-

1. Share Capital

ESC : 150000 shares of 10 each		1500000
Cancellation of 100000 shares of 10 each		(1000000)
New Issue of shares		100000
		600000

2. Reserves :

Cap. Reserve (transferred from Reduction A/C)		5000
		5000

3. Long Term Debt :

(i) 15% Debentures		250000
(ii) 11% Debentures		500000
(iii) U. loan		500000
		1250000

4. Current Liab :

1) Short Term Borrowing :

Bank overdraft	630000	
Bank Balance Received From N. Issue	(100000)	530000

2). Other Current Liab :

o/s Int on Deb (110000*50%)		55000
Current Liab (500000-50000)		450000
		1035000

5. PPE : Given in B/S (WDV) 500000
Upward Revaluation 400000
900000

6. Trade Receivable : Given in B/S 1450000
PFDD (260000)
1190000

V.V.V. Imp* "Concept 7 : Treatment of Additional Obligation"
(i.e. Pref. Dividends, Reconst. Exp. etc.)

Additional Obligation means
Settlement of a New Liab.
Outside the B/S

If any obligation is required to be settled in addition to B/S liabilities then we will record the amount to be paid for such obligation directly in Capital Reduction A/C.

Journal : Capital Reduction a/c Dr xxxx
To Bank xxxx
(Being Additional Obligation Paid)

*Special Note
We will never consider Gross Payable Amount of Additional Obligation and Sacrifice out of it, but we will record only payment to be made.

e.g. Pref. Dividend : 5 years
(Arrears) → Additional liab.

3 Years → To be waived off
2 Years → To be Paid off

Solution

We will not consider the Gross dividend for 5 years as well as Sacrificed amt. for 3 years, but we will record directly 2 years payment of dividend in Reduction.

Q-6 (Solution)

In the books of A&Co.

Journal Entries

Particulars	Dr (₹)	Cr (₹)
(i) 6% P. S. Capital (₹100) Dr	400000	
To 6% P. S. Capital (₹75)		300000
To Cap. Reduction (₹25)		100000
(Being 4000 Pref. shares of 100 each converted into 4000 shares of 75 each)		
(ii) E. S. Capital (₹10)	750000	
To E. s. Capital (₹2)		150000
To Cap. Reduction (₹8)		600000
(Being 75000 shares of 10 each converted into 75000 shares of 2 each)		
(iii) Capital Reduction a/c Dr (400000*6%*4years*1/4)	24000	
To E. S. Capital		24000
(Being additional obligation of pref. dividend settled)		
(iv) Accrued Interest a/c Dr	22500	
To Bank		22500
(Being Accrued Int. Paid off)		
(v) 6% Debenture	120000	
To F. Property		100000
To Cap. Reduction		20000
(Being Part Payment to Deb. holders made)		

(vi) Bank a/c Dr	130000	
To 8% Debentures		130000
(Being New Issue of Deb. Made)		
(vii) Capital Reduction Dr	267500	
To GW		130000
To Patent		37500
To D. Adv.		100000
(Being Intangibles & fictitious Assets written off)		
(viii) Cap. Reduction a/c Dr	133500	
To stock		65000
To Debtors		68500
(Being Downward Revaluation made)		
(ix) Freehold Property a/c Dr	62500 (387500-325000)	
To Cap Reduction		62500
(Being upward Revaluation made)		
(x) Bank a/c Dr	140000	
To Invest.		55000
To Cap. Red.		85000 (Profit)
(Being Investment sold)		
(xi) Director Loan a/c Dr	100000	
To E. S. Cap.		90000 (90%)
To Cash		5000 (5%)
To Cap Red.		5000 (5%)
(Being Settlement made with Director for their Loan)		
(xii) Capital Reduction a/c Dr	12500	
To Bank		12500
(Being Penalty Paid @ 5% on ₹250000)		

(xiii) C. Red. a/c Dr	43500	
To PL (Dr)		43500
(Being Losses written off)		

Balance Sheet

Name of Company : A & Co. "& Reduced"

B/S as at 31.12.2018

	Notes	₹
Equity :		
(i) Share Capital	1	564000
Non Current Liab :		
(i) Long Term Debts	2	385000
Current Liab :		
(i) Trade Payable	-	300000
	Total	1249000
Non Current Assets :		
(i) PPE	3	437500
Current Assets :		
(i) Inventory	4	360000
(ii) Trade Receivable	5	416500
(iii) Cash & Cash Equivalents	6	35000
	Total	1249000

W.N# Capital Reduction A/C

To E. S. Cap. (Dividend)	24000	By P. S. Capital	100000
To Patents	37500	By E. S. Capital	600000
To GW	130000	By Debentures(Property)	20000
To Def. Adv.	100000	By F. Property	62500
To Stock	65000	By Director's Loan	5000
To Debtors	68500	By Bank (SOI : Profit)	85000
To Bank (penalty)	12500		
To PL (Dr)	435000		
	872500		872500

Notes to A/Cs:-		
1. Share Capital :-		
4000 Pref. shares of 100 each	400000	
Reduction in capital	(100000)	300000
75000 Equity shares of 10 each	750000	
Reduction in Capital	(600000)	150000
New Issue of Equity Shares for Pref. Dividend		24000
New Issue of Director' in settlement of Loan		90000
		564000
2. Long Term Debt :-		
6% Debentures	375000	
Part Payment	(120000)	255000
New Issue of 8% Debentures		130000
		385000
3. PPE :		
A. Freehold Property	425000	
Part Transfer to Debentures	(100000)	
Upward Revaluation	62500	387500
B. Plant		50000
		437500
4. Inventory (425000-65000)		360000
5. T. Receivable (485000-68500)		416500
4. Cash & C. E.		
Opening Balance		(195000)
New Issue of Deb		130000
Sale of Invest.		140000
Int Paid		(22500)
Director Loan		(5000)
Penalties Paid		(12500)
		35000
H.W :- Q.20,Q.21		

Part 4

Q-5 (Solution)

In the books of Paradise Limited

Journal Entries

(i) 6% P. S. Capital (₹100) Dr	150000	
To 6% P. S. Capital (₹75)		112500
To Cap. Reduction (₹25)		37500
(Being 1500 Pref. shares of 100 each converted into 75 each)		
(ii) Equity S. Capital a/c Dr (₹100)	200000	
To E. S. Capital (₹12.5)		25000
To Cap. Reduction (₹87.5)		175000
(Being 2000 shares of 100 each Converted into 12.5 each)		
(iii) Capital Reduction a/c Dr	3375	
(150000 x 6% p.a. x 3Y= 27000/100 x 1 share= 270 share x 12.5)		
To E. S. Capital		3375
(Being 270 shares @ 12.5 each issued to Pref. shareholders in Settlement of P. Dividend)		
(iv) Capital Reserve a/c Dr	36000	
To Cap. Reduction A/C		36000
(Being Cap. Res. utilised)		
(v) Capital Reduction a/c Dr	77500	
To P&M		77500
(210000-57500=152500-75000)		
Cost Deb WDV MV		
(Being Downward Revaluation made)		
(vi) Capital Reduction a/c Dr	167625	
To PL (Dr)		110375
To Pre. Exp		7250
To GW		50000
(Being Losses, GW & Fictitious Assets written off)		

(vii) Bank a/c Dr	62500	
To E. S. Capital		62500
(Being New Issue made of 5000 shares @ 12.5 each)		

Balance Sheet

Name of Company : Paradise Ltd "& Reduced"

B/S as at 31.3.2018

Equity & Liab.	Notes	₹
Equity :		
(i) Share Capital	1	203375
Current Liab :		
(i) Trade Payable	-	42500
	Total	245875
Assets :		
Non Current Assets :		
(i) PPE	2	125000
Current Assets :		
(i) Inventory	-	79175
(2) Trade Receivable	-	30200
(3) Cash & Cash Eq.	3	11500
	Total	245875

W. N# Capital Reduction A/C

To E. S. Cap (Pref. Dividend)	3375	By P. S. Capital	37500
		By E. S. Capital	175000
To P&M	77500	By Cap. Res.	36000
To PL (Dr)	110375		
To GW	50000		
To Pref. Exp	7250		
	248500		248500

Notes to A/Cs :

1. Share Capital :-

a) Authorised Capital

1500 Pref shares of 75 each		112500
19000 Equity shares of 12.5 each		237500
		350000

b) Issued, Subscribed & Paid up :-

(i) P. S. Capital :

Given in Trial Balance	150000	
Cancellation of PSC	(37500)	112500

(ii) E. S. Capital :

Given in Trial Balance	200000	
Cancellation	(175000)	
Issued for P. Dividend	3375	
Issued for Cash	62500	90875
		203375

2. PPE

(i) P & M (Revalued)	75000
(ii) Leasehold property (80000-30000)	50000
	125000

3. Cash & C.E:

(i) Opening Balance	(51000)
(ii) N. issue for cash	62500
	11500

Q-9 (Solution)

In the books of ABC Ltd.

Journal Entries

(i) 8% P. S. Capital a/c Dr	600000		
To Capital Reduction (30%)		180000	
To 11% Debentures (70%)		420000	
(Being Claim of Pref holder Settled)			
(ii) 9% Debentures a/c Dr	1200000		
To P&M		900000	
To Cap Reduction A/C		300000	
(Being Claim of Deb. holder Settled)			
(iii) Creditors a/c Dr	592000		
To Stock		500000	
To Cap. Reduction		92000	
(Being Claim of Creditors Settled)			
(iv) Capital Reduction a/c	13000		(68000-55000)
To Investment		13000	
(Being Downward Revaluation made)			
(v) Bank a/c Dr	300000		
To 11% Debentures		300000	
(Being New Issue of Deb. made)			
(vi) Capital Reduction a/c Dr	405000		
To PL (Dr)		405000	
(Being Losses written off)			
(vii) Capital Reduction a/c Dr	154000		
To Capital Reserve		154000	
(Refer Cap. Reduction A/C)			

Capital Reduction A/C

To Investment	13000	By P. S. Capital	180000
To PL (Dr)	405000	By Debentures	300000
To Cap. Res (Bal.fig)	154000	By Creditors	92000
	572000		572000

Balance Sheet

Name of Company : ABC Limited "& Reduction"

B/S as at 31.3.2018

Equity :		
(i) Share Capital	-	2000000
(ii) Reserves (Capital Res)	-	154000
PSC Cash		
Non Current Liab		
(i) 11% Debentures (420000 + 300000)	-	720000
	Total	2874000
Non Current Assets :		
(1) PPE (Furniture)	-	250000
(2) I. Assets (Patents)	-	70000
(3) N. C. Investments	-	55000
OB Creditors		
Current Assets :		
(1) Stock (14-5)	-	900000
(2) Debtors	-	1439000
(3) Cash [10000+(150000)+300000]	-	160000
	Total	2874000

Q-8 (Solution) *VVI (12-15 marks)

I Statement showing Total Deb due to A & B

	Mr. A	Mr. B	Total
10% F. Debentures	400000	200000	600000
10% S. Debentures	600000	400000	10,00,000
Creditors	100000	50000	150000
Interest o/s on Deb.	100000	60000	160000
	(10L*10%)	(6L*10%)	
Total o/s	1200000	710000	1910000

II Journal Entries

(i) Equity S. Capital (₹10) Dr	5000000	
To Equity S. Capital (₹5)		2500000
To Capital Reduction (₹5)		2500000
(Being 500000 shares of 10 each converted into 5 each)		
(ii) 9% P. S. Capital (₹100) Dr	2000000	
To 10% P. S. Capital (₹50)		1000000
To Cap. Reduction (₹50)		1000000
(Being 20000 Pref. shares of 100 each converted into 50 each)		
(iii) 10% F. Debentures a/c Dr	400000	
10% S. Debentures a/c Dr	600000	
Creditors a/c Dr	100000	
O/S Interest a/c Dr	100000	
To Mr. A		1200000
(Being Amt. made due to Mr. A)		
(iv) Mr. A a/c Dr	1200000	
Bank a/c Dr	100000	
To Cap. Red.		600000
To 12% Deb.		700000
(Being Settlement made with Mr. A)		

(v) 10% F. Deb. Dr	200000	
10% S. Deb. Dr	400000	
Creditors Dr	50000	
O/S Int Dr	60000	
To Mr. B		710000
(Being Amt made due to B)		
(vi) Mr. B a/c Dr	710000	
To Cap Red.		300000
To 12% Deb.		410000
(Being Settlement made with Mr. A)		A B
(vii) Creditors a/c Dr	175000 (5L-1L-5L) *50%	
To Cap. Red.		175000
(Being claim of creditors waived off by 50%)		
(viii) Director' Loan a/c Dr	100000	
To Cap. Reduction (40%)		40000
To E. S. Cap. (60%)		60000
(Being Claim of Directors Settled)		
(ix) Capital Reduction a/c Dr	15000 (300000*5%)	
To Bank		15000
(Being Penalties Paid)		
(ix) Capital Reduction a/c Dr	10000	
To Bank		10000
(Being Reconst. Exp.Paid)		
(x) Bank a/c Dr	110000	
To Cap. Reduction		110000
(Being Refund of D. Fees Received)		
(xi) Provision for Tax Dr	100000	
To Bank		80000
To Cap. Red.		20000
(Being Tax Liab Settled)		

(xii) Capital Reduction a/c Dr	1620000		
To L&B		200000	
To P&M		600000	
To Furniture		100000	
To Computers		120000	
To Invest		100000	
To Stock		300000	
To Debtors		200000	
(Being Downward Revaluation made)			
(xiii) Capital Reduction a/c Dr	3100000		
To GW		1000000	
To Patents		500000	
To PL		1500000	
To Discounts		100000	
(Being I. Assets, Losses & Fictitious written off)			

Capital Reduction A/C

To Bank (Penalty)	15000	By E. S. Capital	2500000
To Bank (Exp)	10000	By P. S. Capital	1000000
To L&B	200000	By Mr. A	600000
To P&M	600000	By Mr. B	300000
To Furniture	100000	By Creditors	175000
To Computers	120000	By Bank (Fees)	110000
To Invest	100000	By Tax Liab	20000
To Stock	300000	By. D.Loan	40000
To Debtors	200000		
To PL	1500000		
To Discount	100000		
To GW	1000000		
To Plant	500000		
	4745000		4745000

Bank A/C

To 12% Deb (A)	100000	By Bal b/d	100000
To Reduction (Fees)	110000	By Reduct. (Penalty)	15000
		By Reduct (Exp)	10000
		By Tax Liab	80000
		By Bal c/d (Bal. fig)	5000
	210000		210000

Part 5

Q-7 (Solution)

Journal Entries

(i) E. S. Capital (₹10) Dr	1000000	
To E. S. Capital (₹2.5)		250000
To Cap. Reduction (₹7.5)		750000
(Being 100000 shares of 10 each converted into ₹2.5 each)		
(ii) Bank a/c Dr	200000 (50000*4)	
To E. S. Capital		125000 (50000*2.5)
To S. P. Res		75000 (50000*1.5)
(Being New Issue made @1 for 2 on 100000 shares of 2.5 each at 4 Per share)		
(iii) 10% P. S. Capital a/c Dr	400000	
To 15% P. S. Capital		300000 (30000*10)
To E. S. Capital		100000 (40000*2.5)
(Being existing PSC converted into New 15% PSC and New Equity shares)		
(iv) O/S Interest on Deb. a/c Dr	36000	
To E. S. Capital (10000*2.5)		25000
To Cap. Reduction A/C		11000
(Being Interest Payable on Deb. Settled)		

(v) 12% Debentures a/c Dr	300000	
To 14% Debentures		300000
(Being 12% Deb converted into 14% Debentures)		
(vi) Bank a/c Dr	90000	
Discount a/c Dr	10000	
To 14% Debentures		100000
(Being New Issue of Debentures made at Discount)		
(vii) Director' Loan a/c Dr	100000	
To Cap. Reduction		40000 (Given)
To E. S. Capital		25000 (10000*2.5)
To S. P. Res (Assumed)		*35000 (Bal. fig)
(Being Claim of Directors Settled)		

* In the Given question, Cancellation Amt of ₹40000 is already mentioned due to which we can not assume cancellation twice.
The remaining Balance has been assumed as Premium because cash payment in not defined.

(viii) Bank a/c Dr	300000	
To Investments		225000
To Cap. Reduction		75000 (Profit on sale)
(Being Investments sold)		
(ix) Bank Overdraft a/c Dr	150000	
To Bank		150000
(Being Bank overdraft repaid)		
(x) Creditors a/c Dr	159000	
To Bank		159000
(Being creditors repaid)		

(xi) Capital Reduction a/c Dr	625000		
To GW		300000	
To Advert.		25000	
To PL (Dr)		290000	
To Discount on Deb.		10000	
(Being I. Assets, Fictitious Assets & Losses written off)			
(xii) Capital Reduction a/c Dr	230000		Cost Deb MV
To Land		80000	| | /
To Building		50000	(3.75-.75-3)
To P&M		40000	(2.2-.8-1)
To Stock		40000	
To Debtors		20000	
(Being Downward Revaluation made)			
(xiii) Securities Premium a/c Dr	110000 (75000+35000)		
To Capital reduction		110000	
(Being securities Prem. utilised)			
(xiv) Capital Reduction a/c Dr	131000		
To Capital Reserve		131000	
(Refer Capital Reduction A/C Given in Book)			

(C) Statement Showing Distribution of Profit

Earning before Interest & Tax	250000
Interest (400000*14%)	(56000)
Earning before Tax	194000
Tax Expenses	NIL
Earning after Tax	194000
Pref Dividend (300000*15%)	(45000)
Earning Available for Equity holders	149000

Q-10 (Solution) *VVI

In the books of R Ltd.

Journal Entries

(i) Equity S. Final Call a/c Dr	160000 (64000*2.5)	
To E. S. Capital		160000
(Being Final Call made due on 64000 shares@ 2.5)		
(ii) Bank a/c Dr	160000	
To Equity S. Final Call		160000
(Being Amt Received From due Calls)		
(iii) 8% P. S. Capital (₹10) Dr	640000	
To 10% P. S. Capital (₹7.5)		480000
To Capital Reduction (₹2.5)		160000
(Being 64000 shares of 10 each converted into 7.5 each)		
(iv) Equity S. Capital (₹10) Dr	640000	
To E. S. Capital (₹2.5)		160000
To Capital Reduction (₹7.5)		480000
(Being 64000 Equity shares of 10 each converted into 2.5 each)		
(v) Capital Reduction a/c Dr	6400 (320000*2%)	
To Debtors		6400
(Being Downward Revaluation made)		
(vi) Capital Reduction a/c Dr	120000	
To I. Assets		20000
To P&M		100000
(Being Downward Revaluation made)		
(vii) Freehold Premises a/c Dr	240000	
Stock a/c Dr	2000	
To Capital Reduction		242000
(Being upward Revaluation made)		

(viii) Capital Reduction a/c Dr 488000

To PL (Dr) 440000

To D. R. Exp. 48000

(Being Fictitious & Losses written off)

(ix) Directors Loan a/c Dr 60000

To E. S. Capital (2.5) 60000

(Being 24000 shares issued @ 2.5 each in Settlement of Loan)

(x) Bank a/c Dr * 440000

To E. S. Capital 440000

* 64000+24000=88000/1 x 2=176000 @ 2.5 each

(Being New Issue of Equity shares made)

(xi) Bank a/c Dr *120000

To P. S. Capital 120000

* 64000/4 x 1=16000 @ 7.5 each

(Being New Issue of Pref. shares made)

(xii) Capital Reduction a/c Dr 11500

To Investment in Q Ltd 11500

(250000/12%=2083333 x 15%=312500-324000)

Value of Q   Mv   Cost

(Being Downward Revaluation made)

(xiii) Capital Reduction a/c Dr 256100

To Capital Reserve 256100

(Refer Capital Reduction A/C)

W.N# Capital Reduction A/C

To Debtors	6400	By E. S. Capital	480000
To I. Assets	20000	By P. S. Capital	160000
To P&M	100000	By F. Premises	240000
To D. R. Exp	48000	By Stock	2000
To PL (Dr)	440000		
To Investments	11500		
To Cap Res (Bal. fig)	256100		
	882000		882000

Balance Sheet

Name of Company : ABC Limited "& Reduced"

B/S as at 1.4.2018

Equity & Liab	Notes	₹
Equity :		
(1) Share Capital	1	1260000
(2) Reserves (Capital Reserve)	-	256100
Current Liab :		
(1) Trade Payable	-	440000
	Total	1956100
Non Current Assets :		
(1) PPE	2	520000
(2) I. Assets	-	48000
(3) N. C. Investment (Q Ltd)	-	312500
Current Assets :		
(1) Inventory	-	250000
(2) Trade Receivable (320000-6400)		313600
(3) Cash & C. E	3	512000
	Total	1956100

Notes to A/Cs

Note 1 : Share Capital		
A. Authorised Capital		1400000
B. Issued, Subscribed & Paid up :		
(1) Pref. S. Capital : Given in B/S	640000	
(64000 Shares of 10 each)		
Reduction in Capital @ 2.5	(160000)	
New Issue of PSC	120000	600000
(2) Equity S. Capital : Given in B/S	480000	
(64000 Shares of 10, 7.5 Paid up)		
Final Call on shares	160000	
Reduction in Capital	(480000)	
Director Loan : New Issue	60000	
N. Issue for Loan	440000	660000
		1260000
Note 2 : PPE		
a) F. Premises (Revalued)	380000	
b) P&M (Revalued)	140000	
	520000	
Note 3 : Cash & Cash Equivalent		
Opening Balance	(208000)	
Final Call : Received	160000	
New Issue : PSC	120000	
ESC	440000	
	512000	

H.W:- Q.24,Q.27

Part 6

VVI*: Concept 8: Reduction in paid up value per share

In case "paid up value is reduced" for sacrifice in shares then we will not change "Existing face value of shares" but "Shares will become partly paid Up after such reduction". The following entry will be passed on reduction in paid up value :-

After passing this entry shares shall become Unpaid	Journal : Share capital a/c Dr xxxx
	To Cap. Reduction xxxx
	(Being paid up value reduced)

Special Note

After reducing paid up value on shares, the company can demand unpaid value on shares as final call and shareholders shall pay the amount of final call because each shareholder is bound to pay face value on shares. In practical questions, we will show the entry for final call if it is required by question.

Identification of "Partly paid up value" Questions in exams

I	or	II
"Paid up" tag will be found with new value of shares		New face value is not directly mentioned in questions

if paid up tag is not found as well as new face value is not found then it will be covered under concept 8

Q-13 (solution)

In the Books of Hardluck Limited

Journal Entries

(i) E.S. capital a/c Dr 80750 (85000*0.95)

To cap. Reduction 80750

(Being 85000 shares of 1 each fully paid up converted into 85000Shares of 1 each,0.05 paid up)

(ii) Equity sh. Final call a/c Dr 80750

To E.S. Capital 80750

(Being final call made by company @ 0.95 on 85000 shares)

(iii)Bank a/c Dr 80750

To E.S. final call 80750

(Being amt. received on final call)

(iv) Bank loan a/c Dr 60000

To E.S capital 15000

To Bank (Bal Fig) 45000

(Being repayment of bank loan made)

(v) Bank a/c Dr 50000

To E.S. capital 50000

(Being new issue made for 50000 shares @ 1 each)

(vi) Trade Creditors a/c Dr 64500

To cap. Reduction 16125

To 12% Debentures 48300

To bank (fractional) 75

(Being claim of creditors settled)

(vii) Bank overdraft a/c Dr 56500

To cap. reduction 6500

To Bank 50000

(Being Bank overdraft settled)

(viii) Sec. premium a/c Dr 15000

To cap. Reduction 15000

(Being premium utilised)

(ix) Capital reduction a/c Dr 90900

To GW 22600

To P&L (DR) 68300

(Being GW & Losses written off)

(x) capital reduction a/c Dr 27475

To investment in Assoc. 27475

(refer capital reduction A/C)

(Being downward revaluation made)

W.N #

Capital Reduction A/C

TO GW	22600	By E.S capital	80750
To P&L (Dr)	68300	By creditors	16125
To Investments (Bal. Fig)	27475	By Bank O.D	6500
		By sec. prem.	15000
	118375		118375

Balance sheet

Name of company : Hardluck ltd "& Redued"

B/S as at: 30/6/2018

	Notes	₹
Equity:		
(1) Share capital	1	150000
Noncurrent liability :		
(1) Long term debts	2	48300
	Total	198300

Noncurrent Assets :		
(1) P.P.E	3	101500
(2) N.C investments	4	18525
Current Assets:		
(1) Inventory	-	23000
(2) Trade receivables	-	19600
(3) Cash & cash equivalents	5	35675
	Total	198300

Notes to A/Cs

1. Share capital

85000 shares of 1 each	85000
Reduction in Paid up value	(80750)
Final call made	80750
New issue to Bank loan	15000
New issue to existing Shareholder	50000
	150000

2. Long term debt:

12% debentures	48300
(Issued to Creditors)	48300

3. PPE:

a) Freehold premises (wdv)	41500
b) Plant (wdv)	60000
	101500

4. Non current investments

a) associate (30000-27475)	2525
b) other investments	16000
	18525

5. Cash & Cash Equivalents

Opening balance	NIL
Final call	80750
New Issue of shares	50000
Bank Loan	(45000)
Creditors (fractional)	(75)
Bank OD	(50000)
	35675

Q-12 (solution) *VVI

In the books of XY Ltd.

Journal entries

		Dr.	Cr.
(i)	8% P.S. capital a/c Dr.	600000	
	To cap. Reduction (30%)		1,80,000
	To bank (70%)		4,20,000
	(Being claim of pref. holders settled)		
(ii)	Capital Reduction a/c Dr	33600 (48000*70%)	
	To Bank		33600
	(Being payment made for Pref. Dividend)		
(iii)	O/s Int. on Deb. a/c Dr	1,08,000	
	To Cap. Reduction		1,08,000
	(Being Int. waived off by Deb. Holders)		
(iv)	9% Debentures a/c Dr	6,00,000	
	To 12% Debentures		6,00,000
	(Being rate of Interest on Deb. Increased from 9% to 12%)		

Refer. Concept 7

We record only payment for Additional obligations in quest

(v) O/s Int. on B. od a/c Dr 15,000
B. od a/c Dr 15,0000
To Cap. Red. (15000*50%) 7,500
To Bank (Bal. fig) 1,57,500
(Being claim of Bank Settled)

(vi) Creditors a/c Dr 69000
To Cap. Red. (5%) 3450
To Bank (95%) 65550
(Being claim of creditors settled)

(vii) Capital Reduction a/c Dr 5,18,000
To PL (Dr) 4,08,000
To Patents 80,000
To Debtors 30,000
(Being Losses, IA & Debtors written off)

(viii) Capital Reduction a/c Dr 44,000
To F. Assets 34,000
To Invest. 10,000
(Being Downward Revaluation made)

(ix) Capital Reduction a/c Dr 3350
To Bank 3350
(Being Reconst. Exp. Paid)

(x) Equity s. capital Dr 3,00,000
To Cap. Reduction A/c 3,00,000
(Refer Capital Reduction A/c)
(Being s. capital reduced by 1.5 per shares paidup)

$\boxed{\frac{₹\,3,00,000}{2,0,0000} = 1.5}$

(xi) Bank a/c Dr 7,00,000 (Refer Bank A/C)
To E.S. Capital 7,00,000
(Being Necessary cash brought up by shareholder)

W.n#1 Capital Reduction A/c

To Bank (P.D)	33,600	By P.S. Capital	1,80,000
To PL (Dr)	4,08,000	By o/s Int. (deb)	1,08,000
To Patents	80,000	By o/s Int. (B. od)	7,500
To Debtors	30,000	By Creditors	3,450
To F. Assets	34,000		
To Invest.	10,000	By E.S. capital	3,00,000
To Bank (Exp.)	3,350	(Bal. Fig)	
	598950		598950

W.n# 2 Cash & Bank A/C

To Bal b/d	10,000	By P.S. Capital	4,20,000
To E.S. Capital	7,00,000	By Reduction (PD)	33,600
(Bal.fig)		By Creditors	65,550
		By B. od & Int.	1,57,500
		By Reduct. (Exp)	3350
		By Bal C/d	30000
	7,10,000		7,10,000

Balance Sheet

Equity :		
Share Capital	1	14,00,000
Non Current Liab		
Long Term Debt	2	6,00,000
	Total	20,00,000
Non Current Assets		
A. PPE	3	11,06,000
B. Investments	4	55,000

Current Assets		
A. Stock	-	4,00,000
B. Debtors	5	4,09,000
C. Cash	Refer w.n#2	30,000
	Total	20,00,000

Note 1 : share capital

200000 shares of 10 , 5 paidup	10,00,000
Reduction in Paidup@ 1.5	(3,00,000)
Calls made@ 3.5 per share	7,00,000
	14,00,000

Note 2 : Long Term Debt

12% Debenture	6,00,000
	6,00,000

Note 3 : PPE

F. Assets	1140000
Written down By	(34000)
	1106000

Note 4 : N.C. Invest

Cost	65000
Written Down	(10000)
	55000

Note 5 : Debtors (439000 – 30000) 409000

Part 7

Unit II : Shares surrenders * VVVVI

There will be No change in face value/paidup value

(Surrender by Equity shareholders only)

If shares are surrendered by Equityholders for the "Purpose of Re-Issue" to outsiders then the following step should be considered while Executing the Scheme:-

Step I : At the time shares surrendered by Equityholders

E.s. Capital a/c Dr xxxx
To Shares surrender xxxx
(Being shares surrendered by Equityholders For the purpose of Re-Issue)

Step II : At the time of Re-Issue of shares from surrender

Company Avoids New Issue of shares to save Issue Expenses. So Company Re-Issue its Existing shares

Shares surrender a/c Dr xxxx
To E.s. Capital xxxx
(Being shares Re-Issue to outsiders)

Step III : If shares remain Unissued in surrender A/c

Shares surrender a/c Dr xxxx
To Cap. Reduction xxx
(Being Unutilised Balance Cancelled)

Step IV : Closing the A/c's of outsiders which are settled out of surrender

Settled Liab. will be transferred to Reduction with 100% Amt

Creditors a/c Dr xxxx
Debentures a/c Dr xxxx
To Reduction A/c xxxx
(Being o/s Balance closed in full)

Q-14 (solution)

Journal Entries

(i) E.S. Capital (₹100) Dr 8,00,000
To E.S. Capital (₹10) 8,00,000
(Being 8000 shares of 100 each sub-divided
into 80,000 shares of 10 each)

(ii) E.S. Capital a/c Dr 7,20,000 (8L*90%)
To shares surrender A/c 7,20,000
(Being 72,000 shares of 10 each surrendered
For the purpose of Re-Issue)

(iii) Shares surrender a/c Dr 5,00,000
To 8% P.S. Capital 5,00,000
(Being 50,000 Equity shares of 10 each Converted
into 50,000 Pref. shares for the purpose of Issue to Deb. holder)

(iv) Debentures a/c Dr 14,00,000
Accrued Int. a/c Dr 70,000
To Cap. Reduction 14,70,000
(Being o/s Balance closed due to Deb. holders)

(v) Shares surrender a/c Dr 90,000 (450000*20%)
To E.S. Capital 90,000
(Being 9000 shares of 10 each Re-Issued to Creditors)

(vi) Creditors a/c Dr 4,50,000
To C. Reduction 4,50,000
(Being o/s Balance closed)

(Vii) Shares surrender a/c Dr 1,30,000 (7.2L-5L-0.9L)
To Cap. Reduction 1,30,000
(Being Unutilised Balance in surrender cancelled)

(viii) Capital Reduction a/c Dr 10,70,000
To PL (Dr) 10,70,000
(being losses written off)

(ix) Capital Reduction a/c Dr 980000
To PPE 980000
(Being downward rev. made) (w.n #)

W.N#

Capital reduction A/C

To P$L (Dr)	1070000	By debentures	1400000
To PPE (Bal. fig)	980000	By A. Int.	70000
		By creditors	450000
		By Sh. surrender	130000
	2050000		2050000

Balance Sheet

Equity		
A. Shares Capital	1	6,70,000
Current Liab :		
A. Short term Provisions (tax)	-	10,000
		6,80,000
Non Current Assets		
PPE (14L – 9.8L)	-	4,20,000
Investment	-	15,000
Current Assets :		
Inventory	-	1,00,000
T. Receivable	-	40,000
C & CE	-	1,05,000
	Total	6,80,000

Note 1 : SC

ESC (80000 of 10 each)	8,00,000	
Surrenders (72000 of 10 each)	(720000)	
Re-Issued to creditors	90000	1,70,000
PSC (Re-Issued to Deb. holder)		5,00,000
		6,70,000

Part 8

Q-15 (solution)

In the books of Revise Ltd.

Journal Entries

(i) E.S. Capital a/c (₹100)	Dr	10,00,000	
To E.S. Capital (₹10)			10,00,000
(Being 10,000 shares of 100 each sub-divided into 1,00,000 shares of 10 each)			
(ii) E.S. Capital (₹10) a/c	Dr	5,00,000	
To shares surrender A/c			5,00,000
(Being 50,000 shares of 10 each surrendered) by Equityholder for the purpose of Re-Issue			
(iii) Share surrender a/c	Dr	1,00,000	
To 12% P.S. capital			1,00,000
(Being 10,000 Equity shares of 10 each converted into 10,000 Pref. shares of 10 each for the purpose of Re-Issue to deb. holder) (# Refer Note Below)			
(iv) Debentures a/c	Dr	1,50,000 (2,00,000*75%)	
Accrued Int. a/c	Dr	18,000 (24000*75%)	
To Cap. Reduction			1,68,000
(Being settled Balance of Deb. holders Closed)			

(v) shares surrender a/c Dr 36,000
To E.S. Capital 36,000
(Being shares re-issued to creditors out of shares surrender)

(vi) Creditors a/c Dr 72,000
To C. Reduction 72,000
(Being claim of Creditors settled)

(vii) Shares surrender a/c Dr 3,64,000 (5L-1L-0.36L)
To Cap. Reduction 3,64,000
(Being Un-issued capital cancelled)

(viii) Capital Reduction a/c Dr 6,00,000
To PL (Dr) 6,00,000
(Being Losses written off)

(ix) Capital Reduction a/c Dr 4000
To Cap. Res. 4000
(Refer cap. Red .A/c)
(Being surplus transferred)

W.n# Capital Reduction A/c

		By Debent.	1,50,000
To PL (Dr)	6,00,000	By Accrued Int.	18,000
		By Creditors	72,000
To Cap. Res (Bal.fig)	4,000	By S. Surrender A/c	3,64,000
	6,04,000		6,04,000

*VVVI

Note: In the given question, Deb. Holders are demanding Pref. Shares in consideration of Reduced Amt. so we will close 75% of their O/S balance instead of closing full Balance. The remaining 25% shall be disclosed in B/S .

Balance Sheet

Name of Company : Revise Limited & "Reduced"

B/S as at 31.3.2018

Equity :		
(i) Shares Capital	1	6,36,000
(ii) Reserves : Cap Res	-	4,000
Non Current Liab :		
(i) Long Term Deb.	2	50,000
Current Liab :		
(i) Trade payable	3	6,000
(ii) Short Term Prov. : Tax	-	24,000
	Total	7,20,000
Non Current Assets :		
(i) PPE	-	100000
Current Assets :		
(i) Inventory	-	3,20,000
(2) Receivables	-	2,70,000
(3) Cash & Cash Equivalents	-	30,000
	Total	7,20,000

Note 1 : Shares capital

(i) Equity s. capital

1,00,000 shares of 10 each (After sub dividend)	10,00,000
Shares surrendered	(5,00,000)
Re-issued to Creditors	36,000
	5,36,000

(2) P.S. Capital

Re-Issued to Deb. holders	1,00,000
	= 1,00,000
Total Capital (i+ii)	6,36,000

Note 2 : Long Term Debt

Debentures	2,00,000
Part Settlement @ 75%	(1,50,000)
	50,000

Note 3 : Other C. Liab.

Accrued Int.	24,000
Part Settlement @75%	(18,000)
	6000

Unit III : Alteration of Share Capital
(Section 61 of companies Act 2013)

Alteration of Capital

Concept 1:	Concept 2:	Concept 3:
Sub-Division	Consolidation of shares	Conversion of ESC Into Equity Stock Or Vice Versa

Concept 1: Sub-Division

Under Sub-Division, An Entity increases its Number of Shares by Conversion of "High Denomination value" into "Low Denomination value". It is done only to make Sale/Purchase of shares in an easy manner for small Investor. An Investor can Sell/Buy Low value share easily and It can boost Trading of shares of Company in the market.

E.S. Capital (High value) Dr xxxx
To E.S. Capital (Low Value) xxxx

(Being Sub-Division made) Same paid up value

Concept 2: Consolidation of shares

Under consolidation, an Entity reduces its number of shares by converting low denomination into High Denomination. It is done only to improve EPS of company by reducing number of shares in the Denominator. The specified case is just opposite of Sub- Division.

Journal : E.S. Capital a/c (Low) Dr xxxx
To E.S. Capital (High) xxxx
(Being Consolidation of shares made)

Q-17 (solution) **Journal Entries**

June x2 (Sub-Division)	E.S. Capital (₹10, 8 paid) Dr	1,60,000	
	To E.S. Capital (₹5,4 Paid)		1,60,000
	(Being 20,000 shares of 10 each sub-Divided into 40,000 shares of 5 each)		
June x3 (Consolidation)	E.S. Capital a/c Dr (₹ 5,4 Paid)	1,60,000	
	To E.S. Capital (₹ 100,80 Paid)		1,60,000
	(Being 40,000 shares of 5 each consolidated into 2,000 shares of 100 each)		

Note on Capital

31.12.x1

i) Authorised Capital :
20,000 shares of 10 each ₹ 2,00,000

ii) Issued Subscribed & Paid up Capital :
20,000 shares of 10, 8 Paid up ₹ 1,60,000

31.12.x2

i) Authorised Capital :

40,000 shares of 5 each ₹ 2,00,000

ii) Issued Subscribed & Paid up Capital :

40,000 shares of 5, 4 Paid up ₹ 1,60,000

31.12.x3

i) Authorised Capital :

2,000 shares of 100 each ₹ 2,00,000

ii) Issued Subscribed & Paid up Capital :

2,000 shares of 100, 80 Paid up ₹ 1,60,000

Concept 3 : Equity Stock
(Conversion of ESC into Stock or vice versa)

As per the Provisions, Equity stock can be defined as bundle of shares without having any face value. The Equity stock is disclosed in B/s under the heading of S. capital just like normal ESC. It can be transferred as well like shares. A company can hold Equity stock only if following conditions are satisfied:-

i) It should be authorised by AOA of Company.

ii) An Ordinary Resolution will be passed in AGM for conversion Of ESC into Equity stock / vice versa

iii) The company will inform "ROC" within 30 days after such conversion.

Note : A company converts its ESC into Equity stock only to reduce its number of shares from circulation.

Q-18 (solution) **Journal Entries**

June x2	E.S. Capital (₹100) Dr	4,00,000	
	To Equity stock A/c		4,00,000
	(Being 4000 shares of 100 each converted into Equity stock Of ₹ 4,00,000)		
June x3	Equity Stock a/c Dr	4,00,000	
	To E.S. Capital (₹10)		4,00,000
	(Being Equity stock of ₹4,00,000 Converted into 40,000 shares of 10 each)		

Notes on S. Capital

31.12.x1

Authorised Capital

5,000 shares of 100 each ₹ 5,00,000

Paid up Capital

4,000 shares of 100 each ₹ 4,00,000

31.12.x2

Authorised Capital

Equity Stock ₹ 5,00,000

Paid up Capital

Equity Stock ₹ 4,00,000

31.12.x3

Authorised Capital

50,000 shares of 10 each ₹ 5,00,000

Paid up Capital

40,000 shares of 10 each ₹ 4,00,000

Part 9

Imp* Unit IV : Formation of Scheme

(It is not in your course)

Q-16 (solution)

Statement showing calculation
Of Net Deficit Required

Profit & Loss (Dr) to be written off	1,04,000
Goodwill to be written off	25,000
Total losses to be written off	1,29,000
Available Balance :	
General Reserves	(70,000)
Revaluation Gain on Investment (86000-80500	(5,500)
Net Deficit Required	(53,500)

Formation of scheme :

In the Given case, these is a deficit of ₹ 53500 in Capital Reduction A/c which should be sacrificed by the Equity shareholder because Equity holders are the real owners of Company. They have "Residual Interest" in the company. In addition, there is Arrears of Dividend on PSC for 2 years, but company has ₹500 in its Cash Balance. It means that Company does not have adequate Balance for payment Of Dividends. We can request pref. holders to waive off Arrears of Dividends in consideration of Rate of Dividend can be increased.

Journal

(1) E.S. Capital a/c 53500
To Cap. Reduction 53500

$\left(\frac{53500}{20000} = 2.675\right)$

(Being Paid up value Reduced by 2.675 per shares)

(2) G. Reserve a/c Dr 70,000
Investment a/c Dr 5,500
To Cap. Reduction 75,500
(Being Reserves utilised & Investment Revalued)

(3) Capital Reduction a/c Dr 1,29,000
To PL (Dr) 1,04,000
To GW 25,000
(Being GW & Losses written off)

Balance Sheet

Equity :		
S. Capital	1	2,46,500
Non Current Liab.	-	-
Current Liab :		
(i) Short Term Borrowing (B.od)	-	15,000
(ii) Trade Payable		75,000
	Total	3,36,500
Non Current Assets		
1) PPE	2	1,75,000
2) N.C. Investments (Revalued)	-	86,000
Current Assets :		
1) Inventory	-	35000
2) Receivables	-	40000
3) Cash & C.E	-	500
	Total	3,36,500

(1) S. Capital

ESC (20000 shares of 10 each)	2,00,000
Reduction in Paid up	(53500)
20000 shares of 10, 7.325 Paid	1,46,500
Add: P.S. Capital	1,00,000
	2,46,500

(2) PPE

Property	90,000
P & M	85,000
	1,75,000

Q-19 (solution) VVVI

Trail Balance For Repair Limited as at 30.6.x1

We Do not have P&L (Dr) balance

	Debit	Credit
PPE	3,90,000	-
Cash	2,70,000	-
Paid up Capital (6000*30)	-	1,80,000
First Debentures	-	3,00,000
Second Debentures	-	6,00,000
Creditors	-	4,50,000
	6,60,000	15,30,000
PL (Dr) (bal. Fig)	8,70,000	-
	15,30,000	15,30,000

Journal Entries

(i)	First Debentures a/c	Dr	3,00,000	
	Second Debentures a/c	Dr	3,00,000	
	Creditors a/c	Dr	90,000	
	To Mr. A			6,90,000
	(Being Amt made due to Mr. A)			
(ii)	Mr. A a/c	Dr	6,90,000	
	Bank a/c	Dr	30,000	
	To C. Reduction			2,10,000
	To Debentures			5,10,000
	(Being Claim of Mr. A Settled)			

(iii) Second Debentures a/c Dr 3,00,000
Creditors a/c Dr 60,000
To Bank 90,000
To C. Reduction (Bal.) 2,70,000
(Being Claim of Mr. B Settled)

(iv) Equity S. final call a/c Dr 1,80,000
To E.S. Capital 1,80,000
(Being Final Call @30 on 6000 shares made due)

(v) Bank a/c Dr 1,80,000
To E.S. final call 1,80,000
(Being Amt due on final Call received)

(vi) E.S. Capital (₹60) Dr 3,60,000
To E.S. Capital (₹7.5) 45,000
To Cap. Reduction (₹52.5) 3,15,000
(Being Equity shares of 60 each converted into 7.5 each)

B/s A B
(vii) Creditors a/c Dr 2,25,000 [(4.5L-0.9-0.6)*75%]
To E.S. Capital 1,12,500 (225000/60 x 4 x 7.5)
To Cap. Reduction 1,12,500 (Bal.Fig)
(Being 75% of claim of creditors settled)

(viii) Creditors a/c Dr 75,000 [(4.5-.9-.6)*25%]
To U. Loan 75,000
(Being 25% of claim of creditors settled)

(ix) Capital Reduction Dr 8,70,000
To PL (Dr) 8,70,000
(Being Losses written off)

(x) Capital Reduction Dr 37,500
To PPE* 37,500
(Refer Reduction A/c)

* We have used the surplus in Reduction A/c in writing off PPE because Market value is Less than cost which can be considered as a hint for Revaluation.

Capital Reduction A/c

To PL Dr	8,70,000	By Mr. A	2,10,000
		By Mr. B	2,70,000
To PPE (Bal.fig)	37,500	By ESC	3,15,000
		By Creditors	1,12,500
	9,07,500		9,07,500

Q-31 (solution)

Journal

(i) E.S. Capital (₹100 , 80 Paid) Dr 80,000
To E.S. Capital (₹10, 8 Paid) 80,000
(Being 1000 shares of 100 each Sub-divided into 10,000 shares of 10 each)

(ii) E.S. Capital (₹100) Dr 1,00,000
To Equity Stock 1,00,000
(Being 1000 shares of 100 each converted into Equity stock)

(iii) P.S. Capital a/c Dr 1,50,000 (1,500*100)
Capital Reduction a/c Dr 33,000 (Dividend)
To 11% Debenture 1,83,000
(Being PSC & P.D. Converted into Deb.)

(iv) Cap. Red. a/c Dr 107600
To GW 80,000
To Patents 27,600
(Being I. Assets written off)

Part 10

Illustration 11 : Amalgamation

(Mixed Concept with Internal Reconst.)

Journal Entries (B. Ltd)

Particulars		Dr	Cr
i) Bank Loan a/c	Dr	60,000	
To Cap. Reduction			60,000
(Being Loan waived off by Bank)			
ii) E.S. Capital (₹100)	Dr	10,00,000	
To E.S. Capital (₹10)			1,00,000
To Reduction			9,00,000
(Being 1000 shares of 100 each converted into 10 each)			
iii) E.S. Capital (₹10)	Dr	1,00,000	
To E.S. Capital (₹100)			1,00,000
(Being 10000 shares of 10 each consolidation into 1000 Shares of 100 each)			
iv) Capital Reduction	Dr	9,60,000	
To PL (Dr)			8,00,000
To Cap. Res			1,60,000
(Being Losses written off and surplus transferred)			
v) Business Merger	Dr	2000	
To Liquidator A Ltd			2000
(Being Business Merged)			
vi) PPE	Dr	27,00,000	
Invest	Dr	7,00,000	
Receivable	Dr	4,00,000	
Loan	Dr	2,50,000	
To Debenture			5,00,000
To B. Loan			2,50,000
To T. Payable			3,00,000
To G. Res.			10,00,000
To B. merger			20,00,000
(Being Assets, Liab & Res Taken over)			

vii) Liquidate Dr 20,00,000

To ESC 20,00,000

(Being Payment of PC made)

viii) Creditors Dr 1,00,000

To Debtors 1,00,000

(Being Inter company Balance Cancelled)

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter 3

Part 1

Chapter-3 : Events After B/S date & Contingencies

Corporate ⟵ ⟶ Non Corporate

(Mandatory for all Entities Except for those Entities which are applying)

Ind AS-10

Coverage

I
Events after B/S Date

II
Contingencies

I Events after B/S date

As per the Provisions of AS-4, Events after B/S date but before Approval of BOD on Financial Statements can be classified under 2 headings as follows :-

i) Adjusting Events
ii) Non Adjusting Events

Explanation on Adjusting Events: If any events, which occurred after B/S date but before approval of BOD on financial statements, was in the knowledge of Entity on B/S date then it will be considered as an Adjusting Events. "It will be adjusted in previous financial year even if It has taken place after B/S date". It can also be said that Back Date Adjustment is allowed for Adjusting Events. The following examples may be considered :-

Hint on B/S date		Event after B/S date
I Provisions made for Expenses For March : Electricity, Water, Telephones etc.	=	Actual Bills for consumption are received in April month

[we will remove Provision from P&L of Last Financial year and we will Debit Actual expense in PL even though bills are received in next month.]

II Provision created for Bad debts = Actual Bad debts comes in light after B/S date but before Approval

[we can replace Provision for Bad debts with Actual Bad debts in Previous year' P&L.]

III Provision for compensation under on Going Court cases = Result of Court case comes before Approval

[we can replace Provision with actual compensation as per Court decision in Previous year's P&L.]

Explanation on Non Adjustment Events : If any Events is a new event and it was not in knowledge of Entity on B/S date then It will be considered as a Non Adjusting Event and It will not be adjusted in Previous year' financial statement, but it can be disclosed in Notes to A/Cs only. It can also be said that New Events shall be adjusted in the Financial statements of current year in which these Events has taken place.

[Back Date Adjustment is not allowed]

Examples :-

I Loss by Fire, Flood, Earth quake etc.

II Business Acquisition of other Entity

III Permanent decline in value of Long Term Investment.

IV Losses due to announcement of Discontinuation of a segment

V Announcement of Reconstruction of company

VI Any Litigation which is commenced after B/S date etc.

Exception to Non Adjusting Events

If any Non Adjusting Event hits the assumption of Going concern then Entity will merge the financial statements of Previous year and Current Year as financial statements. It means that Non Adjusting event can be merged with current year if Entity goes into Liquidation after such Event.

Explanation on Proposed Dividend which is Announced after B/S Date

If any Dividend is proposed by directors after B/S date but before Approval then It will not be adjusted in the financial statements because Proposed dividend is not a liability. It can be shown in Notes to A/Cs.

It can also be said that Dividend cannot be considered in Financial Statement until it is declared by Shareholder in AGM.

Part 2

Contingencies : AS-4

- As per the Provisions of AS-4, contingencies mean pending results from the Past Transactions. These results may be Positive or Negative.

- As-4 does not deal with all contingencies, but it deals with Contingencies Related with Debtors only. [Note : All the Provisions which are Liab. in nature shall be covered in AS-29, but PFDD is covered by AS-4]

- If Bad debts are confirmed on the basis of strong evidence means It is probable that money cannot be recovered from Debtors then we should create PFDD.

Discussed In Class :- Q1,Q2,Q4,Q5,Q6,Q7,Q8,Q9

H.W = Q3

Part 3

Discussed In Class

Q.10,Q.11,Q.12,Q.13,Q.14*Imp.,Q.15,Q.16,Q.17,Q.18,Q.19

H.W :- Q.20,Q.21

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter 4

Part 1

As - 5 : Net Profits

Corporate ↖ ↗ Non corporate

(Mandatory for all Entities except for those companies which are applying Ind AS - 8)

Concept 1: Scope of AS-5

Scope

- Unit I: Net Profits
  - Ordinary Activities
  - Extra-ordinary Activities
- Unit II: Prior Period Items
- Unit III: Change in Estimates
- Unit IV: Change in Policies

Concept 2: Objective of As-5

The main objective of As-5 is to prescribe principles for the separate disclosure in Statement of P & L of an Entity so that impact of separate disclosure on the "Current year profit" can be Perceived.

It does not deal with any calculation or Accounting Treatment of any Item.

*IMP

Concept 3: Explanation on Unit 1 (Net Profits)

As per the Provisions of As-5 , An Entity should disclose its Net Profit (Loss) from "Ordinary Activities" & "Extra-ordinary Activities".

> Note : An Entity is not required to disclose Ordinary Activities Separately , but it should Provide a Separate Disclosure for Extra-ordinary Activities on the face of P & L.

Explanation on Ordinary Activity : As Per the Provisions of AS-5, An Ordinary Activity is a transaction which is undertaken by an entity during $\boxed{\text{Normal Course of Business and}}$ frequency of its occurance is very high. [i.e., Sale, Purchase, Rent, Salaries, Depreciation etc.]

Explanation on Extra-ordinary Activity: As per the Provisions of AS-5, Extra-ordinary Activity is a transaction which is not related with Normal course of Business and its frequency of occurrance is very Low. (i.e., Loss by fire, Loss by flood, Loss by Earthquake, compensation or Claim Received for Losses, Grants Received or Refunded etc.)

Additional Points to be considered :- Inflows Outflows, Losses etc.

(i) **Disclosures :** As per the Provisions, disclosure of Extra-ordinary Items whether these are Positive or Negative should be disclosed separately on the face of P & L so that impact of these items on current year' profits can be Perceived.

(2) **Basis of Classification of Activities:**

As per the Provisions of AS-5, classification of Activities under Ordinary and Extra-ordinary is not Examples oriented, but this classification is based on nature of Business. An Activity can be Ordinary for one Entity, but it may be an Extra-ordinary Item for other Entity. For Example, Payment of Insurance claims can be considered for an Insurance Company but it will be considered as an Extra-ordinary Item for receiving party.

*V.V Imp

(3) **Exceptional Items:** As per the Provisions of Separate Disclosure is not required for Ordinary Activities, but some Ordinary Activities which are very low in frequency should be disclosed under the heading of Exceptional Items even if Nature of Transaction is ordinary. The following Examples may be considered:-

(i) Valuations Loss if valuation of Inventory is done at NRV
(2) Profit or Loss on Sale of Long term Investments
(3) Profit or Loss on Sale of Fixed Assets

Tangible Intangible

(4) Provisions created or Reversal of Provisions
(5) Reconst. Expenses if Provided etc.

Concept 4: Explanation on Prior Period Items (Unit II)

Meaning of PPI: As per the Provisions of As-5, Prior Period Items are the accounting mistakes which took place in Earlier Period/Periods, but these mistakes have come into Knowledge of Entity in current year.

These mistakes may be in the form of:

i) Errors of Omission
ii) Errors of Commission
iii) Errors due to misinterpretation of facts etc.

> Note: If any mistake is done by Entity with the intention of Fraud then it will not be dealt in AS-5

Treatment of PPI: As per the Provision of AS-5, Rectification of Mistakes which are related with Earlier year/years shall be done in Current year on Prospectively Basis. It means that Back date Adjustment is not allowed.

PPI

If any Entity has done rectification of mistake in current year then A separate disclosure will be given on the face of P & L so that Impact Of PPI on current year' profit can be Perceived.

* Imp

Concept 5 : "Change in Estimates"

As per the Provisions of As-5, Accounting for various Items is based on many Estimates. For

Example : i) Entities create PFDD on Estimated Loss on Collection From Debtors

ii) Depreciation is calculated on the basis of Estimated Useful Life of Assets & Salvage value.

iii) Method of Depreciation is selected on the bases of Nature of Asset

iv) Provision for Non Moving stock is created on Estimation etc.

If any change in figures of Incomes / Expenses take place during the year in previous estimated figures then it will be called as "Change in Estimation". As per the Provisions of AS-5, Change in Estimation will be reported separately in current year' PL so that Impact of these Items on current year' profit may be Perceived.

Concept 6 : "Change in Accounting Policy"

As per the Provisions of AS-5, change in policy can be made only in Following situations:-

(i) If it is required by New As or
(ii) If it is required by New Rule (Co. Act etc.) or
(iii) It is suggested by the Auditor of company for better Presentation of financial statements.

Wherever a policy is changed then its effect on current year' profit should be disclosed separately. The effect is calculated as follows:-

(Total Accounting Effects by old policy from the date of its first Application till in its changes) - (Total Accounting Effects by new policy assuming it was applicable in same period as in old policy was applied) = Diff → PL

Example : 1) FiFo to weighted Avg. : Stock valuation
2) Completed to completion method: Revenue for Professionals
3) Cash Basis to Accrual Basis: for any item etc.

Discussed In Class :- Q.1,Q.2,Q.4,Q.5,Q.7,Q.9,Q.10,Q.17,Q.19,Q.20,Q.23,Q.24,Q.25 Q.27.

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Part 1

Chapter-5 : Accounting Standard 19 *VVI

Lease Accounting

Concept 1 : Important Definitions

Transfers

A. Meaning of Lease :-

As per the Provisions of AS-19, Lease is a Contractual Arrangement whereby Lessor conveys to the Lessee Right to use an Assets for agreed Period of time in consideration of a Payment or series of Payment. It can be classified under 2 headings as Follows :-

(i) Operating Lease Agreement
(ii) Finance Lease Agreement

B. Meaning of Operating Lease Agreement :-

As per the Provisions, An Operating Lease contract is a contract which cannot be classified as Finance Lease contract.

Part 2

*V.V.V.I

C. Meaning of Finance Lease :

As per the Provisions of AS-19, Finance Lease is a contract whereby All the Risks & Rewards incidental to ownership are transferred by Lessor to Lessee. If any Lease is to be classified as Finance Lease then Any one condition out of Following conditions is required to be satisfied :-

I If Lease Period convers * Major Part of useful life of the Leased Asset

* Major Part means more than 50% of useful life of Asset

OR

II If Lessee is bound to Purchase the Leased Asset at the end of Lease Period.

OR

III If Lessee has an option to Purchase the Leased Asset at the end of Lease Period.

OR

IV If Present value of Lease Payment is equal to or higher than Fair value of Asset

OR

"Usable as it is"

V If Nature of Assets is in the favour of Lessee only without any major modifications in Assets.

Q-2 (Solution) [Final may 2002] *Imp

In the Given case, the Lease Period is not covering major Part of Useful life of Leased Asset because Leased Period is for 5 years, but useful life is for 12 years. In addition, value of Rentals is not equal to value of Asset. We have not calculated Present value of Lease Rentals because Gross value is already less than cost of Asset. (i.e., Gross Rentals are of ₹ 10 Lacs, but value of Asset is 20 Lacs)

On the basis of Given Explanation, It can be said that the Given Lease contract is an Operating Lease.

Q-3 (Solution)

In the Given case, It is clearly mentioned that Lease Period is for 10 years which is equal to useful life of the Asset. It means that lease Period is covering major Part of useful life of Asset. Further, Lessee has an option to Purchase the Leased Asset in the Given case.

On the basis of Given facts, It can be said that the specified case is a finance Lease contract.

Q.21 (Discussed in Class), Q.24 (H.W)

Concept 2 : Accounting for Operating Lease Agreements

Accounting

In the books of Lessee | In the books of Lessor

As per the Provisions of AS-19, Lease Rentals shall be transferred to P&L A/C in the books of Lessee as an Expense and in the books of Lessor as an Income, but on "*SLM Basis".

(Note* : SLM means straight line method means Equal Rent will be transferred to P&L each year)

$$\boxed{\text{SLM Rent} = \frac{\text{Total Rental over the Lease Period}}{\text{Lease Period}}}$$

The Difference between Actual Rent as per Agreement and SLM Rent will be booked in "Lease Equalisation A/C" each year. The following Entries may be passed in the books of Parties:-

Lessee Books	Lessor Books
(i) Lease Rental a/c Dr xxxx	(i) Bank a/c Dr xxxx → Actual
To Bank xxxx	To Lease Rental xxxx Rent
(Being Rental Paid)	(Being Rental Received)
Actual Rent	

(ii) P&L a/c Dr xxxx (SLM Rent)	(ii) Lease Rental a/c Dr xxxx (Actual)
Lease Equalisation A/C xxxx (Bal.fig)	Lease Equalisation Dr xxxx (Bal.fig)
To Lease Rental xxxx (Actual Rent)	To P&L (SLM) xxxx
To Lease Equal A/c xxxx (Bal.fig)	To Lease Equalisation A/C xxxx (Bal.fig)
(Being Rental Expensed)	(Being Rental Credited in P&L)

e.g. Pass Journal Entries for an Operating Lease Agreement with the help of Following information :-

LR_1 = 25,000 P.a. =

LR_2 = 35,000 P.a. =

LR_3 = 30,000 P.a.

Solution

(i) SLM Rent = $\frac{25000+35000+30000}{3 \text{ years}}$ = 30000 P.a.

(ii) Journal Entries

Lessor Books	Lessee Books
Ist year	
(i) Bank a/c Dr 25000	(i) Lease Rental a/c Dr 25,000
To Lease Rental 25000	To Bank 25,000
(Being Rental Received)	(Being Rental Paid)
(ii) Lease Rental a/c Dr 25000	(ii) P&L a/c Dr 30000 (SLM)
Lease Equalisation Dr 5000	To Lease Rental 25000
To PL 30000	To Lease Equalisation A/C 5000
(Being Income Recognised)	(Being Rental Expensed)
IInd year	
(i) Bank a/c Dr 35000	(i) Lease Rental a/c 35000
To Lease Rent 35000	To Bank 35000
(Being Rental Received)	(Being Rent Paid)

(ii) Lease Rental a/c Dr 35000	(ii) P&L a/c Dr 30000 (SLM)
To PL (SLM) 30000	Lease Equal Dr 5000 (Bal.fig)
To Lease Equal A/C 5000	To Lease Rental 35000
(Being Income credited)	(Being Rental Expensed)

IIIrd year

(i) Bank a/c Dr 30000	(i) Lease Rental a/c 30000
To Lease Rental 30000	To Bank 30000
(Being Rental Received)	(Being Rental Paid)
(ii) Lease Rental a/c Dr 30000	(ii) P&L a/c Dr 30000 (SLM)
To P&L 30000	To Lease Rent 30000 (Actual)
(Being Income credited)	(Being Rental Expensed)

Q-13 (Solution) (Operating Lease)

Statement of Profit or Loss

	1999	2000	2001	2002
Hire Paid by oil India	90000	95000	100000	96000
Expenses :				
Diesel	(10000)	(16000)	(18000)	(16000)
Driver' Salary	(20000)	(21000)	(21000)	(22000)
A. OH	(10000)	(10000)	(13000)	(14000)
Lease Rental*	(45000)	(45000)	(45000)	(45000)
Profit (Loss)	5000	3000	3000	(1000)

* Lease Rentals on SLM Basis $= \frac{60000+50000+40000+30000}{4 \text{ Years}} = 45000$ P.a

Note: We have not Passed Journal Entries because question has not required entries.

*Exception to SLM Basis of Accounting

As per the Provisions of AS-19, Allocation of Total Rent in Operating Lease can be on the basis of "Systematic Allocation" instead of being taken it on SLM Basis. For Systematic Allocation, some Extra information will be Given in questions in the form of Units Produced or sold etc.

e.g. i) Nature of Lease : Operating Lease

ii) Lease Rental : LR_1 25000, LR_2 30000, LR_3 20000

iii) Units Produced : I^{st} = 100000, II^{nd} = 150000, III^{rd} 250000

Calculate Lease Rent to be transferred to P&L on Systematic Allocation.

Solution

Calculation of Rent to be Taken to P&L

Year	Units Produced	Ratio	Rent Allocation
1	100000	2	15000
2	150000	3	22500
3	250000	5	37500
		10	75000

Calculation of Lease Equalisation

	Cash		PL		
I^{st} Year	25000	-	15000	=	10000
	(Actual)		(AS-19)		(Diff.)
II^{st} Year	30000	-	22500	=	7500
					(Diff)
III^{st} Year	20000	-	37500	=	17500
					(Diff)

Part 3

VVI* Concept 3 : Accounting for Finance Lease

Coverage

Unit I : Important Definitions	Unit II : Books of Lessee	Unit III : Books of Lessor	Unit IV : Manufacturer / Dealer in Finance Lease

Unit I : Important Definitions

Lessee

A. Meaning of Minimum Lease Payments (MLP) :-

(MLP is Relevant for Books of Lessee)

As per the Provisions of AS-19, Minimum Lease Payment is the Minimum Amount for which Lessee is bound to Pay over the Lease Period. The Lessor will not Accept any Amount which is Less than MLP.

MLP = Lease Rentals (To be Paid by Lessee over Lease Period) + *(GRV) Guaranteed Residual Value

* Guaranteed Residual value is the minimum salvage value that is Expected by Lessor from the Leased Asset at the end of Lease Period. If Actual salvage value at the end of Lease Period becomes Less than GRV then Difference will be Paid by Lessee to compensate the decline in value in addition to Return of Asset.

Note : If Actual value of Assets become higher at the end of Lease Period than GRV, Lessee cannot keep the Asset because Actual ownership is still with Lessor.

"Including Interest"

B. Meaning of Gross Investments :-

(G.I. is Relevant for Lessor)

As per the Provisions of AS-19, Gross Investment means "Gross" Inflows. It is calculated for Lessor's only.

Gross Investments / Inflows = Lease Rental + GRV + *UGRV (if any)

Unguaranteed Residual value

* UGRV shall exist only if Lessor' Estimated Residual value become higher than Lessee' GRV.

UGRV = Lessor' Residual value - Lessee' GRV = ⊕ ➡ Diff. should be Positive

Note : Lessor will choose RV or GRV whichever is higher

Excluding Interest

C. Meaning of Net Investments :-

(It is Relevant for Lessor only)

* Net Investment = Present value of Gross Investments
(Discounted Value of G.I)

* Note: It will always be equal to Fair value of Assets, but we will not use fair value Directly in questions. We will show the calculation of Net Investments in questions.

D. Meaning of *Unearned finance Income (UFI) :-

(It is also Relevant for Lessor only)

UFI = Gross Investment - Net Investment / Present value of Gross Invest.

* It is called Unearned because we are calculating on the date of Agreement. It will be called Earned when Lessee will start Payments for Lease Agreement.

IRR

E. Meaning of Implicit Rate of Return / Internal Rate of Return :

As per the Provisions of AS-19, IRR is the rate at which Interest is computed for Lease Agreement. It will always be Given in questions.

[Important : It will be discussed in detail in "FM" Teacher in second Group]

1 % chance in A/Cs

Ask logics From FM Teacher

* If IRR is not Given in Lease questions then we can calculate it with the help of Following Formula :-

(काम चलाऊ concept for backup)

e.g. i) Lease Rentals : 2L P.a
ii) GRV : 1L
iii) RV : 1.5L
iv) Fair value of Asset : 5L
v) Lease Period 3 years

Calculate IRR.

Solution

Assume Any 2 Rates : 10%, 15%,

Statement showing Present value

Years	G.I	PVF@ 10%	PVF@ 15%	Present value @ 10%	Present value @15%
1	200000	.909	.870	181800	174000
2	200000	.826	.756	165200	151200
3	350000	.751	.658	262850	230300
(2L+1L+5L)			PV of GI	609850	555500
			Fair value of Asset	(500000)	(500000)
LR GRV UGRV			Interest	109850	55500

$$IRR = \text{Lower Rate} + \left(\frac{\text{Lower Rate Interest}}{\text{Lower Rate Interest} - \text{Higher Rate Int.}} \right) \times \text{Difference in Rates}$$

$$= 10\% + \left(\frac{109850}{109850 - 55500} \right) \times 5$$

$$= 10\% + 10.10\%$$

$$= 20.10\% \quad IRR$$

Part 4

Unit II : Accounting in the books of Lessee

Step I : Accounting for Initial Recognition
(On the date of Lease Agreement)

Journal : Asset on Lease a/c Dr xxxx
To Lessor A/C xxxx
(Liab.)
(Being Initial Recognition made by Lessee on the date of Lease contract)

Present value of MLP
or
Fair value
"Whichever is Lower"

Step II : Subsequent Recognition
(Accounting for Lease from Ist year till Last year)

(a) At the time of Payment of Lease Rent :-

Liab. / Lessor A/C

(i) Finance charge a/c Dr xxxx [o/s Bal. x IRR]
Interest
To Lessor a/c xxxx
(Being Interest made due to Lessor)

(ii) Lessor a/c Dr xxxx
To Bank xxxx
(Being Lease Rental Paid)

(b) At the end of year :-
SLM or WDV
(i) Depreciation a/c Dr xxxx
To Assets xxxx
(Being Dep. Charged on Assets)

(ii) P&L a/c Dr xxxx
To Dep. xxxx
To Interest xxxx
(Being Expenses written off)

Shortcut

Statement showing Lease Rentals & Finance charge

Years	Opening Balance in Lessor A/C (Liab)	Finance charge @ IRR	Payment to Lessor	Closing Balance in Lessor A/C
(I)	(II)	(III) [II x IRR]	(IV)	(V) (II+III-IV)

Step III : At the End of Lease Period

Options

Lessee will Return the Asset to Lessor	Lessee will Retain the Asset
Lessor a/c Dr xxxx (GRV)	Lessor a/c Dr xxxx (GRV)
To Asset xxxx	To Bank xxxx
(Being Assets Returned)	(Being Assets Retained)

Q-5 (Solution)

Statement showing Initial Recognition of Lease in the books of Lessee

A. Fair value of Asset			235500
OR			
B. Present value of MLP :-			
	LR_1	100000 x .862 = 86200	
	LR_2	100000 x .743 = 74300	
	LR_3	117000 x .641 = 74997	235497

A or B whichever is Lower = 235497

Journal : Machinery a/c Dr	235497	
To Leasing Company		235497
(Being initial Recog. Made)		

Q-7 (Solution)

Statement showing Finance charges & o/s Liab.

Years	Opening Bal. in Lessor A/C	Finance charge @ 16%	Payment to Lessor	Closing Balance in Lessor A/C
(I)	(II)	(III) (II*16%)	(IV)	(V) (II+III-IV)
X0	235497	37679	(100000)	173176
X1	173176	27708	(100000)	100884
X2	100884	16141	(100000)	$\boxed{17025^* \text{ (GRV)}}$

Q-6 (Solution)

Statement showing Recognition of Machinery in the books of R Ltd.

A. Fair value of Asset			350000
OR			
B. Present value of MLP :-			
	LR_1	150000 x .870 = 130500	
	LR_2	150000 x .756 = 113400	
	LR_3	161400 x .658 = 106201	350101
		(Including GRV)	

A or B whichever is Lower				350000

Statement showing Finance charge

Year	Opening Bal.	Finance charge @ 15%	Payment to Lessor	Closing Balance
1st	350000	52500	(150000)	252500
2nd	252500	37875	(150000)	140375
3rd	140375	21056	(150000)	11431*
				(*GRV)

Q-8 (Solution)

Statement showing Recognition of Asset & Liab.
(In the books of Lessee)

A. Fair value of Asset — 1600000

or

B. Present value of MLP :-

LR_1	500000 x .870 = 435000	
LR_2	500000 x .756 = 378000	
LR_3	500000 x .658 = 329000	
LR_4	600000 x .572 = 343200	1485200
	(Including GRV)	

A or B whichever is Lower = 1485200 Ans

Q-16 (Solution)

Accounting in the Books of Lessee

I **Initial Recognition to be made** :

A. Fair value of Asset — 2000000

OR

B. Present value of MLP :-

LR_1	500000 * .870 = 435000
LR_2	500000 * .756 = 378000
LR_3	500000 * .658 = 329000
LR_4	500000 * .572 = 286000

LR_5 500000 * .497 = 298200 1726200

A or B whichever is Lower = $\boxed{1726200}$

II **Journal Entries (I^{st} year)**

(i)	Asset on Lease a/c Dr	1726200	
	To Lessor A/C		1726200
	(Being initial Recog. made)		
(ii)	Finance charge a/c Dr	258930 (1726200 x 15%)	
	To Lessor A/C		258930
	(Being Int. made due)		
(iii)	Lessor a/c Dr	500000	
	To Bank		500000
	(Being Payment made)		
(iv)	Dep. a/c Dr	172620 (1726200*10%)	
	To Assets		172620
	(Being Dep. charged)		
(v)	P&L a/c Dr	431550	
	To Dep.		172620
	To Int.		258930
	(Being Exp. written off)		

III **Calculation of Unearned finance Income**

UFI = Gross Investment - Net Investment
(P.V. of GI)

Gross Investment : Lease Rental (5L x 5Y)	2500000
GRV	100000
UGRV (2L-1L)	100000

<u>Present value of Gross Investment</u> :-

i) Present value of LR & GRV (1726200)

ii) Present value of UGRV (100000 x 0.497) (49700)

UFI 924100

H.W :- Q.23, Q.25, Q.29

Part 5

Q-18 (Solution)

<u>Calculation of value of machine to be Recognised</u>

A. Fair value of Machinery 700000

OR

B. <u>Present value of MLP</u> :-

LR_1 500000 x .870 = 260700

LR_2 500000 x .756 = 226800

LR_3 500000 x .657 = 211554 — 699054

a) Or b) whichever is Lower 699054

<u>Statement Showing calculation of</u>

<u>Finance Charge</u>

Year	Opening Balance	Finance charge @ 15%	Payment to Lessor	Closing Balance
1	699054	104858	(300000)	503912
2	503912	75587	(300000)	279499
3	279499	41925	(300000)	21424

GRV

Q-9 (Solution) *<u>VVI</u> (Advance Rent)

Assumption: The Given Residual value has been assumed as GRV.

Note : The question has asked to Prepare Books of Lessee due to which we will disclose Relevant Ledger A/cs (Lessor A/c & Asset on Lease A/c)

I <u>Calculation of value of Assets & Liab. to be Recognised</u> *<u>Advance Rent</u>

a). Fair value of Asset 60000

or

b). Present value of MLP :-

Advance Rent (In the beginning of year)	LR_1	35000 x 1 = 35000	
	LR_2	16000 x .877 = 14032	
	LR_3	8000 x .769 = 6152	
	LR_4	4500 x .675 = 3038	
at the end of 4^{th} year	GRV_4	3000 x .592 = 1776	59998

a) Or b) whichever is Lower $\boxed{59998}$

Journal : Asset on Lease a/c Dr 59998

To Lessor A/c 59998

(Being Asset & Liab. Recognised)

II Statement showing Finance charge

Accrued Int.

Years	Opening Balance In Lessor A/c	Finance charge	Payment to Lessor(Advance)	Closing Balance in Lessor A/c
(I)	(II)	(III)[II-IV]*14%	(IV)	(V)(II+III-IV)
1	59998	3500 [24998*14%]	(35000)	28498
2	28498	1750 [12498*14%]	(16000)	14248
3	14248	875 [6248*14%]	(8000)	7123
4	7123	367 [2623*14%]	(4500)	2990*GRV

Journal Entries

(For knowledge Purpose only)

I^{st} Year In the beginning of year

(i) Asset on Lease a/c Dr 59998

To Lessor A/c 59998

(Being Asset taken on finance Lease)

(ii) Lessor a/c Dr 35000
To Bank 35000
(Being Rent Paid in Advance)

at the end of year

(iii) Finance charge a/c Dr 3500
To Lessor 3500
(Being Interest made due to Lessor)

(iv) Dep. a/c Dr 23999
To Asset 23999
(59998*40%)

(v) P&L a/c Dr 27499
To Dep 23999
To Int. 3500
(Being Exp. written off)

In the books of Lessee

Lessor A/c

Particular	Amt	Particular	Amt
		Ist Year	
To Bank (Rent)	35000	By Asset on Lease	59998
To Bal c/d	28498	By Interest	3500
		(59998-35000)*14%	
		IInd Year	
To Bank (Rent)	16000	By Bal b/d	28498
To Bank c/d	14248	By Interest (Refer Table)	1750
		IIIrd Year	
To Bank (Rent)	8000	By Bal b/d	14248
To Bal c/d	7123	By Interest (See Table)	875

Particular	Amt	Particular	Amt
To Bank (Rent)	4500	By Bal b/d	7123
To Asset (Returned)	2990	By Interest (See Table)	367

Asset A/C

Particular	₹	Particular	₹
I^{st} Year			
To Lessor A/c	59998	By Dep @ 40%	23999
		By Bal c/d	35999
II^{nd} Year			
To Bal b/d	35999	By Dep@ 40%	14399
		By Bal c/d	21600
III^{rd} Year			
To Bal b/d	21600	By Dep@ 40%	8640
		By Bal c/d	12960
IV^{rt} Year			
To Bal b/d	12960	By Dep@ 40%	5184
		By Lessor A/c (GRV)	2990
		By PL (Bal.fig)	4786

Unit III : Accounting in the books of Lessor

Step I : Initial Recognition

(on the date of Lease contract)

Receivable

Journal : Lessee a/c Dr xxxx

To Assets xxxx

(Being Assets Given on Lease)

"Net Investments"

Step II : At the time of Lease Rent Collection

(i) Lessee a/c Dr xxxx

To Finance Income xxxx (O/s Bal. x IRR) in Lessee A/C

(Being Income made due)

(ii) Bank a/c Dr xxxx

To Lessee xxxx

(Being collection made)

Step III : At B/S date

Finance Income a/c Dr xxxx

To P&L xxxx

(Being Income transferred)

Step IV : At the end of Lease Period

Options

If Lessee has Returned the Asset	or	If Lessee has Retained the Asset
Asset a/c Dr xxxx		Bank a/c Dr xxxx
To Lessee xxxx		To Lessee xxxx

Note : Format of Table for Interest calculation is same as we Noted for Lessee Book

Q-10 (Solution) Calculation of Net Investments

(N. I = Present value of Gross Invest.)

a)	Lease Rentals (500000 x 2.857)	1428500
b)	GRV + UGRV (300000 x .572)	171600
	NI	1600100
	Or ₹ 1600000 (Rounded off)	

Statement showing Finance Income

Year	Opening Balance in Lessee A/c	Finance Income @14.97%	Rental Received	Closing Balance in Lessee A/c
(I)	(II)	(III) (II x IRR)	(IV)	(V)(II+III-IV)
1	1600000	239520	(500000)	1339520
2	1339520	200526	(500000)	1040046
3	1040046	155695	(500000)	695741
4	695741	104152	(500000)	299893* (GRV+UGRV)

Q-11 [Refer Q.9 for all calculation & Table]

In the books of Lessor

Lessee A/c

Particular	₹	Particular	₹
I^{st} Year			
To Asset	59998	By Bank (Adv. Rent)	35000
To Finance Income	3500	By Bal c/d	28498
II^{nd} Year			
To Bal b/d	28498	By Bank	16000
To F. Income	1750	By Bal c/d	14248
III^{rd} Year			
To Bal b/d	14248	By Bank	8000
To F. Income	875	By Bal c/d	7123
IV^{th} Year			
To Bal b/d	7123	By Bank	4500
To F. Income	367	By Bal c/d	2990

Q-19 (Solution) *V.V.V.Imp (Missing Information)

I Calculation of Annual Lease Rental

Note: In the Given question, Annual Lease Rental is missing. So, we have assumed that Annual Lease Rental is "x"

Equation

(Lease Rental*Annuity Factor) + [(GRV+UGRV)*PVF] = Net Investment (Fair value)

$(x*3.169) + (70000*.683) = 700000$ (Given)

$3.169x = 652190$

$x = 205803$

II Calculation of UFI (GI - NI)

Lease Rentals (205803*4Years)		823212
UGRV		70000
	Gross Investment	893212
	N. Investment	(700000)
	U. F. Income	193212

Q-17 (Solution)

Calculation of Annual Lease Rent

$(x*2.4868) + (40000*.7513) = 300000$

$2.4868x = 269948$

$x = \frac{269948}{2.4868} = 108552$

$UFI = [(108552*3) + 40000] - 300000$

$\downarrow$ GI $\quad\quad \downarrow$ FV

$= 65657$

HW Question 20, 26, 30

Part 6

Unit IV : If Lessor is a Manufacture or Dealer

(The Specified case is relevant for Lessor only)

As per the Provisions of As-19, Lessor may be a dealer or Manufacturer. In the Given case, Lessor should divide its Total Profit form Transaction under 2 headings as Follows :-

A. Normal Profit
B. Finance Income

Normal Profit: It will be recognised in P&L on same date at which Transaction takes place and It will be computed as follows :-

Normal Profit = Normal Selling Price Per Unit - Cost Per Unit

Normal Selling Price Per Unit → Sales

Cost Per Unit → Purchase

Journal : Lessee a/c Dr xxxx

To Sales xxxx

(Being Goods sold)

NSP

Finance Income :

Finance Income = Gross Investment - Normal Selling Price

(LR+GRV+UGRV)

Q-15 (Solution)

Statement showing Break up of Profits

A. Normal Profit :

Normal selling Price		2000000
Cost Per Unit		(1600000)
	N. Profit	400000

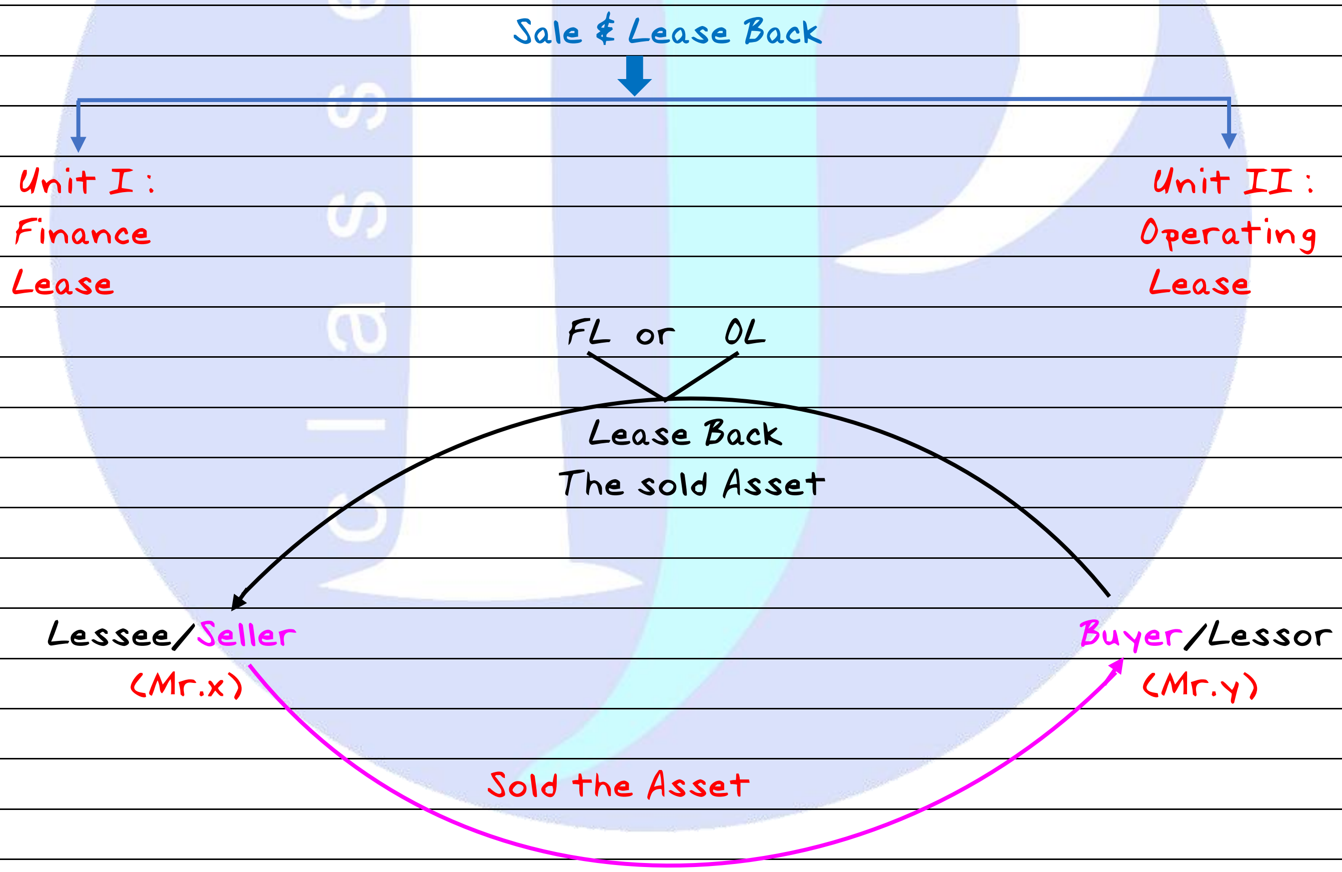
B. Finance Income

Gross Investment (6L x 5Y)		3000000
Normal Selling Price		(2000000)
	F. Income	1000000

Statement showing Finance Income

Year	OB	F.I.@ 15.24%	Collection	CB
1	2000000	304800	(600000)	1704800
2	1704800	259811	(600000)	1364611
3	1364611	207967	(600000)	972578
4	972578	148221	(600000)	520799
5	520799	79201 (Bal)	(600000)	NIL

V.V.I * **Concept 4: Accounting for Sale & Lease Back Transaction**



Unit I : Finance Lease

Step I : Calculate Profit/Loss on Sale of Assets and such Profit/Loss will be deferred. It means that It can not be recognised in P&L Immediately on the date of sale of Asset.

Journal : Bank a/c Dr xxxx (SP)

Deferred Loss a/c Dr xxxx (Bal.fig)

To Assets xxxx (BV)

To Deferred Profit xxxx (Bal.fig)

(Being Assets Sold)

Step II : Recognise Asset on Lease and Liability to Lessor under finance Lease Contract on the basis of Fair value or P.V. of MLP whichever is Lower as we do in Normal cases.

Asset a/c Dr xxxx

To Lessor xxxx

(Being Initial Recog. made)

Step III: Calculate Depreciation on Asset Taken on Lease over the Period as we calculate Normally in the books of Lessee under Finance Lease

*VVVI

Step IV : Allocate the amount of Deferred Profit or Deferred Loss (Step I) in the ratio of Depreciation (Step III) over the Lease Period

Q-14 (Solution) (Sale & Lease Back Under Finance Lease)

In the books of ABC Ltd.

A. Calculation of Profit on sale to be Deferred :

Deferred Profit = Selling Price - Book value

= 4000000 - 3162000

= $\boxed{838000}$

B. Initial Recognition in the books of Lessee :

(i) Fair value of Assets 4000000

$\boxed{\text{OR}}$

(2) PV of MLP

LR (1000000 x 3.474)	3474000	
GRV (100000 x .531)	53100	3527100

Whichever is Lower = $\boxed{3527100}$

Journal : Asset on Lease Dr 3527100
To BQ Ltd. 3527100
Being Initial Recog. made)

C. Depreciation on Leased Asset :-

Years	O. Balance	Dep. @ 50.97%	C. Bal.	Amortisation of Profit in Ratio of Dep
1	3527100	1797763	1729337	439584 (1797763/3427163*838000)
2	1729337	881443	847894	215527 (881443/3427163*838000)
3	847894	432172	415722	105673
4	415722	211894	203828	51812
5	203828	103891	$\boxed{99937}$	25403
		3427163	GRV	838000

Part-7

Unit II : Sale & Lease Back under "Operating Lease"

If Sale & Lease Back Transaction takes place under Operating Lease then there may be 3 situations for "Accounting of Profit or Loss On Sale of Assets" as Follows :-

Situations

* Case I :	* Case II :	Case III :
Selling Price Of Sold Asset = Fair Value of Sold Asset	Selling Price of Sold Asset < Fair Value of Sold Asset	Selling Price of Sold Assets > Fair Value of Sold Assets (**Refer Steps)

AS-19 does not have any objection in case I and case II.

(Note : It means that Profit or Loss on sale of Asset can be recognised Immediately.)

* No Deferrment is required to be made

** Steps under case III :-

Step I : Fair value of Asset - Book value of Asset = Profit or Loss to be Recognised Immediately

Step II : Selling Price - Fair value = To be deferred over the Lease Period on SLM Basis

e.g. If Cost of Asset is 20 Lacs and Selling Price is 22 Lacs, Calculate P/L to be recognised immediately or to be deferred in Following Cases :-

I Fair value = 22 Lacs

II Fair value = 25 Lacs

III Fair value = 21 Lacs

Solution

Case I : (SP = 22, FV = 22 : FV = SP)

Profit on sale = 22L - 20L = 2L (To be Recognised Immediately)

(SP - Cost)

Case II : (SP = 22, FV = 25 : SP < FV)

Profit on sale = 22L - 20L = 2L (To be Recognised Immediately)

(SP - C)

Case III : (SP = 22, FV = 21L : SP > FV)

Step I : Profit to be recognised Immediately

Fair Value - Cost

21L - 20L = 1L

Step II : Amt to be deferred

Selling Price - Fair value

22L - 21L = 1L ⇒ It will be amortised over Lease Period on SLM Basis

i) Cost of Asset = 15000

ii) Selling Price = 12000

iii) Cases for Fair value :-

Case I : FV = 12000

Case II : FV = 13000

Case III : FV = 11000

Solution

Case I : (SP = 12000, FV = 12000 : SP = FV)

Loss on sale = 12000 - 15000 = 3000 (To be Recognised Immediately)
(SP) (Cost)

Case II : (SP = 12000, FV = 13000 : SP < FV)

Loss on sale = 12000 - 15000 = 3000 (To be Recognised Immediately)
(SP) (Cost)

Case III : (SP = 12000, FV = 11000 : SP > FV)

Step I : (FV – Cost) 11000-15000 = 4000 (Loss to be Recognised Immediately)

Step II : (SP - FV) 12000 - 11000 = 1000 (Will be amortised)
(Profit)

Q.27 (Discussed in Class)

HW Question 31

Concept 5: Misc. Issue under AS-19

Lessee' Rate

Issue I : Incremental Borrowing Rate

As per the Provisions, Incremental Borrowing Rate can be used in place of "IRR" if calculation of IRR is not Possible. It is rate at which Finance is available in market and It can also be called as "Market Rate".

Issue II: Initial Direct cost (Legal fees, Stamp Duty etc.)

If any Expense is incurred to Execute the contract by Lessor or Lessee then such an Expense will be written off in P&L immediately if the amount is not significant. In case, Initial direct cost is Material / Significant in nature then It will be *amortised over the Lease Period.

* Finance Lease = Amortisation will be made in the ratio of Interest

* Operating Lease = Amortisation will be made on SLM Basis

Issue 3 : Annual Expenses (Repairs or Maintenance of Assets)

If any Expenses is incurred on Repairs and maintenance (Day to Day service) to keep the Performance of Assets then such an Expenses will be written off in P&L. Generally, Lessee makes Payment for Repairs.

Issue 4 : Contingent Rent [Variable Rent]

If any Additional Rent is Payable by Lessee to Lessor on the basis of future Production of units, sale of units etc. then It is called Contingent Rent. The Accounting for Contingent Rent will be made in future on year to year Basis, but It will not be considered for Accounting under AS-19.

Q-4 (Solution) (Identification of Lease)

Calculation of P. V. of Lease Payment

In the beginning of year	LR_1	40000	x 1	=	40000
	LR_2	25000	x .847	=	21175
	LR_3	15000	x .718	=	10770
	LR_4	10000	x .609	=	6090
at the end	GRV	4000	x .516	=	2064
		(80000 x 5%)			80099

Comment : The Given contract should be considered as Finance Lease because P. V. of Lease Payment is equal to fair value.

By mistake : Question 12 is incomplete question

HW Question 32, 1

Q.22 (Discussed in Class)

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

CHAPTER 6

Part 1

Accounting Standard : 18 *VVI

Related Party Disclosures

AS Rules are Applicable on Unlisted Companies having N. worth upto 250 crores

Concept 1 : Applicability & Nature

Applicable : 1.4.2001

Nature : Mandatory for *companies only

* As-18 is not Applicable for the companies which are Applying Ind AS 24.

Concept 2 : Objective of As- 18

Objective

A. "To Identify the Related Parties"

B. "To Disclose the Transactions with Related Parties"

Concept 3: Identification of Related Parties (Para 3 of As-18)

As per the Provisions of As-18, the following are the Related Parties of a company under Para 3:-

(a) *Imp If an Enterprise "Controls", "Controlled by" or "Under Common control with" the Reporting Enterprise (Directly or Indirectly)

Explanation

If An Enterprise

Controls | Controlled by | Under Common Control with

Reporting Enterp.

e.g. <u>(If an Enterprise controls Reporting Enterprise)</u>

X Ltd.
↓ 60%
Y Ltd (RE)

<u>Solution</u>

(i) Yes, X Ltd. is a Related Party because it has control over RE (Y Ltd)

(ii) Relationship: X Ltd. is a Holding Co. for Y Ltd.

e.g. <u>(If an Enterprise is controlled by Reporting Enterprise)</u>

X Ltd.
↑ 60%
Y Ltd (RE)

<u>Solution</u>

(i) Yes, X Ltd. is a Related Party because X Ltd. is Controlled by Reporting Entity (Y Ltd.)

(ii) Relationship: X Ltd. is a Subsidiary of RE.

e.g. <u>(If an Enterprise is Under Common Control with RE)</u>

X Ltd.
↓
70% Y Ltd. | 80% Z Ltd (RE)

<u>Solution</u>

(i) Yes, X Ltd. & Y Ltd. (Both) are Related Parties because X Ltd. is Controlling RE <u>and</u> Y Ltd. is under Common Control with RE

(ii) Relationship : (a) X Ltd: Holding Company
(b) Y Ltd: fellow subsidiary

<u>e.g.</u> <u>(Indirect Control)</u>

X Ltd.
↓ 80%
Y Ltd
↓ 70%
Z Ltd (RE)

Solution

(i) Yes, X Ltd. & Y Ltd. (Both) are Related Parties because Both are controlling Z Ltd.

(ii) Relationship : (a) Y Ltd: (Direct) Holding Co.
(b) X Ltd: (Indirect) Holding Co.

e.g. (Indirect Control)

x Ltd.
80% → YLtd. → (70%) → A Ltd. (RE)
90% → z Ltd. → (65%) → B Ltd.

Solution

(i) Yes, All Companies are Related Parties. X Ltd. is Controlling RE Indirectly but Y Ltd. is Controlling RE directly. The Z Ltd. And B Ltd. are Under Common Control with RE.

(ii) Relationship: X Ltd: (Indirect Holding Co.)
Y Ltd: (Direct Holding Co.)
Z Ltd , B Ltd : Fellow Subsidiary

Part 2

(b) (i) If Reporting Enterprise has an Associate or Reporting Enterprise is an Associate

e.g.	e.g.
x Ltd. (RE) ↓ 40% Y Ltd.	x Ltd ↓ 40% y Ltd. (RE)

Solution	Solution
i) Yes, Y Ltd. is a Related Party	i) Yes, X Ltd. is a Related Party
ii) Relationship: Y Ltd. is an Associate	ii) Relationship: X Ltd. is an Investor and Y Ltd. is an Associate of X Ltd.

Important Points on
Associates: Explained by ICAI in Expert opinions

(1) As per the Rules, "Indirect Associate through Subsidiary" should be recognised as a Related Party for Holding Company. It means that Indirect Relationship are also Applicable for Associates, but Indirect Relationships are allowed through "Subsidiaries only"

e.g.

x Ltd.
↓ 70%
y Ltd ➡ Indirect through subsidiary
↓ 40%
(RE) z Ltd

Solution

i) Yes, z Ltd. is a Related party for y Ltd. and x Ltd.

Solution

ii) z Ltd. is a direct Associate of y Ltd., but an Indirect Associate of x Ltd.

(2) As per the Rules, "Indirect Relationship through an Associate is not allowed."

e.g.

x Ltd.
↓ 48%
y Ltd
↓ 40%
z Ltd. (RE)

Solution

i) Z Ltd. and Y Ltd. are Related Parties but Z Ltd and X Ltd are not Related Parties because Indirect Investments through Associates are not covered.

ii) Z Ltd. is an Associate of y Ltd.

(3) Co-Associates are not to be considered as Related Parties.

e.g. x Ltd. (RE)

45% → Y Ltd. (RE)

40% → z Ltd. (RE)

Solution

If RE is Y Ltd.

i) Y Ltd. is a Related Party of X because Y Ltd is an Associate of X.

ii) Y Ltd. & Z Ltd are Co-Associates due to which these are not Related Parties.

If RE is Z Ltd.

i) Z Ltd. is a Related Party of X because Z Ltd is an Associate of x

ii) z Ltd. & y Ltd are Co-Associates

If RE is X Ltd.

i) Y Ltd & Z Ltd are Related Parties of X Ltd. of X

ii) Y Ltd. & Z Ltd. are Associates of X Ltd.

(b) (ii) If Reporting Enterprise has a Joint Venture or Reporting Reporting Enterprise is a Joint Venture

e.g. X Ltd. Y Ltd.

J.V : Z Ltd. (RE)

Solution If RE is Z Ltd: JV

i) Z Ltd. is a Related Party of X Ltd. and Y Ltd.

ii) Z Ltd. is Joint Venture for X and Y

If RE is X Ltd./Y Ltd.

i) Z Ltd. is a Related Party

ii) Z Ltd. is a Joint Venture

Important Note

Co-venturers are not to be considered as Related Parties under Para 3

Note : In above Example , X and Y are not Related Parties because both are Co-venturers

(c) *Key Management Employees and their ** Relatives

*KMP : As per the Rules, A Person can be considered as key Management for a company if this person has 3 powers (i.e., Planning , Directing & controlling) It means that Designation of an Employee is not important , but Exercise of powers is important. Generally , we consider Directors, Managers, CEO, CFO, Chairman as KMP.

** Relatives: Son, Daughter, Brother, Sister, Father, Mother, Spouse

Including Relatives

(D) If any person has control or significant influence in Reporting Enterprise

e.g. Mr. Ram $\xrightarrow{60\%}$ X Ltd. (RE)

e.g. Mr. Sham $\xrightarrow{40\%}$ X Ltd. (RE)

Solution

i) Yes, Mr. Ram and Mr. sham are Related Parties.

ii) Mr. Ram has control in RE and Mr. sham has significant influence in RE.

iii) Relatives of Ram & Sham shall also be disclosed as Related Parties of x Ltd.

(e) If Persons defined in Para 3(c) and Para 3(d) are common in two Companies then the companies having common person shall also be considered as Related parties.

e.g.

Mr. Ram

KMP — 60%

X Ltd. — Y Ltd.

Solution

Mr. Ram is common person in x and y due to which we will consider x Ltd and y Ltd as Related Parties.

Part 3

Concept 4 : Parties out of scope of As-18

As per the Provisions of As-18, the following Parties shall not be considered as Related Parties even if these Parties have influence over the Reporting Enterprise:-

(a) Single Buyer, Single Supplier, Single Agent or Single Franchisee

(b) Provider of finance [financers]

(c) State Controlled Entities [companies owned by State Gov. or C. Govt.]

(d) Trade Unions

(e) Common Entities in which A Person is common, but without having Power of planning , Directing or Controlling [Note: It means that Entities cannot be considered as Related Parties just because of having common Employee......... He should be a KMP.]

**VVI Concept 4 : Related Party Disclosures

Cases

3a,3d

Case I: Control Exists In Relationships

Related Party Disclosures shall made whether transaction takes place or not with Related Party

Case II: Control does not Exist in Relationships

Related Party Disclosures shall be made only if transaction has taken place with Related Party

Disclosures required if Reporting is to be made

i) Name of Related Party
ii) Nature of Relationship
iii) *Nature of Transaction
iv) Volume of Transaction [Amt]
v) Bad debts or PFDD related with Related Party Transactions
vi) Any other disclosure which is required for better Presentation of Financial Statements

*Nature of Transaction :

i) Sale of Goods /Assets → F.A. / I.A. / Invest.
ii) Purchase of Goods/Assets → F.A. / I.A. / Invest.
iii) Rendering of services
iv) Receiving of services
v) Loans to Related parties
vi) Loans from Related parties, etc.

Format of Report (Sample) — Statement showing Related Party Disclosures

Nature of Transaction	Holding Co.	Subsidiary	Fellow sub.	Associate	J.V	Kmp
A. Sale of Goods	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx
B. Purchase of Goods	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx
C. Remunerations	-	-	-	-	-	xxxx
D.						
E.						
	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx

(a) Holding company : xyz Ltd.
(b) Subsidiary company : ABC Ltd.
(c) Fellow subsidiary : PQR Ltd.
(d) Associates : X Ltd.
(e) J.V : C Ltd.
(f) KMP & relatives "Jai Siya Ram" : Ram, Sita, Luv, Kush, Dasarth, Kaushalya, Laxman, Bharat, Shatrughan

Concept 5 : Additional Issues

(i) Remuneration to KMP:

As per the Provisions, the amount of Remuneration, which is Paid by a company to its key management, will be considered as a Related Party Transaction and it will be disclosed in Related Party disclosures.

(ii) Related Party Relationship:- *VVI

As per the Provisions of As-18, we are identifying Related Party Relationships under this statements which Exist *during the year whether Relationship Exists or not on B/s date.

*Even for single day during the year

Note: As-18 covers Related Party Transactions only for the period during which Relationship Exists. There will be no disclosure for any Transaction that has taken place after ceasing the relationship.

Part 4

* Discussed in Class :- Q.2,Q.3,Q.4,Q.5,Q.6,Q.8,Q.9,Q.10,Q.11,Q.12,Q.13,Q.15,Q.16 Q.17,Q.19,Q.20

*HW :- Q18

Part 5

*Discussed in Class :- Q.21,Q.22,Q.23 *Imp,Q.24,Q.25,Q.26,Q.27*Imp,Q.30 Q.31,Q.35,Q.7,Q.1

*HW :- Q.28,Q.29,Q.32,Q.33,Q.34

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

CHAPTER -7

Part 1

Accounting Standard : 29

Provisions, Contingent Liab. & Contingent Assets

Amendment was made in this As on 30.3.2016

(Applicable : 1.4.2004)

Status : Mandatory for all

Concept 1 : Provisions *V. V. Imp

As per the Provisions of AS - 29, Provision should be Provided by an Entity only if the following conditions are satisfied :-

Condition I : An Entity should have *Present Obligation as a result due to Past Events

* Present Obligation may be Legal or Constructive
[Legal : Operation of Law]
[Constructive : Commitment by Entity]

+

Condition II : It is *Probable that there will be an outflow in future due to such Present Obligation
[*Probable means Likely to occur]

+

Condition III: The Entity has an reliable Estimate for the outflow

Summary :-

Present obligation (Legal or constructive) + Past Events + Probable Outflow + Reliable Estimate = Provision

Examples for Provisions :-

Legal obligation :-

i) Provisions for Court Cases which are against the Firm
ii) Provisions for Smoke Filters which are to be Installed
iii) Provision for De-Commissioning cost which is to be Paid at the end of Estimated Life of a PPE (Refer AS-10)
iv) Provision for Cleaning up the Contaminated Land
v) Provision for Penalties which are levied by Govt. and will be Paid in future etc.

Constructive obligation :-

i) Provisions for warranties
ii) Provisions for Refunds
iii) Provision for Guarantees

*Imp

Additional Points to be considered :-

(1) The Entity should Review the amount of Provision at the end of each year on the basis of Probability of outflow.

(2) The Entity should not Create Provisions for the Operating Losses which are Expected in future from operating the business because AS -29 covers only those Provisions which are related with Past Events.

(3) The Entity should Provide Long Term Provisions at Present Value (Discounted at cost of Capital Rate) / [Refer As 10 : Accounting for De-Commission]

(4) The Entity should Provide for Onerous Contract Liab.

↓

Unavoidable

(5) Discounting Operation — Product / Area

An Entity can Provide for Re-structuring cost only if it is confirmed by an Agreement with Buyer.

[Restructuring means Discontinuation of a Product line or Location of Business]

Concept 2 : Contingent Liabilities

As per the Provisions, the Entity is not required to Provide any Amount for these Liabilities. These Liabilities should be Disclosed in Notes to A/C s only. As per AS - 29, Contingent liab. is also a Present Obligation due to Past Events, but Probability of Outflow is very Low* and there is no reliable Estimate for it.

[*Less than likely to occur]

i.e., There may be a Court Case which is at initial stage due to which Reliable Estimate may not be Possible.

Concept 3 : Contingent Assets

As per the Provision of AS-29, Contingent Assets are Expected Inflows/Gains in future. These Profits / Gains should not be Recognised in A/c s or disclosed in Notes to A/Cs as a matter of Prudence. We can recognise Expected Gain/Profit only if it is certain that it will be collected.

i.e., If any claim is Pending for Approval with Insurance Co. should not be Recognised until it is Recognised by such company.

Part 2

Q-6 (Solution)

As per the Provisions of AS-29, An Entity should Provide for a Liability if the Following Conditions are Satisfied :-

I There should be some Present Obligation due to Past Events +

II The Entity has a Reliable Estimate of outflows +

III The outflow is highly Probable.

In case, An Entity has Less Probability of outflow or it does not have reliable Estimate of Future Outflows then Entity will disclose such obligation in "Notes as a Contingent Liability".

In the Given case, there are different situations in two different Financial years. The Following Conclusions can be Given :-

As at 31.3.2005 : The financial condition of company B is Good during 2004-05. It indicates that company B will repay its Borrowings and there will be no obligation on its Guarantor (Company A). We can also say that there will be no outflow from A' Pocket due to which A Enterprise will show the Given Guarantee as "Contingent Liability".

As at 31.3.2006 : During 2005-06. Company B has Gone into Liquidation due to its bad financial condition which indicates that Enterprise A will have to repay Borrowings of Enterprise B because A has Given Guarantee for company B to Financer. So, company A should create "Provision for such Loss due to Guarntee".

HW Q.7,Q.10,

Q-11 (Solution)

As per the Provisions of AS-29, An Entity should Provide for a Liability if the following conditions are satisfied :-

I There should be some Present obligation due to Past Events +

II The Entity has a Reliable Estimate of outflows +

III The outflow is highly Probable.

In case, An Entity has Less Probability of outflow or It does not have reliable Estimate of future outflows then Entity will disclose such obligation in "Notes as a Contingent Liability".

In the Given case, No further Action has been taken by the Excise Department in Counter reply. It indicates that Department is satisfied with the reply which is Given by company to it. It also indicates that case has been closed.

Conclusion : On the basis of above Explanation, It is clear that there is no Legal Proceedings for tax demand Now. So, there is no Present obligation on Company due to which company will not create any Provision for such demand as well as company will not show it in Notes to A/Cs as Contingent Liability.

HW Q.12

Q-1 (Solution) *V.V. Imp

As per the Provisions of AS-29, An Entity should Provide for a Liability if the following conditions are satisfied :-

I There should be some Present obligation due to Past Events +

II The Entity has a Reliable Estimate of outflows +

III The outflow is highly Probable.

In case, An Entity has Less Probability of outflow or It does not have reliable Estimate of future outflows then Entity will disclose such obligation in "Notes as a Contingent Liability".

In the Given case, outflow is not Probable because there is only 50% chance for the settlement of Losses and 50 % Probability of outflow can not be considered as high Probability of outflow. It means that there will be no Accounting Treatment of Losses but we will disclose the Probable Losses as Contingent Liability. The Following calculation may be considered :-

i) Ten cases : [(120000x 0.3) + (200000x 0.1)] x 10

: ₹ 56000x10 = 560000

ii) Five cases : [(100000x 0.3) + (210000x 0.2)] x 5

: ₹ 72000 x 5 = ₹ 360000

*

Total Low Prob. Loss = 560000+360000 = ₹ *920000

* The company will disclose ₹ 920000 as Contingent Liab.

Q-14 (Solution) * Imp

Calculation of Provisions

31.3.2018 (2017-18) :

More than 1 year

Sales in Previous year = 60000x2% = 1200

Sales in Current year = 40000x3% = 1200

2400

Less than one year

Entry : P&L a/c Dr 2400

To Provision for warranty 2400

(Being Provision created)

31.3.2019 (18-19)

i) We will not maintain any Provision for sales dated on 11.2.2017 because Warranty Period has been Expired for this sale.

ii) Provision required at 31.3.2019 :

Sale in Previous year = 40000 x 2% = 800

Sale in Current year = 135000 x 3% = 4050

4850

iii) Provision to be debited = 4850 - 2400 = $\boxed{2450}$

In P&L (Opening Bal)

Entry : P&L Dr 2450

To Prov. For warranty 2450

(Being Prov. created)

Q-2 (Solution) *Imp

As per the Provisions of AS-29, An Entity should Provide for a Liability if the following conditions are satisfied :-

I There should be some Present obligation due to Past Events +

II The Entity has a reliable Estimate of outflows +

III The outflow is highly Probable.

In case, An Entity has Less Probability of outflow or It does not have reliable Estimate of future outflows then Entity will disclose such obligation in "Notes as a Contingent Liability".

In the Given case, 90% of Re-storation cost is related with Construction of oil rig and 10% of Re-storation cost is related with Extraction of oil. The company has started construction of oil Rig, but Extraction of oil is still Pending till B/S date.

Conclusion : On the basis of above Explanation, company should Provide for 90% of Re-storation cost which is related with construction of oil Rig, but the remaining 10% of Re- storation cost will be Provided only when Extraction of oil will get commenced.

Q-3 (Solution)

As per the Provisions of AS-29, An Entity should Provide for a Liability if the following conditions are satisfied :-

I There should be some Present obligation due to Past Events +

II The Entity has a Reliable Estimate of outflows +

III The outflow is highly Probable.

In case, An Entity has Less Probability of outflow or It does not have reliable Estimate of future outflows then Entity will disclose such obligation in "Notes as a Contingent Liability".

In the Given case, Company is not under any Legal Obligation to Refund money, but Company is under constructive obligation of Refunding money to its dissatisfied customers because company has Promised its customers under its Policy of Refund.

Conclusion : The company should create Provision for Refund on the basis of its Past Experience.

Q-4 (Solution)

As per the Provisions of AS-29, An Entity should Provide for a Liability if the following conditions are satisfied :-

I There should be some Present obligation due to Past Events +

II The Entity has a Reliable Estimate of outflows +

III The outflow is highly Probable.

In case, An Entity has Less Probability of outflow or It does not have reliable Estimate of future outflows then Entity will disclose such obligation in "Notes as a Contingent Liability".

In the Given case, company is under Legal Obligation to fit Smoke Filters in its factory by 30.9.2005. The following conclusions can be given on different B/S dates :-

(1) As at 31.3.2005 : There is no obligation on company on 31.3.2005 because Date of fitting is 30.9.2005. so, company should not Provide for any Expense or Loss.

(2) As at 31.3.2006 : The company has not fitted Smoke Filters till B/S date. So, the company should Provide for Expense on filters as well as for Penalties or fines due to Non-compliance of Rules.

HW Q.8

Q-9 (Solution)

As per the Provisions of AS-29, An Entity should Provide for a Liability if the following conditions are satisfied :-

I There should be some Present obligation due to Past Events +

II The Entity has a Reliable Estimate of outflows +

III The outflow is highly Probable.

In case, An Entity has Less Probability of outflow or It does not have reliable Estimate of future outflows then Entity will disclose such obligation in "Notes as a Contingent Liability".

In the Given case, company has an Onerous Contract (Lease contract) which can not be cancelled. It means that company is under obligation to pay Lease Rentals for Balance 33 months and such Payment does not have any Economic Benefits for the Entity because company has vacated the Leased Property.

Conclusion : The company should Provide for 66 Lacs (33x2L) as a Loss of Lease Rent.

Q-13 (a) (Solution)

As per the Provisions of AS-29, An Entity should Provide for a Liability if the following conditions are satisfied :-

I There should be some Present obligation due to Past Events +

II The Entity has a Reliable Estimate of outflows +

III The outflow is highly Probable.

In case, An Entity has Less Probability of outflow or It does not have reliable Estimate of future outflows then Entity will disclose such obligation in "Notes as a Contingent Liability".

In the Given case, Company has filed a case against demand of ₹ 2.10 crore, but Total demand was for 2.76 crores which indicates that Company has accepted Tax demand of ₹ 66 Lacs.

Conclusion :- i) The Company should book an Expense of 66 Lacs for accepted Tax demand.

ii) The Company should disclose a Contingent Liab. for 2.10 crore for ongoing Appeal which is Pending.

iii) The company should disclose ₹ 2.10 crore under Advances for deposited money with Department. Under Appeal.

Q-13 (b) (Solution)

As per the Provisions of AS-29, An Entity should Provide for a Liability if the following conditions are satisfied :-

I There should be some Present obligation due to Past Events (+)

II The Entity has a Reliable Estimate of outflows (+)

III The outflow is highly Probable.

In case, An Entity has Less Probability of outflow or It does not have reliable Estimate of future outflows then Entity will disclose such obligation in "Notes as a Contingent Liability".

In the Given case, company has Promised hike in wages from June X1 to march X2 to its workers, but such an Amount will be Paid by Company to its workers at the time of Retirement of worker. So, company should Provide for such Promised Amount and should disclose under Long Term Provisions in B/S.

HW Question 15

Q-5 (Solution)

As per the Provisions of AS-29, An Entity should Provide for a Liability if the following conditions are satisfied :-

I There should be some Present obligation due to Past Events (+)

II The Entity has a Reliable Estimate of outflows (+)

III The outflow is highly Probable.

In case, An Entity has Less Probability of outflow or It does not have reliable Estimate of future outflows then Entity will disclose such obligation in "Notes as a Contingent Liability".

In the Given case, company Needs to Retrain its Employee according to changes in Tax system which indicates that Company will have to spend money on Training of its Employees. There is no obligation due to Past Events because company will get Economic Benefits in future from Training Exp.

Conclusion : There is no need to Provide anything for Training Exp. because its not a Loss.

Part 3

Q-16 (Solution)

I Calculation of Provision on Sale Returns

i) Profit Ratio on Sales $= \left(\frac{400L - 320L}{400L}\right) \times 100 = 20\%$

ii) Statement showing Expected Returns on Cumulative Sales

Sales in march = 60L x 6% = 3.6L

Sales in Feb & march = (60L + 48L) x 7% = 7.56L

Sales in Jan, Feb, march = (60L + 48L + 36L) x 8% = 11.52

Total Return 22.68

Provision for Elimination of Profit in Returns = 22.68 x 20%
= 4.536

II Revenue to be Recognised

As per the AS-9, Sale can be recognised if conditions of delivery and ownership are satisfied. In the Given Case, company can recognise sale of 400 Lacs because Expectation of Return does not lead to failure of any condition.

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

CHAPTER 8

Part 1

Accounting Standard : 7 (Revised) Construction Contracts

Contents :

I Applicability & Nature

Applicable : 1.4.2002 onwards

Nature : Mandatory for Contractors only

II Meaning of Construction Contracts

As per the Provisions of AS-7, Construction Contract is an agreement whereby contractor will construct an Asset as per the requirement of customer. It may be Entered into for Construction of Buildings, Dams, Bridges, Roads etc.It can also be said that AS-7 covers Civil Construction only.

Further it should also be noted that A Construction Contract does not deal only with construction of new Asset but the following contracts may also be covered under its coverage:

i) Contract to demolish old Building/structure before construction of new structure

ii) Contract for design of new structure with an Architect.

(Note: It means that all the contracts which are related to Construction of new structure shall also be covered under this Statement.)

Important Note : Combining All Contracts

All Contracts should be considered separately if these contracts are Entered into with separate contractors. But in case we provide all Contracts to a single contractor then we will assume that there is a Single contract and all Works/Activities are as a part of this contract. It can also be said that contractor will compute Profit as a Whole for all Actions.

III Types of Construction Contracts

Types

- Fixed price Contracts (FPC)
- Cost Plus Contracts (CPC)

Meaning of FPC : Under this contract, Contractor charges a fixed price for construction as per designs and other requirement of customer. The Contractor will bear Total Cost which will be incurred, relating to Contract. There may be profit or loss to the contractor from Construction contract. These types of Contracts are normally Entered into where by changes in drawings & designs are not Expected.

Meaning of CPC : Under this Contract, the Entire cost will be incurred by Customer but Contractor will be Remunerated by a fixed % of fees. There can never be loss to Contractor under this Contract. Further these types of Contracts are Entered into where by changes in Designs/Drawings are Expected and high quality of work is required.

*Imp IV **Accounting Procedure**

(Rules for Revenue Recognition)

Revenue Recognition

Concept 1: Fixed Price Contracts

Concept 2: Cost Plus Contracts

Concept 1 : Fixed Price Contracts

Coverage

Para 22, Para 23 → If * outcome is Available

Para 31 → If * outcome is not available

Para 35 → Provision for Expected Loss

*Meaning of Outcome: As per the Provisions of AS-7 the following 4 Conditions should be satisfied to Prove the Existence of outcome:-

Condition I : Contract Price should be known to the Parties

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Condition II : Actual Cost upto date should be known to the Parties

\+

Condition III : Total Expected Cost to complete the Contract should also be know

\+

Condition IV : It should be Probable that Contractor will make ultimate collection from customer

If outcome is available:-

Application of Para 22
(Revenue Recognition by % of Completion Method)

As per the Provisions of AS-7 the following 2 steps should be applied Under Para 22 for income recognition :-

Step I : Calculate % of Completion of Contract as follows :-

$$\% \text{ of Completion} = \frac{\text{Actual Cost till date}}{\text{Total Estimated Cost to Complete the Contract}} \times 100$$

Step II: Calculate Contract Revenue by Following Equation :

Contract Rev = Contract Price x % of Completion (Step I)

E.g

i) Contract price : 2,50,000
ii) Actual cost : 120000
iii) Total estimated Cost : 200000

Calculate Contract Revenue & Net Profit for the year.

Solution :

i) $\% \text{ of Completion} = \frac{120000}{200000} \times 100 = 60\%$

ii) Contract Rev. = 250000 x 60% = 150000

iii) P&L A/C

Particular	Amt.	Particular	Amt.
To C. Exp	120000		
To NP	30000	By C. Revenue	150000

E. G

	2000	2001	2002
Contract price	400000	400000	400000
Actual Cost till date	120000	250000	360000
Total Estimated Cost	380000	380000	380000

Calculate Contract Revenue & Net profits for each year

Solution

Accounting for the year 2000

% of Completion $= \frac{120000}{380000} \times 100 = 31.58\%$

Contract Rev. = 400000 x 31.58 % = 126316

P&L A/C

To C. Exp.	120000	By C. Revenue	126316
To NP	6316		
	126316		126316

Accounting for the year 2001

i) % of Completion $= \frac{250000}{380000} \times 100 = 65.79\%$

Total Revenue upto 2001

ii) Contract Rev. = 400000 x 65.79% = 263158 - 126316

$= \boxed{136842}$

Incremental Revenue For 2001

iii) Incremental Cost = 250000 - 120000 = 130000

(Total) (2000) Incremental cost

P& L A/C

To C. Exp	130000	By C. Rev	136842
To NP	6842		

Accounting for the year 2002

i) Incremental Rev. = 400000 - 126316 - 136842 = 136842
(full) (2000) (2001) (2002)

ii) Incremental Cost = 360000 – 120000 – 130000 = 110000
(full) (2000) (2001) (2002)

P&L A/C

To C. Exp	110000		
To NP	26842	By C. Rev	136842

Verification of Profit

2000	6316
2001	6842
2002	26842
T.Profit	40000

OR

T.C Price	400000
T.A Cost	(360000)
Profit	40000

E.g (Change in Estimation)

	2000	2001	2002
Contract Price	800000	800000	800000
Actual cost till date	200000	450000	600000
Total estimated cost	650000	680000	-

Calculate Contract Revenue & NP for each year

Solution

Accounting for the Year 2000

i) % of Completion = $\frac{200000}{650000}$ x 100 = 30.77%

ii) Contract rev. = 800000 x 30.77% = 246154

iii) P&L A/C

To C. Exp.	200000	By C. Rev	246154
To NP	46154		
	246154		246154

Accounting for the year 2001 *Imp

i) % of Completion = $\frac{450000}{680000}$ x 100 = 66.18%

ii) Contract Rev. = 800000 x 66.18 % = 529412 - 246154
= $\boxed{283258}$

iii) Contract cost = 450000-200000 = $\boxed{250000}$

P & L A/C

To C. Exp.	250000	By C. Rev	283258
To NP	33258		
	283258		283258

Accounting for the year 2002

i) Contract Rev. = 800000-246154-283258 = 270588

ii) Contract Cost = 600000-200000-250000 = 150000

P&L A/C

To C. Exp.	150000	By C. Rev	270588
To Exp.	120588		
	270588		270588

<u>Verification of Profit</u> :- 2000 46154

2001 33258

2002 <u>120588</u>

<u>200000</u>

Or

800000 – 600000 = 200000

(CP) (Cost)

Change in Total Estimated Cost : As per the Provisions of AS-5, of AS-5 , there will be no adjustment in back date if change in Estimation takes place. So we have Calculated % of Completion in AS-7 on the basis of available information in Current Year. It can also be said that % of completion should always be Calculated on the basis of current year information.

<u>Application of Para 23</u>

(Survey method)

If results of Completion Method do not match with Actual Construction on site then there maybe dispute between Contractor &Customer. So we can apply Survey in this situation. Under survey method, we Recognise revenue as per work certified by the Surveyor.

If Outcome is not available

(Application of Para 31)

It may be possible that Total Estimated Cost is unavailable at initial of contract. In this case, AS-7 prescribes that Contract Revenue will be equal to Contract Cost. It means that there will be no Profit or. Loss in this case

Contract Revenue = Contract Cost

No Profit/No Loss

Application of Para 35 *V.V. Imp

(Provision for Expected Losses)

As per the Provisions of Para 35, Contractor should create Provision for Expected loss if Total Estimated Cost Exceeds Contract Price during Construction Phase. But Provision should be created for that work which is still to be completed and the following equation may be considered :-

Provision for Expected Loss = (Total estimated cost − Contract Price) × % of work to be completed

E.g

	2000	2001	2002
Contract Price	200000	200000	200000
Actual Cost till date	80000	150000	210000
Total Estimated Cost	160000	220000	-

Apply Para 22 & 35.

Solution — Accounting for Year 2000

i) % of Completion = $\frac{80000}{160000}$ x 100 = 50%

ii) Contract Rev. = 200000 x 50% = 100000

To C. Exp.	80000	BY C. Rev.	100000
To NP	20000		
	100000		100000

Accounting for year 2001

i) % of completion = 150000/220000 x 100 = 68.18%

ii) Contract Rev. = 200000 x 68.18% = 136364 − 100000 = 36364

iii) Contract Exp = 150000 − 80000 = 70000

iv) Provision for Expected loss = (220000 – 200000) x 31.82%

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P&L A/C

To C. Exp	70000	By C. Rev	36364
To Provision for Losses	6364	By N. Loss	40000
	76364		76364

Accounting for 2002

Contract Rev. = 200000 - 100000 - 36364 = 63636
(2000) (2001)

Cont. Exp. = 210000 - 80000 - 70000 = 60000
(2000) (2001)

P&L A/C

To C. Exp.	60000	By C. Rev	63636
To NP	10000	By P.F Loss	6364
	70000		70000

Reversal of provision

Verification :

2000	20000
2001	(40000)
2002	10000
	(10000)

OR

$\boxed{200000 - 210000 = (10000)}$

Part 2

Concept 2 : Revenue Recognition for Cost Plus Contracts

Revenue = Actual cost incurred during the year x % of fees

V Contract Revenue & Contract Cost (Explanation on Items)

a) Contract Revenue :-

Fixed Price Contract		Cost Plus Contract	
i) Contract price	xxxx	i) % of fees	xxxx
ii) Claims	xxxx	ii) Claims	xxxx
iii) Incentives	xxxx	iii) Incentives	xxxx
iv) Cost Escalation	xxxx	iv) Penalties	xxxx
v) Penalties	(xxxx)		
C. Rev.	xxxx	C. Rev	xxxx

Additional Notes:

1. Claim : In case contractor suffers any loss due to negligence of Customer then there may be a clause of claims in Construction Contracts for recovery of loss by Contractor from Customer. Such negligence may be in the form of :

   i) Delay in providing the Designs & Drawings

   ii) Delay in providing necessary Guidance which is required for completion of work.

2. Incentives : If any customer pays additional amount to Contractor for for his Satisfactory Performance in addition to Contract Price then it will be considered as an Incentives for the contractor. Such an amount is normally Paid at the time of Completion of Contract.

3.Cost Escalation :It is a reimbursement of increase in Prices of Material & Wages during the Construction Contract from Customer.

4.Penalties: If delay in completion of work is made by Contractor then Customer may charge Penalties from Contractor for such delay. It will reduce the Revenue of Contractor.

(b) Contract Cost: As per the Provisions of AS-7, the following cost may be considered as a part of contract cost :-

i) Direct material
ii) Direct wages
iii) Depreciation on Machinery used on the site
iv) Hiring Charges of Machines
v) Designing & other technical assistance
vi) Reasonable share in common Exp. etc.

VI Disclosures in Notes to A/Cs

i) Method Applied to calculate % of completion & recognition of revenue

ii) Contract Cost incurred during the period

iii) Advances Received from Customer

iv) Retentions

Q.9 Solution Accounting for 1st year

a) % of Completion = $\frac{2093}{8050} \times 100 = 26\%$

b) Contract Revenue = 9000 x 26% = 2340

P&L A/C

To C.Exp	2093	BY Cont. Rev.	2340
To NP	247		
	<u>2340</u>		<u>2340</u>

<u>Accounting for 2nd Year</u>

Material Stored

a) % of Completion = $\frac{6168 - 100}{8200} \times 100 = 74\%$

b) Contract Rev. = 9200 x 74 % = 6808 - 2340 = 4468

c) Contract Exp. = 6068- 2093 = 3975

P&L A/C

To C. Cost	3975	By C. Rev	4468
To NP	493		
	<u>4468</u>		<u>4468</u>

<u>Accounting for 3rd year</u>

i) Cont. Revenue = $9200 - \overset{I}{2340} - \overset{II}{4468} = 2392$

ii) Cont. Exp. = $8200 - 2093 - 3975 + \underset{m}{100} = 2232$

P&L A/C

To C. Cost	2232		
To NP	<u>160</u>	By C. Rev	<u>2392</u>
	<u>2392</u>		<u>2392</u>

Part 3

Para 35:- Expected Loss ➡ Q.4,Q.8,Q.10,Q.11,Q.13,Q.14,Q.16,Q.18,Q.19,Q.20,Q.21,Q.23

Discussed in Class:- Q.23,Q.16,

Solution 11

As per the Provisions of AS-7 (Para 35), Provision should be created for Expected Loss if Total Estimated Cost Exceeds Contract Price.

In the Given Case, Actual Loss on completed work has been booked but Provisions is not created by Entity for Expected Loss.
The following calculation may be relevant :-

Prov. For Expected Loss = Expected Loss x % of work yet to Completed

= (2.4 – 2) x 40 %

= 0.16 crores

On the basis of above facts, It can be said that the Total Loss in P&L will be 0.4 crores (i.e., 0.24 + 0.16)

Discussed in Class:- Q.4,Q.20,Q.6 (Simple Application of Para 22)

Solution Q.15 (*V.V .Imp),

"Calculation of Amt. Due to /from customer"
(It is also required to be disclosed in Notes to A/C s
in addition to other Disclosures)

As per the Provisions of AS-7, Amt due from or due to customer is also required to be disclosed. It is unbilled amt. out of Completed Work which should be computed as follows :-

Actual Cost Incurred	xxxx
Recognised Profits (loss)	+/- xxxx
Gross Dues	xxxx
Progress Billings	(xxxx)
Amt due to / from Customer (Unbilled Amt)	xxxx

Statement Showing Unbilled Amt.

Particulars	A	B	C	D	E	F
Actual Cost	40	10	6	75	40	120
(+-) Profit/Losses	6	(2)	(1)	(13)	8	11
Gross Due	46	8	5	62	48	131
Progress Billing	(36)	(5)	(7)	(70)	(30)	(114)
Due From (To) Customer (Unbilled Amt.)	10	3	(2)	(8)	18	17

"Note on Retention Money"

As per the Provisions of AS-7, Retention Money should also be disclosed in Notes to A/C s. It should be Calculated as follows :-

Retention Money : Progress Billings - Collection from Customer

It is the Money which is not Paid by the Customer out of Billed Amt.

Solution Q.17 *V.V.V IMP

a) Calculation of P/L for the Current Year

(i) Application of Para 22

$$\% \text{ of Completion} = \frac{605}{1100} \times 100 = 55\%$$

(605 → A. Cost; 1100 → T.E. Cost)

Contract Revenue = 1000 L x 55% = 550 L

(II) Application of Para 35

Prov. For Expected Loss = Expected Loss x % of Work to be Completed

= 100 Lacs x 45% ➡ (100 - 55)

(1000 L – 1100 L)

= $\boxed{45 L}$

(III) Recognised Profits (Losses)

P/L = Contract Rev – Contract Cost – Prov. For Loss

P/L = 550 L - 605 L - 45 L

$\boxed{\text{Loss} = 100 L}$

(b) Calculation of Unbilled Amt

Actual Cost till date	605
Recognised Losses	(100)
	505
Progress Billings (400 + 140)	(540)
Due to Customer	(35)

(C) Disclosures Under AS-7

(Notes to A/Cs)

1) Contract Price	1000 Lacs
2) Actual Cost Incurred till date	605 Lacs
3) T.E. Cost	1100 Lacs
4) Recognised Losses during the Year	100 Lacs
5) Progress Billings	540 Lacs
6) Retentions	140 Lacs
7) Due to Customer (Overbilled)	35 Lacs
8) Collections	400 Lacs

Part 4

Solution Q.29

I Calculation of Contract Revenue without "Variation in Work & Claims

Fixed Contract Price	500 Lacs
Incentives For Earlier Completion of Work	50 Lacs
Cost Escalation : Materials (80 L x $\frac{20\%}{40\%}$)	40 Lacs
Wages (120L x 25%)	30 Lacs
C. Revenue	620 Lacs

II Calculation of Contract Revenue With Variations & Claims

Contract Revenue (Refer I)	620 Lacs
Additional Revenue (Extra Work)	100 Lacs
Claims For Paid fees	20 Lacs
Total Revenue	740 Lacs

Solution Q.30

Profit & Loss A/C

Particulars	₹	Particulars	₹
X1-X2		X1-X2	
To Contract Exp.	81000	By Contract Revenue	
To Net Profit	9000	(200000 x 45%)	90000
X3-X4		X2-X3	
To Cont. Exp.	89000	By Contract Revenue	
To NP	21000	(200000 x 55 %)	110000

Customer' A/C

To Revenue	90000	By Bank	79000
		By Bal C/D	11000
To Bal B/D	11000		
To Revenue	110000	By. Bank	121000

Solution Q.31

In the Given question, It is clearly specified that outcome does not Exist due to which we should not apply Para 22 for Revenue Recognition, but we should consider Application of Para 31. As per Para 31 We will record Revenue Equal to Actual Cost till date due to which there will be No Profit or No Loss situation. So, we will record revenue of 3 lacs which is equal to Actual Cost till date.

P/L = Revenue - Cost

= 3L - 3L

= NIL

Solution Q.32

Calculation of % of Completion and Profit to be Recognised over 3 Years

Year I

% of Completion = $\frac{52.52 \text{ (Actual Cost)}}{202 \text{ (T.E. Cost)}} \times 100$

= 26.26 %

Revenue = 220 x 26.26 % = 57.772

Profit = 57.772 (Rev) - 52.52 (Cost) = 5.252

Year II

% of Completion = $\frac{151.70}{205} \times 100$ = 74%

Revenue = (225 x 74 %) (Cummulative) - 57.772 (PY) = 108.728

Cost = (151.70 - 52.52) = 99.18

Profit = 108.728 – 99.18 = 9.548

Year III

Revenue = 225 - 57.772 - 108.728 = 58.5

Cost = 205 - 52.52 – 99.18 = 53.3

Difference

20

Profit = 58.5 – 53.3 = 5.2

Verification

5.2 + 9.548 + 5.252 = 20

Discussed in Class :- Q.1

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter 09 : Consolidation Of Accounts As 21

Consolidated Financial Statements (CFS)

Part 1

CFS

With Subsidiaries	With Associates	With Joint Ventures
AS-21 (Topic 1)	AS-23 (Topic 2)	AS-27 (Topic 3)

Topic 1 : Accounting standard 21

(Consolidation with subsidiaries)

Concept 1 : Meaning of CFS

As per the Provisions of AS-21, Consolidated Financial Statement mean financial statements of a "Group".

Group statements	=	Separate/Stand Alone Financial statements of Holding Co.	+	Separate/Stand Alone Financial statements of Subsidiary Co.

i) B/s (H) + B/s (s) = Group B/s

ii) PL (H) + PL (s) = Group P & L

iii) Cash flow (H) + Cash Flow(S) = Group cash flow

iv) Notes (H) + Notes (s) = Group Notes

* It means that Holding and Subsidiary are shown as a Single Entity in Group statements

Special Note

As per the Provisions, CFS in India are Prepared in addition to SFS.
It means that CFS can not replace the requirement of SFS, but these are prepared as Additional financial statements.
In UK & USA, Entities are Exempted from SFS if CFS are Prepared.

Concept 2 : Legal Status of Consolidation in India

Legal status

- AS-21 → It does not mandate any company to prepare CFS, but It tells only the Procedure of consolidation.
- * Companies Act 2013 → As per Section 129 of Co. Act, Each company shall prepare "CFS" if It has a subsidiary whether it is a Private Company, Public Ltd (Unlisted), Public Ltd. (Listed)
- *SEBI Act → It requires CFS by a Listed Co. under Clause 32 of Listing co.

* It means that Consolidation is mandatory in India.

Statements for CFS

- Listed companies → CFS shall be prepared as per Ind As 110 → CA Final : FR
- Unlisted companies
  - Having Net worth of 250 crores or More → Ind As 110 → CA Final : FR
  - Having Net worth Less than 250 Crores → "AS-21" → CA Inter: GI: Adv. A/cs

Concept 3: Meaning of Subsidiary

As per the Provisions of AS-21, Subsidiary means a company which is "Controlled" by other company. An Entity can control other Entity by way of following ways:-

(i) It can have more than 50% of Voting Rights (Equity shares)
→ Practical Subsidiary

OR

*(ii) It can have power to compose "BoD" Any Director can be Removed Or Appointed without taking permission
→ theoretical Subsidiary

* CFS can be Prepared only if An Entity has investment in Equity Shares.

Special Note

On the basis of Given Explanation as in above, we can say that A Company can be a subsidiary of two companies means A subsidiary can have two parents. One can control by shares whereas other can Control by BoD.

Concept 4 : Exemptions from CFS

As per the Provisions of AS-21, CFS are Exempted in the following situations only :-

1. If Holding company has acquired investment in Subsidiary Co. with the intention of Sale in Near future (12 months) then control will be considered temporary in nature and CFS shall not be required.

2. If Govt. has imposed restrictions on subsidiary dua to any reason then CFS shall not be required

Assets may be Attached by ED, CBI etc. Bank A/c are seized by Govt.

Concept 5 : Consolidation Procedure

Unit I : Consolidated B/s
Unit II : Consolidated P & L
Unit III : Consolidated Cash Flow Statement

Unit I : Consolidated B/s
(H+S = Group)

Important Definitions

A. Meaning of Date of Acquisition of Shares

B. Meaning of Pre-acquisition Profits/capital profits

C. Meaning of Post-acquisition Profits/Revenue profits

D. Meaning of Cost of control

E. Meaning of Minority Interest

Part 2

e.g.

(Wholly owned subsidiary)

Balance sheet
(31.3.2024)

Liab.	H Ltd	S Ltd	Assets	H Ltd	S Ltd
S. Capital (10)	2,50,000	1,00,000	Fixed Assets	2,00,000	1,50,000
Reserves	50,000	10,000	Investment in Shares of s Ltd (100% : 31.3.24)	1,20,000	-
Loans	1,20,000	90,000	C. Assets	1,00,000	50,000
	4,20,000	2,00,000		4,20,000	2,00,000

Prepare Consolidated B/s of H Ltd with its Subsidiary S Ltd.

Solution

Alternative I : Direct method

(It is not Relevant for Exams)

In the books of Holding Co.

F. Assets a/c Dr	1,50,000	
C. Assets a/c Dr	50,000	
Goodwill (bal. fig) Dr	10,000	
To Loans		90,000
To Investments in S Ltd.		1,20,000

(Being Consolidation made on Date of Acq. of shares)

Alternative II : Indirect method

(It is Relevant for Exams)

We will not pass any Entry for Calculation of GW/C Res as we have passed in Direct method, but we will Calculate GW/C Res by a separate Working Note as follows:-

Cost of Control

Cost of investment made by H in S	1,20,000
Share in Capital & Reserves of s (1,00,000 + 10,000)	(1,10,000)
GW	10,000

Consolidated B/s

Name of company : H Ltd. with its Subsidiary S Ltd.

B/s as at 31.3.2024

Equity & Liab.	Note	₹
Equity :		
A. Share Capital	-	2,50,000
B. Reserves	-	50,000
Non Current Liab :		
Long Term Debt (1,20,000 + 90,000)	-	2,10,000
	Total	5,10,000

Non current Assets :		
A. PPE (2,00,000 + 1,50,000)		3,50,000
B. I. Assets (GW : CoC)		10,000
Current Assets : (1,00,000 + 50,000)		1,50,000
	Total	5,10,000

e.g.

(Wholly owned Subsidiary)

Balance sheet

(31.3.24)

	H Ltd	S Ltd		H Ltd	S Ltd
S. Capital	5,00,000	1,00,000	PPE	2,50,000	1,50,000
Reserves	1,50,000	50,000	Investment in	4,00,000	-
			Shares (100%)		
C. Liab.	1,50,000	50,000	[31.3.24]		
			C. Assets	1,50,000	50,000
	8,00,000	2,00,000		8,00,000	2,00,000

Prepare Consolidated B/s

Solution

Calculation of Cost of Control

Cost of Investments	4,00,000
Share in capital & Res. (1,00,000 + 50,000)	(1,50,000)
GW	2,50,000

Cons. B/s

Equity :		
(i) Share capital	-	5,00,000
(ii) Reserves	-	1,50,000
Non Current Liab.	-	-
Current Liab (1,50,000 + 50,000)	-	2,00,000
	Total	8,50,000

Non current Assets		
i) PPE (2,50,000 + 1,50,000)	-	4,00,000
ii) I. Assets : (GW : COC)	-	2,50,000
C. Assets (1,50,000 + 50,000)	-	2,00,000
		8,50,000

e.g. (Partly owned Subsidiary)

Balance sheet (31.3.24)

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd
S. Capital	3,00,000	1,00,000	F. Assets	2,20,000	1,00,000
Reserves	1,00,000	10,000	Investment in Shares of S Ltd. (90%) (31.3.24)	1,80,000	-
Liabilities	1,00,000	40,000			
			C. Assets	1,00,000	50,000
	5,00,000	1,50,000		5,00,000	1,50,000

Prepare Cons. B/s.

Solutions :- Alternative I : Direct method

(Not Relevant for Exams)

F. Assets a/c Dr 1,00,000
C. Assets a/c Dr 50,000
GW a/c Dr 81,000 (Bal. fig)
To Liab. 40,000
To Minority Interest (1,10,000 x 10%) 11,000
To Investments 1,80,000
(Being Consolidation made)

Alternative II : Indirect method

(It is relevant for Exams)

I Calculation of Cost of Control

Cost of Investment made [90%]	1,80,000
Share in Capital & Res. (1,00,000 + 10,000) x 90%	(99,000)
GW	81,000

II Calculation of Minority Int. → Outsider Int.

Share in cap. & Res. (1,10,000 x 10%)	11,000
MI	11,000

Cons. B/s

Shareholders Funds :		
1. Share capital "Holding"		3,00,000
2. Reserves "Holding"		1,00,000
Minority Interest		11,000
Non Current Liab. (1,00,000 + 40,000)		1,40,000
	Total	5,51,000
Non current Assets		
i) PPE (2,20,000 + 1,00,000)		3,20,000
ii) IA (GW : COC		81,000
C. Assets (1,00,000 + 50,000)		1,50,000
	Total	5,51,000

e.g.

Balance sheet (31.3.2025)

Liab.	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd
S. Capital	5,00,000	2,50,000	PPE	4,50,000	3,00,000
Reserves	1,50,000	50,000	Investment in S Ltd (80%)	2,80,000	-
C. Liab.	2,00,000	1,50,000			
			C. Assets	1,20,000	1,50,000
	8,50,000	4,50,000		8,50,000	4,50,000

* Imp

Additional Information : H Ltd. had made Investments in shares of S Ltd. on 1.4.2024 when S Ltd. had Reserves of ₹ 40,000.

Solution

Profit Analysis of Subsidiary Co.

	Pre-acq. Profits (DoA : 1.4.24)	Post-acq Profits (After DoA : 1.4.24)
Reserves as on 1.4.24	40,000	-
Reserves Earned after 1.4.24		
Balance on 31.3.25 50,000		
Pre-acq Balance (40,000)	-	10,000
	40,000	10,000

Post-acq. Profits are not Considered here

Calculation of Cost of Control [DoA]

Cost of Investment made by H in S (80%)	2,80,000
Res 40,000	
(pre) 2,90,000 x 80%	(2,32,000)
GW	48,000

Calculation of Minority Int. (20%)

Share in cap.	(2,50,000 x 20%)	50,000
Share in Pre-acq profit	(40,000 x 20%)	8,000
Share in Post-acq profit	(10,000 x 20%)	2,000
		60,000

Calculation of Reserves of Holding after Consolidation

Reserves (own) of H Ltd.	1,50,000
Share in post-acq profit (10,000 x 80%)	8,000
	1,58,000

Cons. B/s

Shareholders fund :		
1. Share capital		5,00,000
2. Reserves		1,58,000
Minority Interest		60,000
NCL :		-
CL : (2,00,000 + 1,50,000)		3,50,000
	Total	10,68,000
NCA :		
1. PPE (4,50,000 + 3,00,000)		7,50,000
2. I. Assets : (GW : CoC)		48,000
CA (1,20,000 + 1,50,000)		2,70,000
	Total	10,68,000

Part 3

Q.31 Solution (Study Material)

I Calculation of Cost of Control

Cost of Investments made by H in S			2,20,000
Share in capital & Res. :			
	Capital	2,50,000	
	P & L	1,00,000	
		3,50,000 x 80%	(2,80,000)
		Cap Res.	60,000

II Calculation of Minority Int.

Share in Capital (2,50,000 x20%)	50,000
Pre-acq profit: PL (1,00,000 x 20%)	20,000
	70,000

Cons. B/s

Equity & Liab.	Notes	₹
Shareholders fund		
(1) Share capital	-	5,00,000
(2) Reserves	1	2,60,000
Minority Interest	-	70,000
Non current Liab	-	-
Current Liab		
Trade Payable	2	2,25,000
	Total	10,55,000
Non current Assets:		
PPE	3	8,00,000
Current Assets	4	2,55,000
		10,55,000

Notes to A/cs :

1. **Reserves :**

i) Profit & Loss : H Ltd.	2,00,000
ii) Cap. Res : COC	60,000
	2,60,000

2. **Trade payable :**

H Ltd.	1,75,000
S Ltd.	50,000
	2,25,000

3. PPE

H	5,00,000
S Ltd	3,00,000
	8,00,000

4. **Current Assets :**

H Ltd	1,55,000
S Ltd.	1,00,000
	2,55,000

* **Imp Q.32 Solution**

I Profit Analysis of S Ltd as at 31.3.x2

(9 months)

		Pre-acq. Profits (1.7.x1)	Post-acq Profits (After 1.7.x1)
Balance in P & L as at 1.4.x1		30,000	-
Profit during x1-x2 :			
Closing Balance	40,000		
Opening Balance	(30,000)		
(3m:9m)	10,000	2,500	7,500
		32,500	7,500

H Ltd	MI	H Ltd	MI
.8	.2	.8	.2
26,000	6,500	6,000	1,500
↓ COC		↓ B/S	

II Calculation of COC

Cost of Investments made by H in S		1,26,000
Share in capital & Pre-acq. Profit :		
Capital (1,00,000 x.8)	80,000	
Pre-acq.	26,000	(1,06,000)
GW		20,000

III Calculation of Minority Interest

Share in capital (1,00,000x.2)	20,000
Share in profit : Pre	6,500
Post	1,500
	28,000

IV Calculation of Cons. P & L

Balance in P&L of H Ltd.	50,000
Share in Post acq Profit	6,000
	56,000

Cons. B/s

Equity & Liab.	Notes	₹
Shareholders Funds :		
(1) Share Capital	-	1,50,000
(2) Reserves	-	56,000
Minority Interest	-	28,000
Current Liab :		
Trade payable	1	1,60,000
	Total	3,94,000

Non current Assets :		
i) PPE	2	2,30,000
ii) I. Assets (GW:CoC)	-	20,000
Current Assets	3	1,44,000
	Total	3,94,000

Notes :

1 Trade payable	:	H Ltd	1,00,000
		S Ltd	60,000
			1,60,000
2 PPE	:	H Ltd	1,30,000
		S Ltd	1,00,000
			2,30,000
3 Current Assets	:	H Ltd	74,000
		S Ltd	70,000
			1,44,000

Consolidation of Accounts

Q.1 Solution

I **Profit Analysis of S Ltd as at 31.3.98** (3 months)

	Pre-acq. Profits (1.1.98)	Post-acq Profits (After 1.1.98) P&L	Reserves
Opening Balance (1.4.97) :			
Reserves	40,000	-	-
P & L	6,000	-	-

Profit during the year 97-98

P&L : CB	30,000			
OB	(6,000)			
C.Y	24,000	18,000	6,000	-
	(9:3)			
	Total	64,000	6,000	-

* Minority Int. is NIL because all shares are held by H Ltd.

II Calculation of COC

Cost of Investment	5,00,000
Share in Capital of S Ltd (3,00,000 x 100%)	(3,00,000)
Share in Pre-acq profit of S Ltd. (64,000 x 100%)	(64,000)
GW	1,36,000

III Calculation of Cons. Reserves

	Reserves	P&L	Total	
Balance in H Ltd.	2,10,000	50,000	2,60,000	
Share in Post acq Profit	NIL	6,000	6,000	
Total	2,10,000	56,000	2,66,000	B/s

Cons. B/s

Equity & Liab.	Notes	₹
Shareholders Fund :		
(1) Share Capital	-	8,00,000
(2) Reserves	-	2,66,000
Minority Interest	-	-
Non Current Liab.	-	-
Current Liab :		
Trade Payable	1	5,70,000
	Total	16,36,000

Non Current Assets :		
i) PPE	2	10,40,000
ii) I. Assets (GW : COC)	-	1,36,000
Current Assets :		
1) Inventory	3	2,30,000
2) T. Receivables	4	1,60,000
3) Cash & C.E	5	70,000
	Total	16,36,000

Notes : 1 Trade payables :

i) Creditors	: H Ltd	3,50,000	
	S Ltd	1,60,000	5,10,000
ii) B/P	: H Ltd	40,000	
	S Ltd	20,000	60,000
			5,70,000

2. PPE :

	L & B	P & M	Fur.	Total
H Ltd	4,00,000	2,00,000	50,000	6,50,000
S Ltd	2,70,000	1,00,000	20,000	3,90,000
Total	6,70,000	3,00,000	70,000	10,40,000

3. Inventory :

H Ltd	1,50,000
S Ltd	80,000
	2,30,000

4. Trade Receivable :

H Ltd	1,00,000
S Ltd	60,000
	1,60,000

5. Cash/Bank :

H Ltd	50,000
S Ltd	20,000
	70,000

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Part 4

Important Definitions

A. Meaning of D.O.A. of shares:-

As per the Provisions of AS-21, Date of Acquisition of shares is the date at which Holding company acquires the shares in Subsidiary Company. It can also be said that D.O.A. of shares is the date at which Holding Company takes control over Subsidiary Company.

B. Meaning of Pre-acquisition Profits :

As per the Provisions, Pre-acq Profits are the Profits which are "Earned by subsidiary company" before the D.O.A. of shares. It is also Known as Capital Profits.

> Note : The share of Holding company in Pre-acq. Profit of its subsidiary will be transferred to "COC" for computing GW or Capital Res. So, Nature of Reserve does not matter. It may be in the nature of P&L, GR, CR, SPR, etc.

C. Meaning of Post-acq. Profits :

If any profit is Earned by Subsidiary after the D.O.A. of shares then such profit will be considered as "Post acq. profits." This profit is also known as "Revenue profit".

> Note : The share of Holding co. in Post-acq. Profits of subsidiary company will be added to its "R & S" under same heading i.e., share in P & L will be added to P & L of Holding, share in GR will be added to GR of Holding etc.

D. Meaning of Cost of Control :

It is calculated on DOA to find out Goodwill or Capital Reserve as follows:-

Calculation of COC

Cost of investments made by Holding in subsidiary		xxxx
Share in Net worth of subsidiary on D.O.A. :		
Share in Capital	xxxx	
Share in Pre-acq. Profit	xxxx	xxxx
	+	GW
	-	Cap. Res

E. Meaning of Minority interest :-

As per the Provisions, Minority Interest means outsider's Interest in subsidiary company. The share of outsider's interest is Calculated to the Extent which is not held by the Holding company.

The following statement shall be prepared to find out MI:

Calculation of Minority Int.

Share in capital	xxxx
Share in Pre-acq. profit	xxxx
Share in Post-acq. profit	xxxx
	*xxxx

* It will be disclosed in Consolidated B/s under a separate heading after Shareholders fund but before Non current Liabilities.

Steps for Consolidated B/s

NCL CL

Step I : Take all the Assets and Liabilities (outside) of Subsidiary on line by Line and Item by item basis.

Step II: Take Share capital of Holding Co. only

Step III: Calculate Minority Int. and Disclose it as a Separate Item

Step IV : Calculate COC and disclose it as a Separate Item whether it is GW or Cap. Res.

Step V : Take Holding company' share in Post acq. profits of Subsidiary Company and Add it to Holding' R & S under same heading

Q.5 Solution *Imp

Case I : Company A

(i) Profit Analysis of Subsidiary

(as at 31.12.1999)

	Pre-acq. Profits (DOA : 1.1.99)	Post- acq Profits (After 1.1.99)
Opening Balance in P & L (1.1.99)	50,000	-
Profit during 1999 (70,000 - 50,000)	-	20,000
	50,000	20,000
Holding (.9)	45,000	18,000
M.I. (.1)	5,000	2,000

(ii) Calculation of COC

Cost of Investments	1,40,000
Share in Capital (1,00,000 x 90%)	(90,000)
Share in Pre-acq. profits	(45,000)
GW	5,000

(iii) Calculation of MI

Share in Capital (1,00,000 x 10%)	10,000
Share in Pre-acq. profits	5,000
MI as at 1.1.99	15,000
Share in Post acq profit	2,000
MI as at 31.12.99	17,000

(iv) Calculation of Cons. P & L

Balance in P & L of Holding co.	2,00,000
Share in Post acq profit	18,000
	2,18,000

Case II : Company B

Profit Analysis of subsidiary as at 31.12.99

	Pre-acq Profits (1.1.99)	Post-acq Profits (After 1.1.99)
Opening Balance in P&L (1.1.99)	30,000	
Losses in cy (1999) (CB-OB) (20,000-30,000)	-	(10,000)
	30,000	(10,000)
H Ltd (.85)	25,500	(8,500)
MI (.15)	4,500	(1,500)

(ii) Calculation of COC

Cost of Investments	1,04,000
Share in capital (1,00,000 x 85%)	(85,000)
Share in Pre-acq profit	(25,500)
C. Res	6,500

(iii) Calculation of MI

Share in capital (1,00,000 x 15%)	15,000
Share in Pre-acq.	4,500
MI as at 1.1.99	19,500
Share in post-acq	(1,500)
MI as at 31.12.99	18,000

(iv) **Calculation of Cons. P&L**

Balance in P&L of Holding co.	2,00,000
Share in Post acq. Losses of subsidiary	(8,500)
Cons. P&L	1,91,500

Case III : Company C

(i) **Profit Analysis as at 31.12.99**

	Pre-acq Profits (1.1.99)	Post-acq Profits (After 1.1.99)
Opening Balance in P&L (1.1.99)	20,000	-
Profit in 1999 (20,000 - 20,000)	-	NIL
	20,000	NIL
H Ltd (.8)	16,000	-
MI (.2)	4,000	-

(ii) **Cost of control**

Cost of Investments	56,000
Share in capital (50,000 x .8)	(40,000)
Share in Pre-acq. Profit	(16,000)
GW/CR	0

(iii) **Calculation of MI**

Share in capital (50,000 x 20%)	10,000
Share in Pre-acq profits	4,000
MI as at 1.1.99	14,000
Share in Post acq profit	-
MI as at 31.12.99	14,000

(iv) **Calculation of Cons. P&L**

Balance in P&L of Holding	2,00,000
Share in Post acq. profit	-
Cons. P&L	2,00,000

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Additional Adjustment to be made in Cons. B/s

Adjustment 1 : Elimination of Inter Company Balances (Debtors/Creditors, B/R /B/P , Loan/Investments etc.)

As per the Provisions of AS-21, Inter Company Balances between Holding and Subsidiary shall be cancelled while preparing Cons. B/s. These Balances may be in the form of Debtors/Creditors, B/R /B/P , Loan/Investments etc.

Note : We will always Elimination contra Balances to the Extent "which are *common" in B/s of Holding & Subsidiary.

> * Minimum Balance can be common Balance between Holding & Subsidiary

*VVI

Adjustment 2 : Calculation of "Stock Reserve" (Unrealised Profit)

It may be possible that Both companies have undertaken some Transactions of Sale /Purchase of Stock or other Assets during the Period. If it is so, then we should Eliminate inter company profits while Preparing Consolidated B/s. The following steps should be applied while cancelling such profit:-

Step I : <u>Calculate Unrealised Profit on Unsold stocks which is Required to be Cancelled</u>

$$\left(\frac{\text{Total Profit}}{\text{Total selling Price}} \times \text{Selling Price of Unsold Stock}\right)$$

Step II : Cancel the Profit (step I) from stock in Assets side in B/s as follows.

Inventory : H Ltd	xxxx	
S Ltd	xxxx	
Unrealised profit on C. Stock	(xxxx)	B/s
	xxxx	

Step III : Cancel the Profit in Liability side as follows :-

Transaction

Down stream Transaction
↓
If Holding co. Sells Goods to Subsidiary
↓
Cancel the whole Profit from Holding Co. P&L

Upstream Transaction
↓
If Subsidiary sells Goods to Holding
↓
Cancel Proportionate Profit from Holding & Minority Int.

Holding ने कामया था
Holding ही Cancel करेगा

Subsidiary का कामया हुआ
Profit Holding & MI दोनों के पास है

Part 5

Imp Q.3 Solution

(i) Profit Analysis of S Ltd

	Pre-acq Profit	Post-acq Profit PL	Res
Balance in Reserves on D.O.A	30,000	-	-
Profit Earned in post acq. Period	-	60,000	-
	30,000	60,000	-
H Ltd (75%)	22,500	45,000	-
MI (25%)	7,500	15,000	-

(ii) Calculation of COC

Cost of Investment	75,000
Share in Net worth (DOA) :-	
Share in capital (1,00,000 x 75%)	(75,000)
Share in Pre-acq. profits	(22,500)
Cap. Res	22,500

(iii) Calculation of Minority Int.

Share in capital (1,00,000 x 25%)	25,000
Share in Pre-acq. Profit	7,500
Share in Post-acq. profits	(15,000)
Cancellation of unrealised profit on unsold Stock : upstream transaction (25,000 x 20% = 5,000 x 25%)	(1250)
MI	46,250

(iv) **Calculation of Cons. R&S**

	P&L	Res.	Total
Balance in B/s of H Ltd	2,00,000	60,000	2,60,000
Share in Post acq profit of Of S Ltd.	45,000	-	45,000
Cancellation of Unrealised Profit which were Earned by Subsidiary in upstream Transaction (25,000 x 20% = 5,000 x75%)	(3,750)	-	(3,750)
	2,41,250	60,000	301250 B/s

Total Reserves = 3,01,250 + 22,500 COC = 3,23,750

Consolidated B/s

Name of company : H Ltd. with its Subsidiary S ltd.

B/s as at.........

Equity & Liabilities	Note	₹
Shareholder fund :-		
A. Share capital	-	5,00,000
B. Cons. R&S	-	3,23,750
Minority Interest	-	46,250
Non current Liab	-	-
Current Liab:		
Trade payables	1	1,70,000
	Total	10,40,000
Non current Assets :		
PPE	2	4,60,000
Current Assets :		
Inventory	3	4,15,000
T. Receivables	4	1,65,000
	Total	10,40,000

Notes to A/cs :

1. Trade payables :

A. Creditors :	H Ltd	1,10,000	
	S Ltd	60,000	1,70,000
B. B/P :	H Ltd	-	
	S Ltd	15,000	15,000
C. Cancellation as per contra			(15,000)
			1,70,000

Note 2 : PPE :

H Ltd		4,00,000
S Ltd		60,000
		4,60,000

Note 3 : Inventory :

H Ltd		3,00,000
S Ltd		1,20,000
Unrealised profit (25,000 x 20%)		(5000)
		4,15,000

Note 4 : Trade Receivables

A. Debtors :	H	75,000	
	S	85,000	1,60,000
B. B/R :	H	20,000	
	S	-	20,000
C. Cancellation as per contra			(15,000)
			1,65,000

Imp Q.8 Solution

Consolidated B/s

Name of company : Anthony Ltd. with its Subsidiary Canning Ltd.

B/s as at 31.12.1989

Equity & Liab.	Notes	₹
Shareholder funds:		
A. Share capital	-	20,00,000
B. Reserves	w.n#4	7,60,000
Minority Interest	w.n#3	2,68,000

Non current Liab :	-	-
Current liab:		
Trade payable	Note 1	1,80,000
	Total	32,08,000
Non current Assets :		
PPE	Note 2	19,00,000
Current Assets :		
i) Inventory	Note 3	2,38,000
ii) Trade Receivables	Note 4	2,50,000
iii) Cash & CE	Note 5	8,20,000
	Total	32,08,000

W.N#1

Profit Analysis of Canning
as at 31.12.99

	Pre-acq Profits (1.1.89)	Post-acq. Profits (After 1.1.89) GR	PL
Balance in R&S as at 1.8.89 :-			
G. Res	2,00,000	-	-
PL	60,000	-	-
Profit earned by Canning during 1989	-	-	80,000
	2,60,000	-	80,000
Anthony Ltd. (.8)	2,08,000	-	64,000
MI (.2)	52,000	-	16,000

W.N#2

Calculation of COC

Cost of Investments		10,00,000
Share in Net worth of Canning on DOA :		
Share in capital (10,00,000 x 80%)		(8,00,000)
Share in Pre-acq profits (w.n#1)		(2,08,000)
	Cap. Res	8,000

W.N#3

Calculation of Minority Int.

Share in capital (10,00,000 x 20%)		2,00,000
Share in R&S : Pre-acq (w.n#1)		52,000
Post-acq.		16,000
	MI	2,68,000

W.N#4

Calculation of cons. R&S (2l + 1l)

	PL	GR	C. Res	Total
Balance in B/s of Anthony Ltd.	3,00,000	4,00,000	-	7,00,000
Share in Post acq profit (w.n#1)	64,000	-	-	64,000
Cap. Res. In COC (w.n#2)	-	-	8,000	8,000
Cancellation of Unrealised Profit on Downstream Transaction (60,000 x 25/125)	(12,000)	-	-	(12,000)
Total	3,52,000	4,00,000	8,000	7,60,000

Note to A/cs :

1. Trade payables :

A. Creditors :	Anthony	1,00,000	
	Canning	1,00,000	
	Contra	(50,000)	1,50,000
B. B/P :	Anthony	30,000	
	Canning	10,000	
	Contra	(10,000)	30,000
			1,80,000

2. PPE :

A. L & B :	Anthony	5,00,000	
	Canning	3,00,000	8,00,000
B. P & M :	Anthony	5,00,000	
	Canning	6,00,000	11,00,000
			19,00,000

3. Inventory :

Anthony	1,50,000
Canning	1,00,000
Unrealised Profit	(12,000)
	2,38,000

4. Trade Receivables :

A. Debtors :	Anthony	1,00,000	
	Canning	1,20,000	
	Contra	(50,000)	1,70,000
B. B/R :	Anthony	80,000	
	Canning	10,000	
	Contra	(10,000)	80,000
			2,50,000

5. Cash & C.E :

Anthony	5,00,000	
Canning	3,20,000	8,20,000

Q.2 Solution

Consolidated B/s

Name of company : H Ltd. with its subsidiary S Ltd

B/s as at 31.3.1996

Equity & Liab.	Note	₹
Shareholder funds:		
A. Share capital	-	8,00,000
B. Reserves	w.n#4	2,62,500

Minority Interest	w.n#3	81,250
Non current Liab	-	-
Current Liab : Trade payable	1	2,00,000
	Total	13,43,750
Non current Assets		
A. PPE	2	6,50,000
B. I. Assets : GW	w.n#2	58,750
Current Assets		
A. Stock	3	2,82,000
B. OCA	4	3,53,000
	Total	13,43,750

W.N #1

Profit Analysis of S Ltd

		Pre-acq (31.7.95)	Post.acq (After 31.7.95) GR	Post.acq (After 31.7.95) PL
Balance in R&S as at 1.4.95 :				
(55,000 – 45,000)	PL	10,000	-	-
	GR	70,000	-	-
Profits during 95-96 (4:8)		15,000	-	30,000
		95,000	-	30,000
	H (75%)	71,250	-	22,500
	MI (25%)	23,750	-	7,500

W.N #2

Calculation of COC

COI	2,80,000
Capital (2,00,000 x 75%)	(1,50,000)
Pre-acq profits (w.n #1)	(71,250)
GW	58,750

W.N #3

Calculation of MI

Capital (2,00,000 x 25%)	50,000
Pre-acq (w.n#1)	23,750
Post acq (w.n#1)	7,500
	81,250

W.N #4

Cons. R & S

	GR	PL	Total
Balance with H	1,50,000	90,000	2,40,000
Share in Post acq	-	22,500	22,500
	1,50,000	1,12,500	2,62,500

Part 6

VVI * Adjustment 3: Revaluation of Assets & Liab. of Subsidiary co. on D.O.A of shares

It may be possible that Holding co. revalues Assets & Liab. of Subsidiary Company on D.O.A. of shares .The following steps shall be applied if the Revaluation is done by Holding company :-

Step I : Recognise Revaluation/Loss under the heading of "Pre-acq. Profit Calumn" because Revaluation is always Done on D.O.A.

i) Revaluation profit = If market value of Assets becomes more then Book value

ii) Revaluation Losses = If market value of Assets becomes Less then Book value

*Imp

Step II : Recognise Depreciation Adjustment on changes in values Under "Post acq Profit Calumn" (P&L)

i) If value of Assets was increased on DOA then Dep will also be computed on Appreciation

ii) If value of Assets was decreased on DOA then Dep. will also be Reversed on such Decrease

Q.14 Solution

Consolidated B/s

Name of company : H Ltd. with its subsidiary S Ltd.

Date of B/s : 31.3.2017

Equity & Liab.	Notes	₹
Shareholder fund :		
A. Share capital	-	6,00,000
B. Reserves	W.N#4	3,44,600
Minority Interest	W.N#3	48,150
Current Liab :		
Trade Payables	Note 1	2,07,000
	Total	11,99,750
Non current Assets :		
A. PPE	Note 2	11,87,750
B. I. Asset : (GW : COC)	W.N#2	12,000
	Total	11,99,750

W.N#1

Profit Analysis of S Ltd as at 31.3.2017

	Pre-acq Profits (1.4.2016)	Post-acq Profits (After 1.4.16) PL	Post-acq Profits (After 1.4.16) Res
Opening Balance in R & S (1.4.16) :			
Res.	25,000	-	-
PL	15,000	-	-

Profit during 16-17 :-			
Res. (75,000-25,000)	-	-	50,000
PL (25,000-15,000)	-	10,000	-
*MV-BV			
Revaluation Profit (Loss) :-			
*P&M (1,50,000-1,00,000)	50,000	-	-
*Fur. (15,000-20,000)	(5,000)	-	-
Depreciation Adjust. on Changes in values :-			
i) P&M (50,000 x10%)	-	(5,000)	-
ii) fur. [(5,000) x15%]	-	750	-
	85,000	5,750	50,000
H Ltd (80%)	68,000	4,600	40,000
MI (20%)	17,000	1,150	10,000

W.N#2

Calculation of COC

Cost of investments		1,60,000
Share in Net worth of S Ltd (1.4.16) :-		
Capital (1,00,000 x 80%)	80,000	
Pre-acq profits	68,000	(1,48,000)
	GW	12,000

W.N#3

Calculation of Minority Interest

Share in capital (1,00,000 x 20%)	20,000
Pre-acq Profit	17,000
Post-acq Profit (1150 + 10,000)	11,150
MI	48,150

W.N#4

Calculation of Cons. Res & Surplus

	Res.	P&L	Total
Balance in B/s of H Ltd.	2,00,000	1,00,000	3,00,000
Share in Post acq profit	40,000	4,600	44,600
Total	2,40,000	1,04,600	3,44,600

Notes to A/cs

1. Trade Payable :	H Ltd	1,50,000	
	S Ltd	57,000	
		2,07,000	

Note 2 : PPE

A. P & M :

H Ltd.	3,00,000	
S Ltd.	90,000	
Revaluations	50,000	
Depreciation	(5,000)	4,35,000

B. Furniture :

H Ltd	1,50,000	
S Ltd	17,000	
Revaluation	(5,000)	
Depreciation	750	1,62,750

C. Other NCA (4,40,000 + 1,50,000)	5,90,000
Total	11,87,750

Q.26 Solution

W.N#1

Profit Analysis of S Ltd
as at 31.3.2020

	Pre-acq (1.4.2019)	Post -acq (After 1.4.2019) Res	PL
Opening Balances :			
(1.4.19) Res	6,00,000	-	-
PL	36,000	-	-
Profit during 19-20 :			
Res (1,80,000-60,000)	-	1,20,000	-
PL (60,000-36,000)	-	-	24,000

Revaluation Profit (loss) :			
i) P&M (3,60,000-2,40,000)	1,20,000	-	-
ii) Furniture (36,000-48,000)	(12,000)	-	-
Depreciation Adjustments :			
i) P&M (1,20,000 x10%)	-	-	(12,000)
ii) Furniture [(12,000) x 15%]	-	-	1,800
	2,04,000	1,20,000	13,800
H Ltd (80%)	1,63,200	96,000	11,040
MI (20%)	40,800	24,000	2760

W.N#2

Calculation of COC

Cost of Investments	3,84,000
Share in Networth of S (1.4.19) :-	
Capital (2,40,000 x 80%)	(1,92,000)
Pre-acq.	(1,63,200)
GW	28,800

W.N#3

Calculation of MI

Share in capital (2,40,000 x 20%)	48,000
Share in Pre-acq.	40,800
Share in Post (24,000 +27,60)	26,760
	1,15,560

W.N#4

Calculation of Cons. R & S

	Res	PL	Total
Balance in B/s of H Ltd.	4,80,000	2,40,000	7,20,000
Add : Post-acq. share	96,000	11,040	1,07,040
	5,76,000	2,51,040	8,27,040

Notes to A/cs :

Cons. B/s		
Shareholders funds :		
A. Share capital	-	13,40,000
B. Cons. R & S	W.N#4	8,27,040
Minority Interest	W.N#3	1,15,560
Non current Liab :		
Long Term Debts (Debentures)	-	1,00,000
Current Liab :		
A. Short Term Debt (B.od)	-	1,00,000
B. Trade payables	Note 1	3,84,800
	Total	28,67,400
Non current Assets :		
A. PPE	Note 2	14,34,600
B. I A (GW:COC)	W.N#2	2,88,00
Current Assets :		
A. Inventory	Note 3	8,00,000
B. T. Receivables	Note 4	5,08,000
C. Cash & CE	Note 5	96,000
	Total	28,67,400

Note 1 : Trade payables :

Creditors :	H	2,00,000	
	S	1,22,000	3,22,000
B/P :	H	60,000	
	S	14,800	74,800
Contra			(12,000)
			3,84,800

Note 2 : PPE

A. Machines :	H	7,20,000	
	S	2,16,000	
	Revaluation	1,20,000	
	Dep	(12,000)	10,44,000
B. Furniture :	H	3,60,000	
	S	40,800	
	Revaluation	(12,000)	
	Dep	18,00	3,90,600
			14,34,600

Note 3 : Stocks :

H	6,00,000	
S	2,00,000	8,00,000

Note 4 : T. Receivable :

A. Debtors :	H	3,00,000	
	S	90,000	3,90,000
B. B/R :	H	1,00,000	
	S	30,000	1,20,000
Contra			(12,000)
			5,08,000

Note 5 : C & LE (50,000 + 46,000) 96,000

* VVVI Q. 9 Solution

W.N #1

Calculation of Profit or Loss on Revaluation

	Plant	Furniture	T. Invest.
Market value as on 1.1.96	8,10,000	75,000	NIL
Book value as on 1.1.96	(7,50,000)	(90,000)	(37,500)
	$\left[\frac{6,75,000 \times 100}{90}\right]$	$\left[\frac{85,500 \times 100}{95}\right]$	
Profit (Loss)	60,000	(15,000)	(37,500)

W.N #2

Profit Analysis of B Ltd. as at 31.12.96

		Pre-acq (1.1.96)	Post-acq (After 1.1.96) PL
Opening Balances : (1.1.96)	Cap. Res	90,000	
	PL	1,20,000	
	G Res	1,50,000	
Profit during 1996		-	75,000
Revaluation Profit (Loss) :			
	P & M	60,000	-
	Fixtures	(15,000)	-
	Investments	(37,500)	-
Depreciation Adjustments :			
↑ P & M (60,000 x 10%)		-	(6,000)
↓ Fixtures (15,000 x 5%)		-	750
		3,67,500	69,750
	A Ltd (80%)	2,94,000	55,800
	MI (20%)	73,500	13,950

W.N #3

Calculation of COC

COI		8,10,000
Capital (9,00,000 x 80%)		(7,20,000)
Pre-acq		(2,94,000)
	C Res	2,04,000

W.N #4

Minority Int.

Capital (9,00,000 x 20%)	1,80,000
Pre-acq	73,500
Post-acq	13,950
	2,67,450

W.N #5

Cons R & S

	Sec. Prem.	C. Res	GR	PL	Total
Balance in B/s of A Ltd	2,70,000	1,20,000	2,25,000	8,40,000	14,55,000
Share in post acq	-	-	-	55,800	55,800
COC : C Res	-	2,04,000	-	-	2,04,000
Unreal. Profit. Cancellation (60,000 x 25/125)	-	-	-	(12,000)	(12,000)
	2,70,000	3,24,000	2,25,000	8,83,800	17,02,800

Cons B/s

Shareholders fund :		
Share capital	-	18,00,000
Cons Res	W.N #5	17,02,800
Minority Int.	W.N #4	2,67,450
NCL	-	-
CL : Trade payable	Note 1	6,90,000
	Total	44,60,250
NCA :		
i) PPE	Note 2	20,75,250
ii) GW	Note 3	4,87,500

CA		
1) Stock	Note 4	4,38,000
2) TR	Note 5	12,57,000
3) C & LE	Note 6	2,02,500
		44,60,250

Note 1 : Trade payable

A	5,25,000	
B	1,65,000	6,90,000

Note 2 : PPE

i) P & M :	A	10,80,000	
	B	6,75,000	
	Revalue	60,000	
	Dep	(6,000)	18,09,000
ii) Fixtures :	A	1,95,000	
	B	85,500	
	Revalue	(15,000)	
	Dep	750	2,66,250
			20,75,250

Note 3 : GW :	A	3,75,000	
	B	1,12,500	4,87,500

Note 4 : Stock :	A	2,70,000	
	B	1,80,000	4,50,000
	U. Profits		(12,000)
			4,38,000

Note 5 : T. Receivable :	A	9,40,500
	B	3,16,500
		12,57,000

Note 6 : C & CE :	A	1,50,000
	B	45,000
	Transit	7,500
		2,02,500

Q.25 H.W

Part 7

VVVI * Adjustment 4 : Bonus shares

Cases

Case I : If Subsidiary Company has Announced Bonus shares but it is unrecorded in its B/s
(Unrecorded: Announcement on B/s Date)

Case II : If Subsidiary Company has Announced Bonus shares as well as it has recorded recorded it in its B/s
(Recorded: Announcement During the year)

Case I : If Bonus issue is still to be Recorded
(Unrecorded in Given B/s)

Step I : Calculate Pre-acquisition and Post-acquisition Profits as we Calculate in Normal situation without Giving any consideration to Bonus shares

Step II : After computing Pre and Post Profit, the Amount of Bonus Issue will be deducted from "Pre-acquisition Profits" because we always use Profits on FIFO basis. It means that Accumulated profits shall be utilised first.

Step III : Calculate share of Holding co. (COC) and Minority (MI) in Share capital of Subsidiary after Bonus Issue. It means that we will consider increased capital of Subsidiary after Bonus issue.

Q.4 Solution

Consolidated B/s

Name of company : H Ltd. with its Subsidiary S Ltd.

B/s as at 31.3.96

Equity & Liab.	Notes	₹
Shareholders fund :		
A. Share capital	-	80,00,000
B. Cons. Reserves	W.N#4	46,40,000
Minority Int.	W.N#3	8,00,000
Current Liab :		
Trade payable	Note 1	25,00,000
	Total	1,59,40,000
Non current Assets :		
A. PPE	Note2	95,00,000
B. I. Assets (GW : COC)	W.N#2	4,40,000
Current Assets	Note 3	60,00,000
	Total	1,59,40,000

W.N#1

Profit Analysis of S Ltd
as at 31.3.96

		Pre-acq Profit (31.3.95)	Post-acq Profit (After 31.3.95) Res	Post-acq Profit (After 31.3.95) PL
Opening Balance :				
(DOA)	Reserves	5,00,000	-	-
	P & L	2,00,000	-	-
Profit during 95-96				
	Res (5L-5L)	-	-	-
	PL (10L-2L)	-	-	8,00,000
	(CB-OB)			

* Bonus Issue	(5,00,000)	-	-
(25,00,000 x 1/5)			
SC	2,00,000	-	8,00,000
H Ltd (.8)	1,60,000	-	6,40,000
MI (.2)	40,000	-	1,60,000

* It was Unrecorded

W.N #2

Calculation of COC

Cost of Investments			30,00,000
*After Bonus Issue Share in Net worth :			
i) Capital	*[30,00,000 x 80%] 24,00,000		
ii) Pre-acq.		(1,60,000)	(25,60,000)
		GW	4,40,000

W.N #3

Calculation of Minority Int.

Share in capital (30,00,000 x20%)	6,00,000
Share in Pre-acq profits	40,000
Share in Post-acq profits	1,60,000
	8,00,000

W.N #4

Consolidated R & S

	Reserves	P & L	Total
Balance in B/s of H Ltd.	30,00,000	10,00,000	40,00,000
Add: Share in Post acq.	-	6,40,000	6,40,000
	30,00,000	16,40,000	46,40,000

Notes to A/cs :

1. Trade payable :	H	20,00,000
	S	5,00,000
		25,00,000

2. PPE :	H	70,00,000	3. C. Assets :	H	40,00,000
	S	25,00,000		S	20,00,000
		95,00,000			60,00,000

* Imp Q.10 Solution

Consolidated B/s

Name of Company : A Ltd. with its Subsidiary Omega Ltd.

B/s as at 31.12.94

Equity & Liab.	Notes	₹
Shareholders fund :		
A. Share capital	-	3,00,000
B. Cons. R&S	W.N#6	63,200
Minority Int.	W.N#5	34,020
Current Liab :		
Trade payable	Note 1	24,400
	Total	4,21,620
Non current Assets :		
A. PPE	Note2	2,89,700
B. I. Assets (GW : COC)	W.N#4	33,920
Current Assets		
A. Inventory	Note 3	60,000
B. T. Receivables	Note 4	31,000
C. Cash	Note 5	7,000
	Total	4,21,620

W.N#1

Calculation of Rectified Closing Balance in P&L A/c

Given Balance in P&L of Omega Ltd.	18,000
Add: Unrecorded Interest Income on Loan to A	100
Rectified Balance	18,100

W.N#2

Calculation of Rectified Balance of Loan to A Ltd

Balance as per B/s	2,000
Add: Interest Receivable (Remained) Unrecorded	100
	2,100

Journal (only for Understanding)

(1) Int. Receivable/Accrued Dr 100
To Income 100
(Being Accrued Income recorded)

(2) Income a/c Dr 100
To P & L 100
(Being Income transferred)

W.N#3

Profit Analysis of Omega as at 31.3.94

	Pre-acq (31.12.94)	Post-acq (After 31.12.94)
Balance as per B/s :		
Cap. Res.	52,000	
G. Res	5,000	NIL
P&L (W.N#1)	18,100	
Revaluation Loss on PPE	(5000)	
Bonus shares (1,00,000 x1/2)	(50,000)	
S.C.	20,100	NIL
A Ltd (.8)	16,080	-
MI (.2)	4,020	-

W.N#4 COC — After Bonus

Cost of Investments	1,70,000
Share Capital (1,50,000 x .8%)	(1,20,000)
Pre-acq profits	(1,60,80)
	33,920

W.N#5

Minority Interest

Capital (1,50,000 x .2)	30,000
Pre-acq Profit	4,020
	34,020

W.N#6 Consolidated R & S

	GR	P & L	Total
Balance as per B/s A Ltd	25,000	38,200	63,200
	25,000	38,200	63,200

Notes to A/cs :

1 Trade payables :

A. Creditors :	A Ltd	17,900	
	Omega	5,000	22,900
B. B/P :		1,700	
Contra		(200)	1,500
			24,400

2 PPE

A Ltd	1,50,000	
Omega	1,44,700	2,94,700
Revaluation Loss		(5,000)
		2,89,700

3. Inventory

A Ltd	4,00,000
Omega	2,00,000
	6,00,000

4. Trade Receivables :

A. Debtors :	A Ltd	20,000
	omega	10,000
B. B/R		1,200
Contra		(200)
		31,000
5. Cash (2000+5000)		7,000

* Imp Q.15 Solution

W.N#1

Calculation of Rectified Balance in P&L

Balance as per B/s (Given)	1,80,000
Add: Int. Income remained unrecorded	1,000
	1,81,000

W.N#2

Calculation of Rectified Balance of Loan to A Ltd

Balance as per B/s	20,000
Interest Receivable (Unrecorded)	1000
Rectified	21,000

W.N#3

Profit Analysis of B Ltd

		Pre-acq	Post-acq
Opening Bal :	CR	5,50,000	-
	GR	5,00,000	-
	PL	21,000	-
Profit in CY		80,000	80,000
(1,81,000-21,000) 6:6			
Revaluation Loss		(50,000)	-
Bonus Issue		(5,00,000)	-
		1,51,000	80,000

A (80%)	1,20,800	64,000
MI (20%)	30,200	16,000

W.N#4 COC

COI	17,00,000
SC (15 x80%)	(12,00,000)
Pre-acq	(1,20,800)
GW	3,79,200

W.N#5

SC (15L x20%)	3,00,000
Pre	30,200
Post	16,000
	3,46,200

W.N#6 Consolidated R & S

	GR	P & L	Total
Actual : B/s	3,00,000	3,82,000	6,82,000
Post	-	64,000	64,000
	3,00,000	4,46,000	7,46,000

Part 8

* Imp Case II : If Subsidiary company has already Recorded the Bonus Issue

e.g.

Balance sheet
(31.3.2024)

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Share capital (10)	10,00,000	4,00,000	Sundry Assets	10,00,000	5,00,000
Reserves	4,50,000	1,00,000	Investments In S Ltd	4,50,000	
	14,50,000	5,00,000		14,50,000	5,00,000

Additional Information :

(i) Date of Acquisition of shares : 1.4.2023 [24,000 shares]

(ii) Reserves of S Ltd as on 1.4.23 : 1,50,000

*Imp(iii) S Ltd. had announced Bonus shares @ 1 share for 3 shares On 1.7.23.

9m

1.4.23 — 31.3.24

DOA 1.7.23 B/s

Bonus

Prepare Consulidated B/s.

Solution

In the Given question, Subsidiary company has Announced its Bonus shares on 1.7.23, but B/s is Given as at 31.3.24 which clearly indicates that share capital of subsidiary is after Bonus issue. The following working notes shall be required in Addition to Normal questions :-

W.N #1

Calculation of Bonus capital

If original shares before bonus Issue	3 shares
Bonus shares @ 1:3	1 share
Total shares after Bonus	4 shares

Bonus shares $= ₹\, \frac{4,00,000 \times 1}{4} = ₹\, 1,00,000$

Original Capital = ₹4,00,000 - ₹1,00,000 = ₹3,00,000

W.N #2

Calculation of Correct % of Holding

% of Holding (Before Bonus) $= \frac{24,000 \text{ shares}}{{}^{*}30,000 \text{ shares}} \times 100 = 80\%$

$* \frac{₹3,00,000 \text{ (sc)}}{₹10}$

W.N #3

Calculation of Closing Balance in Reserves Before Bonus Issue

Closing Balance in Res. as per B/s (S Ltd)	1,00,000
Add Back : Bonus Issue (W.N#1)	1,00,000
Closing Balance in Res. Before Bonus	2,00,000

W.N #4

Profit Analysis of S Ltd

as at 31.3.24

		Pre-acq.	Post-acq
		(1.4.23)	(After 1.4.23)
	Opening Balance : Res	1,50,000	-
(CB-OB)	Profit during 23-24	-	50,000
	(2,00,000-1,50,000)		
	Bonus Issue	(1,00,000)	-
		50,000	50,000

W.N #5

Calculation of COC

Cost of Investments		4,50,000
Share in Cap. (4,00,000 x 80%)		(3,20,000)
Share in pre. (50,000 x 80%)		(40,000)
	GW	90,000

W.N #6

Calculation of MI

Share in capital (4,00,000 x 20%)	80,000
Pre-acq (50,000 x 20%)	10,000
Post acq (50,000 x 20%)	10,000
	1,00,000

W.N #7

Calculation of Res.

Balance in H	4,50,000
Post acq (50,000 x 80%)	40,000
	4,90,000

Steps on Concept :

Step I : First of all, calculate the Bonus capital which has been issued by Subsidiary during the year [Refer w.n#1 in Given Example for Practical Application]

Step II : Calculate correct % of Acquisition of shares by Holding in Subsidiary as follows :-

$$\left(\frac{\text{Shares Acquired}}{\text{Original shares (before bonus)}} \times 100\right)$$

[Refer w.n#2 in Given Example for Practical Application]

Step III : Add back Bonus Distribution to the Reserves for computing Reserves before Bonus Issue

Given closing Balance of Reserves in B/s	xxxx
Add Back : Bonus Distributed	xxxx
C. Bal. before Bonus	xxxx

We are doing this because we want to calculate correct Pre and post profit without considers Bonus

Step IV : Prepare Profit Analysis as we do in Normal questions

Step V : Deduct Bonus capital out of pre-acquisition column because we distribute profits on FIFO Basis

VVI * Adjustments 5 : If Dividends are paid by Subsidiary during the year

e.g.

i) D.O.A. : 1.4.2023

ii) B/s Date : 31.3.2024

iii) Position of P&L in B/s of S Ltd.

1.4.23 = ₹2,00,000

31.3.24 = ₹2,50,000

Paid in = 2023-24 ↓ For = 2022-23

iv) S Ltd. has paid a Dividend of ₹20,000 during 2023-24.

Prepare Profit Analysis.

Solution

w.n#1 Calculation of Closing Balance in P&L before Dividends

Closing Balance in P&L of S Ltd (Given)	2,50,000
Add Back : Dividend Distributed	20,000
P & L before Dividend	2,70,000

w.n#2

Profit Analysis of S Ltd
as at 31.3.24

	Pre-acq. (1.4.23)	Post-acq (After 1.4.23)
Opening Bal	2,00,000	-
C. year (2,70,000-2,00,000)	-	70,000
Dividend paid for 22-23	(20,000)	-
	1,80,000	70,000

Notes on concept : If Subsidiary has paid dividends in current year then it will always be assumed that it is paid for previous year because Dividend is always Declared for previous year in current year' AGM. The Following steps should be considered :-

Step I : Add Back all the paid dividends to Given Closing Balance in P&L to make it before Dividends
[Note : We do this so that Effect on profits due to dividends can be Eliminated for correct Profit Analysis.

Step II : Prepare Profit Analysis as we do in Normal questions

Step III : After computing Pre & Post profit, Deduct the dividend out Of Appropriate column according to the period

Short cut: First Dividend will be paid out of Pre- acq. profit and remaining out of Post acq profits

Part 9

*Imp Adjustment 6 : Rectification of Dividend in the books of Holding

As per the Provisions of AS-13, An Investor Accounts for Dividend Income as follows in its separate financial statements :-

Pre-acq. Dividend		Post-acq. Dividend	
(1) Bank a/c Dr	xxxx	(1) Bank a/c Dr	xxxx
To Dividend Income	xxxx	To Dividend Income	xxxx
(Being Dividend Received)		(Being Dividend Received)	
(2) Dividend Income Dr	xxxx	(2) Dividend Income a/c Dr	xxxx
To Investments	xxxx	To P&L	xxxx
(Being Cost of Investments Adjusted)		(Being Income Recognised)	

Rectification

If any Pre-acquisition Dividend is credited by Holding to P&L A/c instead of Investment A/c then A Rectification Entry will be required in the books of Holding as follows :-

It was credited by mistake, but Now we have Reversed it	P&L a/c Dr	xxxx
	To Investments	
	(Being Rectification mode)	

* Pre-acq Dividend is the dividend which was Paid by Subsidiary out of Pre-acq. Profits

Note: If any Dividend is Paid by Subsidiary company out of Post -acq. Profits and Holding company credits these dividend in its P&L then there will be no rectification because Accounting is correct in this case.

Q-11 (Solution) *VVVVI (Master Problem)

W.N#1 Calculation of Closing Balance in P&L before Dividends

Closing Balance in P&L after dividends as per Given B/S	35000
Add back : Dividend Paid in 3 Years after 1.1.87 [10000 + 12000 15000] (87, 88, 89)	37000
Closing Balance in P&L before Dividends	72000

W.N#2 Profit Analysis of B Ltd as at 31.12.89

	Pre-acq Profits (1.1.87)	Post-acq Profits (After 1.1.87) Res.	P&L
Opening Balance in R&S as at 1.1.87 :-			
Reserve	24000	-	-
P&L	15000	-	-
(CB - OB) Profit after DOA			
Res. (26000-24000)	-	2000	-
PL (72000-15000) W.N#1	-	-	57000
Dividend Paid : Pre-acq Dividend			
In 1987 for 1986	(10000)	-	-
In 1988 for 1987	-	-	(12000)
In 1989 for 1988	-	-	(15000)

Revaluation Profits	10000	-	-
(60000 - 50000)			
<u>Depreciation Adjust.</u> :			
87 (10000 x 10%)	-	-	(1000)
88 (9000 x 10%)	-	-	(900)
89 (8100 x 10%)	-	-	(810)
Bonus Issue	(20000)	-	-
(100000x1/5)			
Total	19000	2000	27290
A. Ltd. (.8)	15200	1600	21832
MI (.2)	3800	400	5458

W.N#3 <u>Calculation of Cost of Control</u>

Cost of Investments	90000
Pre. acq. Dividends (10000 x 80%)	<u>(8000)</u>
Adjusted Cost of Investments	82000
<u>Share in Net worth of B Ltd on DOA</u> :-	
After Bonus	
Capital (120000 x 80%)	(96000)
Pre-acq Profits (W.N#2)	<u>(15200)</u>
Cap. Res	<u>29200</u>

W.N#4 <u>Calculation of Minority Interest</u>

Share in Capital	24000
Share in Pre-acq. Profits	3800
Share in Post acq Profits (5458+400)	5858
Cancellation of Profit in Upstream Transaction	(100)
$\underbrace{(10000}_{\text{Unsold}} \times 25\%) \times \underbrace{20\%}_{\text{Ratio}} = 500 \times \underbrace{20\%}_{\text{MI}}$	
MI	<u>33558</u>

W.N#6 **Calculation of Cons. R&S**

	Reserves	P&L	Total
Balance in B/S of A Ltd.	40000	36000	76000
Add: Share in Post (W.N#2)	1600	21832	23432
Add: Cap. Res (COC) (W.N#3)	29200	-	29200
Less: Rectification of Pre-acq Dividend	-	(8000)	(8000)
Less: Cancellation of Unrealised Profit (10000 x 25% x 20% x 80%)	-	(400)	(400)
Cons R&S	70800	49432	120232

Notes to A/cs :

1. Trade Payables :	A	71000
	B	48000
		119000
2. PPE :	A	60000
	B	110000
	Revaluation	10000
	Depreciation (1000+900+810)	(2710)
		177290
3. Investments :	A	100000
	B	15000
	COC	(90000)
		25000

4. Stock : A 30000

B 40000

Cancellation of Profits (500)

69500

5. Trade Receivables (25000+20000) 45000

6. Bank (32000+24000) 56000

Cons. B/S

Shareholders Fund		
Share Capital	-	100000
Reserves	W.N#5	120232
Minority Int.	W.N#4	33558
Current Liabilities :		
Trade Payable	Note 1	119000
	Total	372790
Non Current Assets :		
A. PPE	Note 2	177290
B. Investments	Note 3	25000
Current Assets :		
A. Stock	Note 4	69500
B. Trade Receivable	Note 5	45000
C. Bank	Note 6	56000
	Total	372790

Q-12 (Solution) *VVI (Master Problem)

W.N#1 Calculation of Bonus Capital

If Original shares before Bonus Issue	5
then Bonus will be	2
Total shares after Bonus Issue	7

]

i) Bonus shares = $\frac{700000(SC)}{7} \times 2 = 200000$

ii) Original Capital before Bonus = 700000 - 200000 = 500000

(No. of shares before Bonus = $\frac{500000}{100}$ = 5000 shares)

W.N#2 Calculation of Correct % of Holding

i) Shares acquired by H Ltd on 1.4.83	3000
ii) Total No. of shares in S Ltd. on 1.4.83	5000

% of Control = $\frac{3000}{5000} \times 100 = 60\%$

W.N#3 Calculation of Closing Balance in GR & PL before Dividends & Bonus

	GR	PL
Closing Balance as per B/S of S Ltd.	300000	300000
Add Back : i) Bonus Issue	200000	-
ii) Dividend Paid	-	100000
*(500000 x 20%)		
Closing Balance before all Adjustments	500000	400000

* Dividend has been computed on 500000 because Dividend is Paid for 82-83 due to which Share Capital is also considered before Bonus.

W.N#4 **Profit Analysis of S Ltd as at 31.3.84**

	Pre-acq Profits (1.4.83)	Post-acq Profits (After 1.1.83) Res.	Post-acq Profits (After 1.1.83) PL
Opening Balance on			
DOA : Res	500000	-	-
PL	200000	-	-
Profit during 83-84:			
Res (500000 - 500000)	-	-	-
PL (400000 - 200000)	-	-	200000
Bonus Issue	(200000)	-	-
Dividend Paid for 82-83	(100000)	-	-
	400000	-	200000
H Ltd (.6)	240000	-	120000
MI (.4)	160000	-	80000

W.N#5 **Calculation of COC**

Cost of Investments	500000
Pre-acquisition Dividend (100000 x 60%)	(60000)
Adjusted COI	440000
Share in Capital of S Ltd (700000 x 60%)	(420000)
Pre-acq Profits (W.N#4)	(240000)
C. Res	220000

W.N#6 **Calculation of Minority Int.**

Share in Capital	(700000 x 40%)	280000
Share in Pre-acq Profits (W.N#4)		160000
Share in Post acq Profits (W.N#4)		80000
		520000

W.N#7 **Calculation of Cons. R&S**

	G Res	PL	C Res	Total
Balance in B/S of H Ltd.	200000	300000	-	500000
Shares in Post acq Profits of S Ltd (W.N#4)	-	120000	-	120000
Cancellation of Profit on machine in Downstream Transaction	-	(25000)	-	(25000)
Rectification of Pre-acq Dividend	-	(60000)	-	(60000)
C. Res in COC	-	-	220000	220000
	200000	335000	220000	755000

Notes to A/cs :

1. Current Liab : H 500000

Current Liab : H	500000
S	900000
Contra	(120000)
	1280000

2. PPE

PPE : H	800000
S	900000
Cancellation of Profit in Machine	(25000)
	1675000

3. Current Assets

Current Assets : H	700000
S	1300000
Contra	(120000)
	1880000

* We can not calculate Stock Reserve on Stock because Profit Ratio is missing.

Cons. B/S		
Shareholders Fund		
Share Capital	-	1000000
Reserves	W.N#7	755000
Minority Int.	W.N#6	520000
Current Liabilities	Note 1	1280000
		3555000
Non Current Assets : PPE	Note 2	1675000
Current Assets	Note 3	1880000
		3555000

HW. Question 13

Part 10

Q-28 (Solution) *Imp

Calculation of cost of Investments

Total Number of shares held by S Ltd.	1000000
% of Control acquired by H in S	60%
No. of shares acquired	600000
Purchase Price Per share	20
Cost of Investments (600000 x 20)	12000000

Calculation of Net Assets of S Ltd on DOA

PPE (7000000 - 10%)		6300000
Investment (MV)		6000000
C. Assets		6800000
Loans & Adv.		2200000
Trade Payable		(5500000)
Debentures		(1000000)
	N. Assets	14800000

Calculation of Cost of control

Cost of Investment		12000000
Pre. Acq Dividend Received		(1200000)
(10 x 20% x 600000 shares)		
	Adjusted Cost	10800000
Share in Net Assets (14800000 x 60%)		(8880000)
	Good will	1920000

* On DOA, the value of Net Assets can be considered value of Net worth in Subsidiary Co.

HW. Question 16, 35

Q-33 (Solution) (5 Marks) (Study Material)

W.N#1 Profit Analysis of Anushka Ltd. as at 31.3.x1

	Pre-acq Profits	Post-acq Profits
		GR
Profits after DOA :	NIL	100000
G Res		
	*NIL	100000
Virat Ltd (.8)	-	80000
MI (.2)	-	20000

* In the Given question, It is clearly specified that Virat has shares in its Subsidiary since its incorporation due to which all the Profits of Subsidiary have been considered as Post acq Profits.

W.N#2 Calculation of COC

Cost of Investments	320000
Share in Net worth :	
Capital (400000 x 80%)	(320000)
Pre-acq. Profits	-
GW/CR	NIL

W.N#3 Calculation of MI

Share in Capital (400000 x 20%)	80000
" " Pre-acq.	-
" " Post acq	20000
	100000

W.N#4 Calculation of Cons. R&S

G. Reserves in B/S of Virat Ltd.	100000
Share in Post Profits	80000
	180000

Notes to A/cs :

1. Long Term Borrowings	(200000 + 100000)	300000
2. Trade Payable	(100000 + 100000)	200000
3. PPE	(400000 + 300000)	700000
4. Stock	(160000 + 200000)	360000
5. Debtors	(80000 + 140000)	220000
6. Bank	(40000 + 60000)	100000

Cons. B/S

Shareholders Fund		
Share Capital	-	600000
Reserves	W.N#4	180000
Minority Int.	W.N#3	100000
Non Current Liabilities :		
Long Term Borrowings	Note 1	300000
Current Liabilities :		
Trade Payable	Note 2	200000
		1380000
Non Current Assets : PPE	Note 3	700000
Current Assets : Stock	Note 4	360000
Trade Receivable	Note 5	220000
Bank	Note 6	100000
		1380000

Q-37 (Solution) *VVI

(Add Point : Depreciation Adjustment on Revaluation)

W.N#1

Calculation of Closing Balance in P&L as at 31.12.x1 before Dividends

Closing Balance as per B/S of B Ltd.	82000
Add Back : Dividend Paid (2L x 10%) on 1.8.x1	20000
Closing Balance before Payment of Dividends	102000

Profit Analysis of B Ltd.

	Pre-acq Profits (1.7.x1)	Post-acq Profits (After 1.7.x1) GR	Post-acq Profits (After 1.7.x1) PL
Opening Balance in R&S :			
(1.1.x1) PL	30000	-	-
GR	100000	-	-
Profit during 20 x 1	36000	-	36000
(102000 - 30000) 6:6			
W.N#1			
Pre-acq. Dividend	(20000)	-	-
Revaluation Profit (W.N#3)	37500		
Dep. Adj on Rev. (W.N#4)	-	-	(1500)
	183500	-	34500
A Ltd (.8)	146800	-	27600
MI (.2)	36700	-	6900

W.N#3 **Calculation of Revaluation Profit / Loss on 1.7.x1**

Market value of PPE as at 1.7.x1		180000
Book value of PPE as at 1.7.x1 :		
BV (1.1.x1)	150000	
Dep @10% x 6/12	(7500)	(142500)
Revaluation Profit		37500

W.N#4 Calculation of Depreciation Adjustment due to Revaluation

Depreciation to be charged on PPE in CFS	
i) 1.1 - 30.6 (150000 x 10% x 6/12)	7500
ii) 1.7 - 31.12 (*180000 x 10% x 6/12)	9000
	16500
Depreciation already charged by subsidiary	(15000)
(150000 x 10% x 12/12)	
Dep Adj	1500

* In the Given question, value are changing in the middle of year due to which we have calculated Dep. Adjustment in the above statement.

W.N#5 COC

Cost of Investments	340000
Pre-acq Dividend (20000 x 80%)	(16000)
Adjusted Cost	324000
Capital (200000 x 80%)	(160000)
Pre - acq.	(146800)
Good will	17200

W.N#6 MI

Capital (200000 x 20%)	40000
Pre-acq	36700
Post acq	6900
	83600

W.N#7 Cons. R&S

	GR	PL	Total
Balance in A Ltd	240000	57200	297200
Share in Post	-	27600	27600
Rectification	-	(16000)	(16000)
	240000	68800	308800

Notes to A/cs :

Note 1: Trade Payable

A	47100
B	17400
	64500

Note 2: PPE

A	390000
B	315000
Revaluation	37500
Dep	(1500)
	741000

Note 3: Stock

A	120000
B	36400
	156400

Note 4: Debtors

A	59800
B	40000
	99800

Note 5: Bank

A	14500
B	8000
	22500

Cons. B/S		
Share Capital		500000
Reserves		308800
Minority Int.		83600
Current Liabilities :		
Trade Payable		64500
Short Term Borrowings		80000
		1036900
Non Current Assets : PPE		741000
Good will		17200
Current Assets : Stock		156400
Trade Receivable		99800
Bank		22500
		1036900

Part II

Q.41 Solution

W.N # 1 Profit Analysis of S Ltd.

as at 31.3.23

	Pre-acq Profits (1.7.2023)	Post-acq Profits (After 1.7.23) Res	Post-acq Profits (After 1.7.23) PL
Opening Balance in R&S of S Ltd at 1.4.22 :-			
CY GR	40000	-	-
(25000 – 20000) PL	5000	-	-
Profits during 22 – 23 [3:9] (Given :20000)	5000	-	15000
	50000	-	15000
H Ltd (60%)	30000	-	9000
MI (40%)	20000	-	6000

W.N # 2 Calculation Of COC

Cost of Investment	155000
Share in NW (1.7.23):	
Capital (250000 x 60%)	(150000)
Pre - acq Profits	(30000)
C. Res	25000

W.N #3 Calculation of MI

Share in Capital (250000 x 40%)	100000
Share in Capital Pre-acq Profits	20000
Share in Capital Post acq Profits	6000
	126000

W.N # 4 Calculations of Cons. R&S

	GR	PL	C. RES	Total
Balances as Per B/S of H Ltd	160000	80000	-	240000
Share in Post acq Profit	-	9000	-	9000
Cap Res. : COC	-	-	25000	25000
Cancellation of Profit in Downstream Transaction	-	(500)	-	(500)
[(10000 – 8000) x 25%] SP Cost Unsold				
Total	160000	88500	25000	273500

Notes to A/Cs :

1. Trade Payables :

(1) Creditors :	A Ltd	50000	
	B Ltd	30000	
	Contra	(4000)	76000
(2) B/P :	A Ltd	40000	
	B Ltd	20000	
	Contra	*(7000)	53000
			129000

*8000 out of 15000 have been Endorsed to 3rd party

2. PPE :

(1) Machine :	A Ltd	700000	
	B Ltd	150000	850000
(2) Furniture :	A Ltd	100000	
	B Ltd	70000	170000
			1020000

3. Stock :

A Ltd	100000
B Ltd	50000
Cancellation of Profits	(500)
	149500

4. Trade Receivables : (1) Debtors : A 60000

	B	35000	
	Contra	(4000)	91000
(2) B/R :	A	25000	
	B	25,000	
	Contra	(7000)	38000
			129000

5. Cash & CE : A Ltd. 90000

B Ltd. 40000 130000

Cons B/S

Shareholders Fund :		
SC	-	900000
Res.	W.N#4	273500
Minority Interest	W.N#3	126000
Current Liab :		
Trade Payables	Note 1	129000
		1428500
Non Current Assets :		
PPE	Note 2	1020000
Current Assets :		
Inventory	Note 3	149500
Receivables	Note 4	129000
Cash & C.E	Note 5	130000
		1428500

Q.38 Solution: *VVVI

W.N#1 Calculation of Bonus Capital

If original shares are held by Investor	= 5
then Bonus Shares will be Given	= 3
Total Shares after Bonus	8

i) Bonus Share $= \frac{₹4800}{8} \times 3 = 1800$

ii) Original Capital = ₹4800 − 1800 = ₹3000

% of Holding = $[\frac{₹3000}{10}$ = No. of Shares = 300] $\frac{180}{300} \times 100 = \underline{\underline{60\%}}$

W.N # 2 Calculation of Closing Balances in GR & PL before **Bonus Issue & Dividends**

	GR	PL
Closing Balances as per B/S of S Ltd.	1380	1620
Add back : i) Bonus Issue	1800	-
ii) Dividend Paid (3000 L x 20%)	-	600
Closing Balances before all Adjustments	3180	2220

W.N # 3 Profit Analysis Of S Ltd as at 31.3.x1

	Pre. acq Profits (31.3.x0)	Post acq Profits (After 31.3.x0) PL	Post acq Profits (After 31.3.x0) GR
Opening Balances :			
PL	1200	-	-
GR	3000	-	-

Profits During x0-x1 :-			
i) GR (3180 - 3000)	-	-	180
ii) PL (2220 - 1200)	-	1020	-
Bonus Shares	(1800)	-	-
Dividend Paid	(600)	-	-
Total	1800	1020	180
H Ltd (60%)	1080	612	108
MI (40%)	720	408	72

W.N#4 COC

Cost of Investments	3000
Pre-acq. Dividend (600 x 60%)	(360)
Adjusted Cost	2640
Share in Capital (4800 x 0.6)	(2880)
Share in Pre acq	(1080)
C. Res	1320

W.N#5 Calculation of MI

Share Capital (4800 x 0.4)	1920
Share in Pre-Acq	720
Share in Post-Acq (408+72)	480
	3120

W.N#6 Cons. R&S

	PL	GR	CR	Total
Balances in B/S of H Ltd.	2715	2784	-	5499
Share in Post	612	108	-	720
COC. C. Res	-	-	1320	1320
Rectification of Dividend (600x60%)	(360)	-	-	(360)
Cancellation of Profit (100 x 25/125)	(20)	-	-	(20)
	2947	2892	1320	7159

Notes to A/Cs

1. Trade Payable :	H	1833	
	S	1014	2847
Contra: Cancellation of B/P			(45)
			2802

2. Short Term Prov: (Tax)

H		855
S		394
		1249

3. PPE :

H	9468
S	5486
	14954

4. Stock :

H	3949
S	1956
Cancellation of Profit	(20)
	5885

5. T. Receivable :

H	2960
S	1562
Contra	(45)
	4477

6. Cash (1490 + 204) 1694

Cons. B/S

Shareholders Fund :		
Share Capital	-	1200
Reserves	W.N#6	7159
Minority Int.	W.N#5	3120
Current Liab:		
Trade Payable	Note 1	2802
Short Term Prov.	Note 2	1249
OCL (Dividend)	-	1200
		27530
Non Current Assets		
1) PPE	Note 3	14954

C. Assets		
1) Stock	Note 4	5885
2) TR	Note 5	4477
3) C & CE	Note 6	1694
4) Advances	-	520
		27530

*Simple Concept

Adjustment 7 : Negative Minority Interest

As per the Provisions of AS-21, Minority Interest cannot be shown at Negative Amount. If share in Post acquisition Losses provides Negative Results then we will report the Minority Interest at "NIL" value. The Amount of Negative Minority will be adjusted against P&L of Holding Company as a Loss for Holding Company. We can not disclose the Minority Interest at Negative Amount because Shareholders have Limited Liability in Companies to the Extent of Face Value of Shares.

In Case Subsidiary records Profits in Later Period then Holding Company will recover its Losses First which were adjusted by it in its P&L on behalf of Minority Interest and the remaining Profits shall be Given to MI after such adjustments.

Adjustment 8 : Same Accounting Policies

As per the Provisions of AS-21, Accounting Policies should be Same in CFS of Holding Company & its Subsidiary. If Accounting Policies of Both Companies are different then it will be the responsibility of Subsidiary to adjust its Financial Statements as per the requirements of Holding Co.

Note: If Subsidiary Company is not able to adjust its statements as per the requirements of Holding then reasons should be disclosed.

Part 12

Q.18 Solution (Concept of Negative Minority) *Simple

I. Calculation of COC (1.1.93)

Cost of Investments		1000000
Share in Net Worth of B Ltd. (1.1.93) :-		
Capital (1000000 x 70%)	700000	
Reserves (80000 x 70%)	56000	(756000)
	GW	244000

Note: The Amount of GW will remain same at the end of Each year because Post acquisition Profits or Losses do not have any impact on COC.

II Calculation of Minority Interest

Share in Capital (1000000 x 30%)	300000
Share in Pre-acq Profits (80000 x 30%)	24000
M. Interest as at 1.1.93	324000
Share in Losses incurred during 1993 [(250000) x 30%]	(75000)
M. Interest as at 31.12.93	249000
Share in Losses incurred during 1994 [(400000) x 30%]	(120000)
M. Interest as at 31.12.94	129000
Share in Losses incurred during 1995 [(500000) x 30%]	(150000)
M. Interest as at 31.12.95	NIL*

[*21000 on behalf of Minority will be adjusted against P&L of A Ltd.]

Share in Losses incurred during 1996 [(120000) x 30%]	(36000)
M. Interest as at 31.12.96	NIL*

[*36000 on behalf of Minority will be adjusted against P&L of A Ltd.]

Share in Profits incurred during 1997 [50000 x30%]	15000
M. Interest as at 31.12.97	NIL*
[*A Ltd. will recover its Losses of ₹ 57000	
(21000 + 36000) before Giving any share	
in Profit to Minority]	
(57000 – 15000 = 42000)	
Share in Profits during 98 [100000 x30%]	30000
M. Interest as at 31.12.98	NIL*
[*42000 - 30000 = 12000] [A Ltd. will recover it]	
Share in Profits during 99 [150000 x30%]	45000
Minority as at 31.12.99	*33000
(A Ltd. will recover its 12000 before Giving	
any Share in Profit to minority)	

Q.23 Solution (Study Material)

Statement Showing Changes in Balances due to Uniform Policies

	Rev. Res.	Debtors	Stock	Prepaid Exp.
Balances as per B/S of Subsidiary (MNT) as at 31.3.19	50500	343000	690000	65000
Adjustments :-				
i) Prov. For Debtors (Reversal)	7000	7000 $\left(\frac{343000}{98} \times 2\right)$	-	-
ii) Closing Stocks :				
2017-18	(5000)	-	(5000)	-
2018-19	12000	-	12000	-
iii) Opening Stocks : 18-19	5000	-	5000	-

iv) Prepaid Exp to be Written off	(12500)	-	-	(12500)
Revised Balances	511500	350000	702000	52500

Revised B/s of B Ltd.
as at 31.3.2019

Equity & Liab.	Notes	₹
Shareholders Funds :-		
Share Capital	-	750000
Reserves	Note 1	718500
Current Liab.		
i) Short Term Borrowing (B.OD)	-	170000
ii) Trade Payables	-	246000
iii) Short Term Prov. (Tax)	-	430000
	Total	2314500
Non Current Assets :		
i) PPE	-	637500
ii) N.C. Investments	-	530000
Current Assets :		
1) Inventory (Revised)	-	702000
2) T. Receivable (Revised)	-	350000
3) C & CE	-	42500
4) Short Term Advances (Revised)	-	52500
	Total	2314500

Note : Reserves

Rev. Reserve (Revised)	511500
Sec. Premium	207000
	718500

Q.34 Solution (SM)

(i) The Given Transaction is a Downstream Transaction because Holding Co. (A Ltd) has sold its Goods to B Ltd. So, Profits of ₹ 20 (200-180) shall be Eliminated from P&L of A Ltd.

(ii) The Given Transaction is an Upstream Transaction because B Ltd. (subsidiary) has sold its Goods to A Ltd. So, Profits Earned by B Ltd. shall be Eliminated as Follows :-

a) Profit = 200L - 150L = 50L

b) A' PL = 50 x 75% = 37.5

c) MI = 50 x 25% = 12.5

Part 13

Q.30 Solution *Imp (Exceptional Case on Bonus Issue) (Study Material)

Case I : Calculations Before Bonus Issue

i) Profit Analysis of Q Ltd.

as at 31.3.x3

	Pre-acq Profits (31.3.x1)	Post-acq Profits (After 31.3.x1) P&L	Post-acq Profits (After 31.3.x1) GR
Opening Balances :			
(DOA) Pre - Inc. Profits	30000	-	-
P &L	60000	-	-
Profits during Post acq Period			
P&L (420000 - 60000)	-	360000	-
GR (1905000 - NIL)	-	-	1905000
	90000	360000	1905000
P Ltd. (.7)	63000	252000	1333500
MI (.3)	27000	108000	571500

ii) Cost of Control

Cost of Investment	1200000
Share in Capital (15L x .7)	(1050000)
Share in Pre - acq Profits	(63000)
GW	87000

(iii) Minority Interest

Capital (15L x .3)	450000
Pre-acq Profits	27000
Post-acq Profits	679500
(108000 + 571500)	1156500

iv) Cons R&S

	SP	GR	PL	Total
Balance in P Ltd.	900000	6000000	1575000	8475000
Share in Post	-	1333500	252000	1585500
Total	900000	7333500	1827000	10060500

Case II : Calculation after Bonus Issue

(i) Profit Analysis of Q Ltd.
As at 31.3.x3

	Pre-acq Profits (31.3.x1)	Post-acq Profits (After 31.3.x1) GR	PL
Opening Balances :-			
(DOA) Pre - Inc. Profit	30000	-	-
P&L	60000	-	-
Profits during Post acq Period:-			
PL (420000 - 60000)	-	-	360000
GR (1905000 – NIL)	-	1905000	-
Bonus Issue (15L x ½)	-	(750000)	-
	90000	1155000	360000
P Ltd.(70%)	63000	808500	252000
MI (30%)	27000	346500	108000

(ii)	COC	(iii)	MI
Cost of Investments	1200000	Capital (22.5 L x 30%)	675000
Capital (22.5L x 70%)	(1575000) → After Bonus	Pre-acq	27000
		Post acq	
Pre-acq Profits	(63000)	(346500 + 108000)	454500
C. Res	438000		1156500

iv) Cons. R&s

	SP	GR	PL	Total
Balance in P Ltd.	900000	6000000	1575000	8475000
Share in Post	-	808500	252000	1060500
Total	900000	6808500	1827000	9535500

Q.27 Solution *VVI (SM)

I Calculation of Cost of Investments for 46% shares

Total shares in VR Ltd.	200000
No. of Shares held by Variety Ltd. @ 46%	92000
Cost of Investments @ 17 Per Share =	1564000

II Calculation of Cost of Investments for 54% Shares

a) Value of VR Ltd. $= \dfrac{\left(\dfrac{30L + 40L + 65L}{3}\right) \times 40\%}{15\%} = 12000000$

b) Value Per Share $= \dfrac{₹\,12000000}{200000 \text{ Shares}} = 60/-$

c) Value of Shares held by Foreign Company = 200000 Shares x 54% x 60 = 6480000

d) Tax Payable on Profits = (6480000 - 540000) x 30% = 1782000

Journal Entries

i) Investment in VR Ltd.	DR	6480000	
To TDS Payable			1782000
To Bank (50%)			2349000
To Loan (50%)			2349000
(Being Investments acquired)			
ii) TDS Payable a/c	DR	1782000	
To Bank			1782000
(Being TDS Paid)			

III Calculation of Net Assets on DOA

PPE (10000000 - 175000)		9825000
Current Liab.		(2000000)
	N Assets =NW	7825000

IV Calculation of GW/CR

Cost of Investment (15.64L + 64.80L) (46%, 54%)	8044000
Share in Capital & Res (7825000 x 100%)	(7825000)
GW	219000

Note: In the Given question, Position of Reserves on DOA is not mentioned due to which we have considered Net Assets on DOA for computing GW/CR.

Imp*

Adjustment 9 : Treatment of P.S Capital held by Subsidiary Co.

If Subsidiary Company has Pref. Share Capital in its B/S then i

It will be treated as follows :-

Cases

I	II
If Holding Company has not invested in PSC of Subsidiary	If Holding Company has invested in PSC of Subsidiary

Case I

Take the whole PSC of Subsidiary to "Minority Interest" because Pref. Sh.holders are always treated as "Outsiders"

Case II

i) Take the PSC to Minority interest to the Extent which is not held by holding

ii) Share in PSC of Holding will be Cancelled in "COC"

{Cost of Invest In PSC − Share in PSC = GW/CR}

COC : Full Format

Cost of Investments : In Equity Shares		xxxx
In Pref. Shares		xxxx
		xxxx
Share in Capital : ESC x %		(xxxx)
PSC x %		(xxxx)
Share in Pre – acq Profits		(xxxx)
		GW/CR

Special Note on Pref. Dividend

Before making any distribution of Post acquisition Profits, we will provide for Pref. Dividend because Pref. Sh. Holders have first right on Profits. After providing for Pref. Dividend, It will be reported as a Separate item under other Current Liabilities as Dividend payable.

Q.29 Solution (Pref. Share Capital)

W.N#1 Calculation of Closing Balance in P&L before Dividends

Closing Balance in P&L (Given)	1790000
Add Back : Dividends Declared for P.Y & C.Y (5000 x 10% x 2y)	1000000
P&L before Dividends	2790000

W.N#2 Profit Analysis of B Ltd

		Pre-acq profits	Post-acq profits PL	Post-acq profits GR
Opening Balances : (DOA)	PL	1000000	-	-
	GR	800000	-	-
Profits in Post Period (2790000 - 1000000)		-	1790000	-
Dividends Declared		(500000)	(500000)	-
Pref. Dividend (10L x 6%)		-	(60000)	-
[To be Provided]		1300000	1230000	-
A Ltd. (3/4)		975000	922500	-
MI (1/4)		325000	307500	-

W.N#3 Minority Int.

Share in Capital : ESC (5000000 x ¼)	1250000
PSC (1000000 x 100%)	1000000
Share in Pre Profits	325000
Share in Post Profits	307500
	2882500

W.N#4 **Cost of Control**

Cost of Investments		4687500
[(50L x 3/4th) + 25%]		
Pre-acq Dividend (500000 x 75%)		(375000)
	Adjusted Cost	4312500
	Share in Net Worth : Cap	(3750000)
	Pre Res	(975000)
	C. Res.	412500

Dividend Payable on ESC } Other
Dividend Payable on PSC } Current Liability

Part 14

Adjustment 10 : Treatment of Interim Dividend Paid by Subsidiary Co.

If any Dividend is Paid by Subsidiary for Current Year in Current then it will be recognised as an Interim Dividend. If it is Paid for the Period before the DOA then it will be deducted from Pre-acq Profits. In Case it is Paid for the Period after the Date of Acquisition then it will be deducted from Post acq. Profits.

Q.17 Solution (Concept of Interim Dividend) *Imp

W.N#1 **Profit Analysis of B Ltd. as at 31.3.81**

	Pre-acq Profit (1.4.80)	Post-acq Profits (After 1.4.80) P&L	Post-acq Profits (After 1.4.80) GR
Opening Balances :			
GR	20000	-	-
PL	22000	-	-
Profits during 80-81	-	12000	-
Dividends Paid :			
i) Previous year	(9000)	-	-
ii) Interim	-	(4500)	-
	33000	7500	-

A Ltd (90%)	29700	6750	-
MI (10%)	3300	750	-

W.N#2 Calculation of Other Investments

Total Investments held by A Ltd.	156000
*Investment in B Ltd. (Correctly Recorded)	(101900)
[110000 - 8100] Other Investments	54100

8100 = 9000 x 90%

* Holding Company has recorded all Dividends Correctly. So we have considered investments in B at reduced cost directly. No Correction of Dividend is required.

W.N#3 COC

Cost of Investments	101900
Share in Capital (60000 x .9)	(54000)
Pre-acq Profits	(29700)
GW	18200

W.N#4 MI

Capital (60000 x 10%)	6000
Pre-acq	3300
Post-acq	750
	10050

W.N#5 Cons. P&L

Balance of A in B/S	36000
Share in Post	6750
Cancellation of Profit $(6000 \times \frac{50}{150})$	(2000)
	40750

W.N#6 Cons Reserves & Surp

Cons. PL (W.N#5)	40750
GR	45000
	85750

Notes to A/Cs:

1. PPE :	A Ltd.	94000
	B Ltd.	96000
		190000
2. IA : GW:	A Ltd.	20000
	B Ltd	6000
	COC	18200
		44200

3. Investments : A Ltd. (W.N#2)	54100
B Ltd	-
Contra : Invest in Deb	(10000)
	44100

4. Currents Assets : A Ltd	30000
B Ltd	18000
Unrealised Profit	(2000)
	46000

5. Current Liab. (39000 + 9500) 48500

Consolidated B/s

Shareholder Fund :		
SC	-	180000
Res	W.N#6	85750
Minority Int	W.N#4	10050
C.Liab	Note 5	48500
		324300
NCA : PPE	Note 1	190000
IA: GW	Note 2	44200
Investments	Note 3	44100
CA	Note 4	46000
		324300

Adjustment 11 : Different Reporting Periods

As per the Provisions of AS-21, Reporting Periods should be same of Holding Company & Subsidiary Company. If Reporting Periods are different then it will be the responsibility of Subsidiary to Provide the Statements as per reporting Period of Holding. If it is not possible then Reasons should be disclosed. The Difference between Holding & Subsidiary can not be more than 6 months.

Adjustment 12 : Exceptional Questions in Study Materials on Dividends

[Do not fight, but you have right]

Q.7 Solution (Exceptional Question on Dividend)

Note : In the Given question, it is mentioned that Company has declared dividend " at the end of year" due to which it has been Assumed that Company has Paid Dividend for current year in Current year.

[अगर ये previous year का होता तो during the year pay होता]

Profit Analysis

	Pre-acq	Post-acq
Opening Bal.	125000	-
Current year	175000	125000
(300000 ⟶ 7:5)		
Dividends [7:5]	(116667)	(83333)
(500000 x 40%)		
	183333	41667

Accounting for Dividends in the Books of Holding (Received From Subsidiary)

(5L x 40%)

i) Bank a/c Dr. 120000 [200000 x 60%]

To Dividend Income 120000

(Being Dividend received from subsidiary)

ii) Dividend Income a/c Dr. 120000

To Investments [116667 x 60%] 70000

To P&L [83333 x 60%] 50000

(Being Pre-acq dividend adjusted against cost and post acq to P&L)

Q.6 Solution

Profit Analysis

	Pre-acq	Post-acq
OB	60000	-
Cy	-	20000
* Dividend Paid	(10000)	(20000)
	50000	NIL
XYZ (.8)	40000	-
MI (.2)	10000	-

Calculation of MI

Share in Capital (100000 x .2)	20000
Share in Pre-acq	10000
MI as on 1.1.99	30000
Add: Post acq profits	- ...
MI as on 31.12.99	30000

Journal Entry

1. Bank a/c Dr. 24000 (30000 x 80%)
   To Dividend Income 24000
   (Being Dividend Received)

2. Dividend Income Dr 24000
   To Invest 8000 (10000 x 80%)
   To P&L 16000 (20000 x 80%)
   (Being Pre. Dividend adjusted against cost and Post in PL)

*Note : The Company has Paid Dividend at the end of year due to which it has been assumed that Dividend for Current Year has been Paid in Current year. In Current year, company has 20000 in P&L but Dividend is 30000 due to which 10000 has been taken from Pre.acq Profits.

Q. 39 (Discussed in Class)

Part 15

Imp* Unit II : Consolidated P&L (V.V.Simple)

As per the Provisions of AS-21, Consolidated Financial Statements shall also include " Consolidated P&L statement". While Preparing Cons. P&L, we will Aggregate all the Revenues and Expenses of Holding Co. & Subsidiary Co. on Line by Line and Item by Item basis. The Following Points shall be Considered while Preparing Cons. P&L :-

I The Presentation of Cons. P&L shall be made as per Prescribed Format in Schedule III Division I.

II While Preparing Cons. P&L, we will eliminate all the Inter Company Transactions such as Sales/Purchases, Service Rendered, Interest Income/Int. Exp., Dividends Paid Or Dividend Received etc.

III If Stock remains Unsold out of Inter Company Transaction then we will calculate Unrealised Profit on such Unsold Portion and we will Eliminate it from "Changes in Stocks". It means that Stocks shall be disclosed at Cost only.

Q.42 Solution

Consolidated Statement of Profit & Loss

Name of Company : H Ltd. with its Subsidiary S Ltd.

SoPL for the year Ending 2014-15

(In Lacs)

Particulars	Notes	₹
Revenues :		
A. Revenues from Operation & other Income	1	5865
	Total	5865

Particulars	Notes	₹
Expenses:		
B. Cost of Production	2	1180
C. Changes in Stock (Increase)	3	(1196)
D. Employees Cost	4	950
E. Finance Cost	5	150
F. Depreciation & Amortisation	6	150
G. Other Expenses	7	535
	Total (B)	1769
H. Profit before Tax (A-B)		4096
I. Tax Expenses	8	(1400)
J. Net Profit After Tax		2696

Notes to A/Cs:

1. Sales & other Income

H Ltd.	5000	
S Ltd.	1000	
	6000	
Cancellations as per Contra :		
a) Inter Company Sales		(120)
b) Consultancy Service		(5)
c) Commission		(10)
Net Income		5865

2. Cost of Production of Goods :-

Raw materials Consumed	: H Ltd	800
	S Ltd	200
		1000
Production Expenses	: H Ltd	200
	S Ltd	100
		1300
Cancellations as per Contra : Inter Company Purchases		(120)
		1180

3. Changes in Stocks: (OS - CS)

Increase in Stocks :	H Ltd.	1000
	S Ltd.	200
		1200
Unrealised Profit on Unsold Stock		(4)
(24L x 20/120)		1196

4. Employees Cost: H Ltd. 800

Employees Cost:	H Ltd.	800
	S Ltd.	150
		950

5. Finance Cost:

Finance Cost:	H. Ltd.	100
	S. Ltd.	50
		150

6. Depreciation & Amortisation :

Depreciation & Amortisation :	H Ltd.	100
	S Ltd.	50
		150

7. Other Expenses :-

A. Adm. OH :	H	200
	S	100
	Contra: Consult.	(5)
		295
B. Selling OH :	H	200
	S	50
	Contra : Comm.	(10)
		240
	(A+B) Total	535

8. Tax Expenses :

8. Tax Expenses :	H Ltd.	1200
	S Ltd.	200
		1400

H.W Q.43

Q.44 Solution

Consolidated SoPL

Particulars	Notes	₹
Revenues :		
A. Sales of Goods	1	3580
B. Other Income	2	NIL
	Total (A)	3580
Expenses :		
C. Purchases	3	2074
D. Employees Cost	4	500
E. Finance cost	5	48
F. Depreciation	6	457
G. Other Expenses	7	280
	Total B	3359
PBT (A-B)		221
Tax Exp.		-
PAT		221

Notes to A/Cs :

1. Sales : X Ltd.	1800	
Y Ltd.	1900	
Inter company Sales	(120)	
	3580	

2. Other Incomes :

Dividend Received from Y Ltd	7
Cancellation as per Contra	(7)
	NIL

*Dividend Paid can not be disclosed in P&L because its an Item of Appropriation, but Dividend Received is considered as an Invest Income in P&L. So, we have Eliminated the amount of Dividend Income.

3. Purchases* :	X Ltd.	1000
	Y Ltd.	1200
	Inter Company Purchases	(120)
		2080
	*Unrealised Profits on Unsold Stock	(6)
	(120 x ¼ = 30 x 25/125)	2074

*In the Given question, Closing Stock is Given in Trail Balance which indicates that Purchases in Given Questions are adjusted Purchases (OS + P - CS). So, Unrealised Profit has been cancelled in above heading.

4. Employees Cost :	X	200
	Y	300
		500
5. Finance Cost :	X	24
	Y	24
		48
6. Depreciation :	X (2200 x 10%)	220
	Y (1580 x 15%)	237
		457
7. Other Exp. : G. Exp :	X	160
	Y	120
		280

*Note on Pref. Dividend: The Company has Paid its Pref. Dividend till 30.9. It means that Company will have to provide 6 months Pref. Dividend before Distribution of Profit between Holding & MI. This Point will be Considered while preparing Cons. B/S.

H.W Q.45

Unit III : Consolidated Cash Flow Statement

Refer Last Page of CFS Topic in Class Book

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter 10

Part 1

Accounting Standard : 23 (1.4.2002 onwards)

Accounting for Associates in Consolidated Financial Statements

Concept 1 : Objective of AS-23

Objective : We will learn the Procedure to Consolidate an Associate in Financial Statements of an Investor

Concept 2 : Important Definitions

A. Meaning of Associate : If an Investor has "Significant Influence" in a Company then Such Company will be considered as an "Associate" of such an Investor.

B. Meaning of Significant Influence : As per the Provisions, Significant Influence means "Power to Participate" in operating and financial decisions of company. The Power to Participate in decision making process can be exercised in various ways as follows :-

(i) Interchange of Technical Information

(ii) Interchange of Managerial Personnel

(iii) Representation on BOD

(iv) Voting Power by members

Explanation by ICAI on Significant Influence

As per the Provisions, Application of AS-23 for the Purpose of Consolidation of an Associate can be made "only if" an Investor has 20% or more but upto 50% in Voting Power (Equity shares) of a Company whether directly or indirectly through its Subsidiaries.

e.g. X Ltd.
↓ 28%
Z Ltd.

Solution Z Ltd is an Associate of X Ltd.

e.g.
X Ltd
↓ 60%
Indirect Y Ltd Direct
↓ 28%
Z Ltd.

Solution Z Ltd. is a direct Associate of Y, But an indirect Associate of X

Concept 3 : Accounting for Associates in "Financial Statements of Investor"

Accounting for Investments in Associates

In Separate Financial Statements of Investor	In Consolidated Financial Statements of Investor
Apply AS-13	Apply AS-23 "Equity method"

Concept 4: "Explanation on Equity" method

Step I : Initial Recognition (DOA)

"Initial Recognition will be made at cost"

Identifying Goodwill / Cap. Reserve

e.g. i) Investment in Y Ltd. By X Ltd = 28%

ii) Date of Investment : 1.1.x1

iii) Cost of Investment : ₹ 1000000

iv) Position of Net worth of Y Ltd on 1.1.x1 : DOA

Share Capital : ₹ 2000000

R&S (GR, PL) : ₹ 1000000

Show Initial Recognition in CFS of X Ltd for Invest. In Y Ltd.

Solution

Consolidated B/S

Non Current Assets :-		
Non Current Investments :		
Investment in Y Ltd (Associate):		
Share in Net worth	840000	Cost
Goodwill	160000	1000000

W. N #

Calculation of Good Will / Capital Reserve on DOA

Cost of Investments		1000000
Share in Capital (20L x 28%)	560000	
Share in Pre-acq Profits (10L x 28%)	280000	(840000)
	Goodwill	160000

e.g. With the help of Given information as in Earlier Example, show Initial Recognition if Cost of Investment is ₹ 700000 instead of ₹ 1000000.

Solution

Consolidated B/S

Non Current Investments :-		
Investment in Y Ltd		
Share in Net worth	840000	"atcost"
Cap. Reserve	(140000)	700000

W.N#

Calculation of Good Will / Capital Reserve on DOA

Cost of Investments		₹700000
Share in Capital (20L x 28%)	560000	
Share in Pre-acq Profits (10L x 28%)	280000	(₹840000)
	Cap. Reserve	₹140000

Step II : "Increase the Value of Investments" by "Post acquisition Profits" earned by Associate in Post Acquisition Period

Journal : Investment in Associate a/c Dr xxxx
To Cons. P&L xxxx
(Being share in Post acq Profit of Associate Co. Recognised)

e.g. With the help of Given information in "e.g.1 & e.g.2" show the Value of Investment in Associate at the year End Assuming Associate Company has Earned ₹ 200000 in current year.

Solution

e.g.1

Consolidated B/S

Investment in Y Ltd. :		
Share in Net worth	840000	
Goodwill (W.N#)	160000	
Share in Post acq Profits (2L x 28%)	*56000	1056000

* It will also be credited in Consolidated P&L of X Ltd.

e.g.2

Consolidated B/S

Investment in Y Ltd. :		
Share in Net worth	₹840000	
Capital Reserve	(₹140000)	
Share in Post acq Profits (2L x 28%)	*56000	756000

* It will also be credited in Consolidated P&L of X Ltd.

Step III : Reduce the Value of Investment in Associates by the Amount of "Dividend *Paid" by the Associate

* Paid means Paid [Note : If any Dividend is Proposed or Declared by Associate then we will not consider such dividend]

e.g. With the help of Given information in Example 3&4, show investment in y in CFS of X assuming Y Ltd. has Paid dividend of ₹ 50000 during the year.

Solution

Consolidated B/S

Investment in Y Ltd. :		
Share in Net worth	₹ 840000	
Goodwill	₹ 160000	
Post acq Profits (2L x 28%)	₹ 56000	
Dividend Paid (50000x28%)	(₹ 14000)	₹ 1042000

Consolidated B/S

Investment in Y Ltd. :		
Share in Net worth	₹ 840000	
Capital Reserve	(₹ 140000)	
Post acq Profits (2L x 28%)	₹ 56000	
Dividend Paid (50000x28%)	(₹ 14000)	₹ 742000

Concept 5 : Additional Points to be Considered

Adjustment 1 : Losses Incurred by Associates (Post acquisition Period)

As per the Provisions, It may be Possible that an Associate incurs Losses in Post acquisition Period. The Investor will compute its share in Losses of Associates as well and the investor will reduce its Investor by Share in Losses of Associate.

Note : The share of Investor in Losses of Associate can not Exceed Actual Cost of Investments. If share in Loss become more than Cost of Investments then Investment will be reported at "NIL" value in consolidated B/S.

"we can not show Negative Investment in case of High Losses"

Adjustment 2 : Elimination of Unrealised Profits on Inter Company Transactions

There is no Concept of Downstream or Upstream Transaction in AS-23 because we are not doing full consolidation in this statement. The Investor will Eliminate its own share only while Preparing Cons. B/S from value of Investments as follows :

Consolidated B/S

Investment in Associate :		
Share in Net worth	xxxx	
Goodwill / C. Reserve	+- xxxx	
Share in Post acq Profits/Losses	+- xxxx	
Dividend Paid	- xxxx	
Elimination of Stock Res on C. Stock	- xxxx	xxxx

To the Extent of Investor share

Adjustment 3 : Out of Scope

As per the Provisions, the Application of Equity method cannot be made in following 2 situations :-

AS-13 will work in CFS as well

i) If investment in Associate is acquired with the intention of sale in *Near future

(* Near future means within 12 months)

Note : It means that AS-23 can be applied on Long Term Investments only.

ii) If Associate is under Govt. restrictions on Transfer of its Resources

Part 2

*Imp Adjustment 4 : If shares are acquired on Different Dates

If Investments in Associates are Purchased on different dates (Multiple Acquisitions) then calculation of GW / CR will be made separately for each Investment. The following Example may be relevant :-

e.g. i) A Ltd. made following Investments in B Ltd. on different dates :-

1.4.2022	12%	₹ 180000
1.4.2024	18%	₹ 325000
Total	30%	₹ 505000 - 268000 = 237000

ii) Position of B Ltd. on different Dates :

Share Capital	₹ 500000
R&S : 1.4.22	₹ 200000
1.4.24	₹ 350000

Calculation GW / CR for different dates and show Investments in Consolidates B/S on 1.4.24.

Solution

Calculation of GW/C Res

DOA : 1.4.2022			DOA : 1.4.2024		
Cost of Investments	180000		Cost of Investments	325000	
Share in Net worth :			Share in Net worth :		
Capital (500000x12%)	(60000)	84000	Capital (500000x18%)	(90000)	153000
Profits (200000x12%)	(24000)		Profits (350000x18%)	(63000)	
GW	96000		GW	172000	

Total GW = 96000+172000 = 268000

Share in NW = 84000+153000 = 237000

Cons. B/S

Investment in B Ltd. :		
Share in NW	237000	
Goodwill	268000	505000

Adjustment 5 : Potential Equity Shares

(i.e., Convertible Debentures, Convertible Pref. shares, ESOP' etc.)

As per the Provisions of AS-23, Potential Equity shares shall not be considered while computing (20%-50%) Significant Influence until these are converted into Equity Shares. It means that Potential Equity shares are to be ignored while checking Power of Participation.

Q-2 (Solution)

Consolidated B/S of Rainy day Ltd. as on 31.3.2002

Non Current Investments :		
Investment in SimPaul Ltd.		
Shares in Net worth (W.N#)	180000	
Capital Reserve (W.N#)	(40000)	
Share in current year' Profits (50000x40%)	20000	
Share in Dividend Paid (20000x40%)	(8000)	152000

W.N# Calculation of GW / C Res

Cost of Investments		₹ 140000
Share in Net worth		(₹ 180000)
(450000x40%)	Cap Res	40000

Q-3 (Solution)

Consolidated B/S of Ram Ltd. as on 31.3.2002

Non Current Investments :		
Investment in Sham Limited.		
Shares in Net worth (W.N#)	390000	
Capital Reserve (W.N#)	110000	
Share in Losses (2000-01) (10Lx30%)	(300000)	
Share in Losses (2001-02) (15Lx30%)	(450000)	*NIL

*Investment in Associate can not be shown at Negative value because share in Loss can not Exceed Actual Cost of Investment

W.N# Calculation of GW / C

Cost of Investments		₹ 500000
Share in Net worth (13Lx30%)		(₹ 390000)
	Goodwill	₹ 110000

Q-4 (Solution)

In the Given question, we have observed the following Points :-

a) We can not calculate GW / Cres on date of Acquisition of shares in B Ltd because we don't have Position of New worth in B Ltd on respective date.

b) We can not calculate share in Profits & Paid dividends in Post acquisition Period because the information regarding A Ltd. is Given, but required information for B is not Given.

c) Disclosure of Investments in SFS of A Ltd. :

A Ltd. should disclose investments in its own B/S at cost of ₹ 200000 because Investments in Associates are considered Long Term and Accounting for Long Term Investments is always made at cost only.

d) Disclosure of CFS of A Ltd. :

In CFS, Initial Recognition is always made at cost due to which A Ltd will show investment in Associate at ₹ 200000 only. We can not identify GW/CR on respective date because required information is not available.

Q-6 (Solution)

Consolidated B/S of A Ltd. as on 1.4.x1 (DOA)

Non Current Investments :		
Investment in Associate (B Ltd)		
Shares in Net worth (W.N#)	480000	
Goodwill (W.N#)	520000	1000000

W.N# Calculation of GW / C Res

Cost of Investments		₹ 1000000
Share in Net worth		
Capital (1000000x40%)	400000	
Profits (200000x40%)	80000	(₹ 480000)
GW		₹ 520000

Consolidated B/S of A Ltd. as at 31.3.x2

Non Current Investments :		
Investment in Associates:		
Shares in Net worth	480000	
GW	520000	
Shares in Losses during x1-x2	(400000)	₹ 600000
[(1000000) x 40%]		

Consolidated B/S of A Ltd. as at 31.3.x3

Non Current Investments :		
Investment in B Ltd:		
Carrying Amt as on 1.4.x2	₹ 600000	
Share in Losses during x2-x3	(₹ 500000)	₹ 100000
(1250000x40%)		

Consolidated B/S of A Ltd. as at 31.3.x4

Non Current Investments :		
Carrying Amt as on 1.4.x3	₹ 100000	
Share in Losses (500000)x40%	(₹ 200000)	*NIL

* We can not show Negative Investments because share in Loss can not Exceed Actual Cost of Investments.

Q-7 (Solution) *VVI

A. Calculation of Carrying Amt of Investments in SFS of Investor (AS-13)

In the Given question, Investor has Purchased Investments in current year in 12.6.x1, but It has received a dividend of ₹ 15000 (50000x30%) from its Associate on 12.8.x1 which should be considered as Pre-acquisition Dividend because current year' dividend can not be Paid in current year. As per AS-13 Pre-acq. Dividend should be considered as recovery of cost and It will be adjusted against Cost of Investments.

Carrying Amt of Investments = 200000 − 15000 = 185000
as at 31.3.x2

200000	15000	185000
Cost	Pre-acq Dividend	Revised cost

B. Consolidated B/S as at 31.3.x2 (AS-23)

<u>Non Current Investments</u> :

<u>Investment in East India Ltd</u>

Initial Cost	*200000	
Pre-acq Dividend	(15000)	
Share in Post acq Profits	75000	260000
$\left(\frac{300000 \times 10 \times 30\%}{12}\right)$		

* GW or C Res can not be computed in the absence of information

C. Consolidated B/S as at 30.6.x2

<u>Investments in East India</u> :

Carrying Amt as on 1.4.x2	260000	
Dividends on 12.6.x2 (60000x30%)	(18000)	242000
(Assumed as Paid)		

<u>Note</u> : We can ignored Profit of ₹ 80000 become it is for Previous year which is completely irrelevant. <u>We have considered Profit for 10 months in current year because DOA is 1.6.x1.</u>

Q-8 (Solution) *<u>Imp</u>

<u>Calculation of GW / CR</u>

Cost of Investments	₹ 300000
Pre-acq Dividend (500000x40%x25%)	(₹ 50000)
Revised cost of Investment	₹ 250000

<u>Share in Net worth :</u>

Capital (500000 x 25%)	(₹ 125000)
Profits (500000 x 25%)	(₹ 125000)
GW / CR	NIL

II. Consolidated B/S as at 31.3.x2

Non Current Investments :		
Share in NW	250000	
GW / CR	-	
Post acq. Profit (700000x25%)	175000	425000

* We have ignored declared dividend @ 50% because It has been declared after B/S date.

III Dividend Received by A Ltd

We have considered ₹ 50000 as Pre-acq Dividend because current year' dividend is never received in current year. So, Investor has reduced its Cost of Investment.

Q-1 (Solution)

In this Given question, C Ltd can be considered as an Associate of A Ltd because A Ltd has 10% shares of C by direct Investment and 10% shares by indirect Investment through in subsidiary.

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter 11

Accounting Standard : 27 *Imp

Accounting for Joint ventures

Part 1

Concept 1 : Objective

Objective : To set Accounting Rules for Accounting in the books of "ventures" [Separate as well as CFS] in relation to Investment in Joint ventures

Note : It means that AS-13 is not Applicable on separate Books for Investment in Joint ventures

Concept 2 : Important Definitions

(a) Meaning of Joint venture : As per AS-27, A Joint venture is a "Contractual Arrangement" where by Two or more Parties undertake an Economic Activity subject to Joint control.

* Non Existence of Contractual Arrangement will not be Accepted for Application of AS-27 [Note : For Definition of a contract, Refer foundation classes]

(b) Meaning of Joint control : As per the Provision of AS-27, Joint control is an agreed % of share in control of each Venturer over Joint venture.

* If Any Party has invested in J.V., but does not have any share in Joint control then such Party can not be considered as a Venturer. Such Party will be considered as an Investor or financer only.

(c) Meaning of Venturer : As per AS-27, Venturer is a Party in Joint venture who has share in Joint control.

* VVI Concept 3 : Types of Joint ventures

J.V.

Jointlly Controlled Operations (JCO)	Jointlly Controlled Assets (JCA)	Jointlly Controlled Entities (JCE)

Concept 4 (JCO) : Jointlly Controlled Operations

As per the Provisions of AS-27, JCO may have the following features.

(i) No Separate Legal Entity is formed for JCO
(I.e., No separate company or Partnership firm)

(ii) When we have not established a Separate Legal Entity then "there shall be no separate set of no separate set of Books for J.V."

(iii) The Venturers shall run their Businesses in their own Names

(iv) The Venturers shall Account for the Assets & Liabilities which are owned by them.

(v) The Venturers shall Account for the Revenues and Expenses which are earned and incurred by them.

(vi) The Venturer will consider the following Adjustment in own books for JCO :

Step I : The Venturer will open and maintain a separate A/C in own books "Joint venture A/C",

Step II : All the Payments on behalf of JCO shall be debited in J.V. A/C, but all the Collections and Recoveries shall be credited in J.V. A/c.

Step III : Share in Profit from JCO shall also be debited in J.V.A/c because It will also be recovered in additional to Expenses.

(Note : vice versa Adjustment will be followed in case of Losses)

Step IV : If there is a difference in J.V.A/c then It will be settled with Other Venturer in cash.

Joint venture A/c

Particulars	₹	Particulars	₹
To Bank (Expenses)	xxxx	By Bank (Revenues)	xxxx
To Profits (W.N#)	xxxx	By Bank (settlement. Bal.fig)	xxxx
To Bank (settlement. Bal.fig)	xxxx		

W.N# = Total Revenue - Total Exp = Total Profit → V1, V2, V3 (Agreed Ratio)

Important Explanation

The Accounting for JCO in SFS & CFS of a venturer will remain same.
It means that No Separate Accounting will be made in CFS.

Q-1 (Solution) (JCO: No Separate Entity is Given for J.V)

Consolidated P&L A/c

Particulars	₹	Particulars	₹
To Expenses :		By Sales (Cash) :	
Land	6000000	A 4000000	
Reg. Exp.	60000	B 2000000	
Material (4.5+5)	950000	C 1000000	7000000
Advertising	900000	By Sales (kind : flat	
Interest	200000	taken by Venturer) :-	
(50Lx8%x6/12)		A 1000000	

To Net Profit (Bal.fig)	1890000	B 1000000	
		C 1000000	3000000
	1,00,00,000		1,00,00,000

* Share of each Venturer in Profit = $1890000 \times \frac{1}{3} = 630000$

In the books of Mr. A

Joint venture A/c

Particular	₹	Particular	₹
To Bank (Land)	1000000	By Revenues :	
To Bank (Loan)	5000000	Bank 4000000	
To Bank (Exp)	60000	Flat 1000000	5000000
To Profit on JV	630000	By Bank (Mr. B)	1420000
To Bank (Interest)	200000	By Bank (Mr. C)	470000
	6890000		6890000

In the books of Mr. B

Joint venture A/c

Particulars	₹	Particulars	₹
To Material (Godown)	450000	By Revenues :	
To Bank (Purchase)	500000	Bank 2000000	
To Profit on JV	630000	Flat 1000000	3000000
To Bank (Mr. A)	1420000		
(Bal : Settlement)			
	3000000		3000000

In the books of Mr. C

Joint venture A/c

Particulars	₹	Particulars	₹
To Bank (Adv.)	900000	By Bank (Revenue)	1000000
To Profit on JV	630000	By Flat (L&B)	1000000
To Bank (Mr A)	470000		
(Bal : Settlement)	2000000		2000000

Concept 5 : Jointlly Controlled Assets (JCA)

These Type of Joint ventures are not formed to Generate Revenues as we form JCO / JCE. These are formed just to share the burden of Huge Expenses on Assets. Under these Joint ventures, Assets are acquired in Joint ownership by venturers. The following features may be noted in JCA :-

(i) No Separate Legal Entity is formed for JCA
(i.e., No separate company, No separate Partnership)

(ii) No separate Books are maintained for JCA

(iii) In SFS & CFS of venturers, the following disclosures are required :-

I share in ownership of Jointly Controlled Asset under relevant heading of B/S (i.e., PPE, I. Assets etc.)

II Expense incurred to maintain the Asset will also be shared and disclosed under relevant head of P&L (i.e., Depreciation, Repairs etc.)

Q-2 (Solution) (Joint Asset: Pipe line)

Statement showing share in ownership of Assets

	Building	Pipeline	Computer	vehicles	Total
O. Cost	1200000	6000000	300000	900000	8400000
Depreciation	(60000)	(900000)	(120000)	(180000)	(1260000)
	(5%)	(15%)	(40%)	(20%)	
Carrying Amt	1140000	5100000	180000	720000	7140000

Each Venturer's share in Assets & Expenses :-

I PPE = $\frac{₹7140000}{3}$ = ₹2380000

II Expense :

Dep = $\frac{₹1260000}{3}$ = ₹420000

Repair = $\frac{₹600000}{3}$ = ₹200000

III Disclosures in SFS & CFS

B/s : A Ltd

PPE	Refer Statement	2380000

P&L : A Ltd

Expenses :		
(1) Depreciation & Amort.	Refer Statement	420000
(2) Other Expenses : Repairs	" "	200000

B/S : B Ltd

PPE	(Refer) Statement	2380000

P/L : B Ltd

Expense :	(Refer)	
(1) Depreciation	Statement	420000
(2) Other Exp : Repairs	"	200000

B/s : C Ltd

PPE	Refer Statement	2380000

P&L : C Ltd

Expenses :		
(1) Depreciation & Amort.	Refer Statement	420000
(2) Other Expenses : Repairs	" "	200000

Part 2

Imp* Concept 6 : Jointlly Controlled Entities (JCA)

As per the Provisions of AS-27, the following features may be identified if A Joint venture is Established in the form of JCE :-

(i) A Separate Legal Entity is formed to operate a Joint venture (i.e., A company or A partnership firm)

(ii) The Established Entity will operate its business in its own Name.

(iii) This separate Entity will own All Assets and Liab. in its own Name.

(iv) It will Prepare its own Accounting Books, Trial Balance and financial Statements.

(v) Initial capital in JCE will be introduced by the Venturers.

Journal

Venturer Books		J.C.E. Books	
*Investment in JCE Dr	xxxx	Bank a/c Dr	xxxx
To Bank	xxxx	To S. Capital	xxxx
(Being Investments made)		(Being Capital raised)	

* In the Separate Books of Venturers, we will follow AS-13 for Accounting of Investments assuming Long Term Investments.

* VVI

(vi) Consolidated financial statements under AS-27 for venturers :-
While Preparing CFS of venturer, we will follow Proportionate Consolidation method (PCM). Under PCM, we will follow the following steps :-

Step I : Each Venturer will compute his share in Assets, Liab. & Reserve of JCE and will consolidated in its B/s on Line by Line & item by item basis.

Step II : Share in capital of JCE will be Eliminated against investments by Venturer while Preparing consolidated B/s.

Q-4 (Solution) (PCM in Consolidation)

Consolidated B/s of A Ltd. with its J.V : C Ltd.

Equity & Liabilities	Notes	₹
Shareholders funds :		
A. Share capital	-	1000000
B. Reserves & Surplus	1	2400000
Non Current Liab :		
Long Term Debt	2	400000
Current Liab :	3	450000
	Total	4250000
Non Current Assets :		
PPE	4	4025000
Current Assets	5	225000
	Total	4250000

Consolidated B/s of B Ltd. with its J.V : C Ltd.

Equity & Liabilities	Notes	₹
Shareholders funds :		
A. Share capital	-	750000
B. Reserves & Surplus	1	2200000
Non Current Liab :		
Long Term Debt	2	500000

Current Liab :	3	300000
	Total	3750000
Non Current Assets :		
PPE	4	3600000
Current Assets	5	150000
	Total	3750000

Notes to A/cs

1. R&S :

	A Ltd	B Ltd.
Balances as per B/s	1800000	1600000
Add : Share in Reserves of C Ltd (1:1)	600000	600000
	2400000	2200000

2. Loans

	A Ltd	B Ltd.
Balances as per B/s	300000	400000
Add : Share in C Ltd (1:1)	100000	100000
	400000	500000

3. Current Liab :

	A Ltd	B Ltd.
Balances as per B/s	400000	250000
Add : Share in C Ltd (1:1)	50000	50000
	450000	300000

4. PPE

	A Ltd	B Ltd.
Balances as per B/s	3050000	2625000
Add : Share in C Ltd (1:1)	975000	975000
	4025000	3600000

5. Current Assets :

	A Ltd	B Ltd.
Balances as per B/s	200000	125000
Add : Share in C Ltd (1:1)	25000	25000
	225000	150000

Note : Share capital of C Ltd. has been cancelled against Investments of A Ltd & B Ltd.

Q-5 (Solution) (SFS: Venturer under AS-13)

As per the Provisions of AS-13, valuation of Long Term Investments should be at cost only Except in case of Permanent Decline. In the Given case, company JVR Ltd. has Long Term Investment in QSR Ltd. The company QSR is incurring Losses for Past 2 years, but It has Projection of Profits in future which indicates that decline in value of QSR is not Permanent, but It seems temporary.

So, the company JVR Limited should not write down its Long Term Investments due to such Temporary decline. It means that contention of JVR is not correct. It should value its investments at cost only.

Q-3 (Solution) (Financial Satements of JCE)

In the books of Joint venture

Statement of Profit & Loss

Particular	Notes	₹
Revenues :		
A. Revenue from operations (Sales)	-	1305000
	Total (A)	1305000
Expenses :		
A. Purchases	-	900000
B. Changes in stocks [CS-05]	-	(100000)
C. Other Expenses	-	306000
	Total (B)	1106000
(A-B) Net Profit		199000

B/S of Joint venture

Equity & Liab.	Notes	₹
Shareholders funds :		
A. Share Capital	-	401000
B. R&S (NP : PL)	-	199000
Non Current Liab :		
Long Term Debt	-	200000
Current Liab :	-	100000
	Total	900000
Non Current Assets :		
PPE	-	600000
C. Stock		
Current Assets : (2L + 1L)	-	300000
	Total	900000

Note : In the Given question, we can not Prepare CFS because venturer' Financial statements are not Given in the question. So, we have Prepared financial statements of J.V only.

Additional Points to be considered while Applying "PCM" in CFS

Point 1 : Restriction on PCM

If any JCE has been formed for Short Term Purpose or JCE is doing its business under Govt. Restrictions and It can not transfer its Resources then we will not Apply PCM in CFS of venturers.

Point 2 : Elimination of Unrealised Profits

While Applying PCM, Venturer should Eliminate its "own share" in Unrealised Profits on Inter company Transactions.

Point 3 : Operator of JCE

If any Person is hired by venturers to operate Joint Venture then such an operator will be considered as an Employee,

but not as a Venturer. If any Remuneration is Paid to such an operator then It will be written off as an Exp. in PL of J.C.E.

Point 4 : <u>Investor in JCE without having share in Joint control</u>

If any Investor has invested money in JCE, but without having any share in Joint control then we can not consider such an investor as a Venturer. We can not Apply AS-27 on such Investor, but AS-23 or AS-21 can be followed by such investor for consolidation purpose as per Level of Investment in JCE.

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter 12

Accounting Standard :15

Accounting for Retirement Benefits

(Revised 2005)

Part 1

Contents : a) Applicability & Nature
b) Scope of AS-15
c) Explanation on Different Concepts
d) Disclosure Requirements

(a) Applicability & Nature

Applicable : 1-4-2006 on wards

Nature : i) Full mandatory for Non-SMC & Level I Enterprise
: ii) Partial mandatory for SMC & Level II & Level III Enterprises

"For the Understanding of Given Exemptions to these Enterprises, Refer class Notes On Last Page of your copy"

(b) Scope of AS-15

Scope

↓

Employees cost (Excluding share Based payments)

Concept 1:	Concept 2:	Concept 3:	Concept 4:
Short Term Benefits	Retirement Benefits	Other Long Term Benefits	Termination Benefits

*Imp Concept 1: Explanation on STB

As per the provisions of AS-15, STB are those Emp. Benefit which have been incurred in current year but payment may be made in c.y or within 12 months from B/s date. We can consider the STB under 2 headings as Follows :-

STB

Monetary/Non monetary Benefits paid in Current Year [paid in cy]	Benefits Expected to be paid within 12 months from B/s Date [payable in cy] Provision Required
i) Salary ii) Wages iii) other facilities: cars, Housing, free Goods, Free medical services, Childern Education etc.	i)*Bonus ii)* Employees Profit sharing iii)*Leave Encashment
Emp. Cost a/c Dr xxxx To Cash xxxx [Being E. cost paid]	Emp. Cost Dr xxxx To payables xxxx (Being Amt made due)

[(a) + (b)]

PL a/c Dr xxxx
To E. cost xxxx

* Key points to be Remembered :-

a) If payment of Bonus, Profit sharing or Leave Encashment is to be made by Co. after 12 months (i.e., at the time of Retirement) then refer concept 3 for Accounting.
[these are not to be treated as STB]

* V.V.I

b) Accounting for Leave Encashment

(STCA : Short Term Compensated Absences)

STCA

Case I : Accumulating — Case I : Non Accumulating

- Case I : Accumulating
  - Vested Leaves
  - Unvested Leaves

a) Vested Accumulating Leaves :- If cash will be paid to the Employees for unavailed Leaves within 12 months from B/s date then we should create full provision for this Liab. in current year. The Given case can be understood by following Example :-

e.g. i) Salary per day (Basic) : ₹500

ii) Allowed sick leaves in a F.Y : 15 days

iii) Mr. Ram availed 5 days in C.Y.

Assume the Given Case as Accumulated Vested , show Accounting Treatment.

Solution

Current year	Next year
i) Emp. Cost a/c Dr 5000	i) Prov. For STCA Dr 5000
To Prov. For STCA 5000	To Cash 5000
(Being Prov. Created)	(Being Liab. Paid)
[(15-5)x1000]	
C.Y	
ii) PL a/c Dr 5000	
To Emp. Cost 5000	
(Being Exp. Written off)	

b) Unvested Accumulating STCA :- If Leaves are allowed by the Enterprise to its Employees against Unavailed Leaves then Allowed Leaves in Next year shall be increased but there will be no cash payment.

e.g. i) Allowed Leaves : 15 days (f.y)
ii) Availed Leaves : 3 days
iii) Basic Salary : ₹ 1000 per day

The Employee can take leave next year for unavailed Leaves in Previous year. It is 50% probable that he will avail the Accumulated Leaves.

Solution

C.Y	Next Year
i) Emp. Cast Dr 6000	Provision a/c Dr 6000
To Prov. For STCA 6000	To Salary 6000
(Being Prov. Created)	(N.Y)
[12x1000x50%]	(Being Provision adjusted against)
ii) PL a/c Dr 6000	
To Emp. Cost 6000	
(Being Exp. Written off)	

c) Non Accumulating Leaves :-

➞ There will be no Accounting for this

➞ Because Unavailed Leave shall lapse in same year and these will not be carried in Next year.

⟶ No Accounting ⟵

⟶ No Discussion ⟵

e.g. i) Salary per day : 1000 (Basic)

ii) Details of Leaves :-

Worker	Total Allowed Leaves	Availed Leaves	Unavailed Vested	Unavailed Unvested	Prob. Factor
A	60	40	15	5	.90
B	80	50	20	10	.80
C	65	45	12	8	.10
D	90	70	10	10	.80
E	20	15	5	-	-

Pass Journal Entries.

Solution

i) Full Provision = (15+20+12+10+5)x1000 = 62000

ii) Proportionate = [(5x.9)+(10x.8)+(8x.1)+10x.8]x1000 = 21300

C.Y

Emp. Cost a/c Dr 83300

To Prov. For STCA (vested) 62000

To Prov. For STCA (unvested) 21300

Concept 2: Retirement Benefits *v.v.Imp [4 – 6 Marks]

Retirement Benefits

DBO	DCO
Defined Benefit Obligations	Defined Contribution Obligations
[Benefit Plans]	[Contribution plans]

Explanation on DBO

Step I : Projected Credit Unit method

Step II : Actuarial Assumptions

Step III : Plan Assets

Step IV : Past Service cost

Step V : Curtailments

e.g. i) Present Salary [cy] : 10,000 p.m

ii) Expected Increment : 10% P.a for each year

iii) Gratuity Promised by Co. : 2% of final salary at the time Of Retirement

iv) Remaining Service Period: 3 Years

v) Discounting : 10% Rate

*Apply PCUM

Solution

a) Final Salary = 10,000x1x1.1x1.1 = 12100 → Final Salary p.a

b) Annual Gratuity & Total Gratuity = 12100x2% = 242x3y = $\boxed{726}$ Total

c) Calculation of PV of Annual Gratuity:-

Year(At end)	Annual Gratuity	P.V
1	242x.826	200
2	242x0.909	220
3	242x1	242

d) journal Entries — Present value of DBO

Ist Year End — Current service cost Dr 200
To PVDBO 200
(Being Prov. Created for Gratuity)

PL a/c Dr 200
To CSC 200
(Being Exp. Written off)

IInd Year End — CSC a/c Dr 220
Int. a/c Dr 20 (200x10%)
To PVDBO 240
(Being Prov. Created)

PL a/c Dr 240
To CSC 220
To Int. 20
(Being Exp. Written off)

IIIrd Year End — CSC a/c Dr 242
Int a/c Dr 44 (200+240)10%
To PVDBO 286

PL a/c Dr 286
To CSC 242
To Int 44

PVDBO Dr 726
To Cash 726

PVDBO A/c

		I	
To Bal	200	By CSC	200
		II	
To Bal	440	By Bal	200
		By Int	20
		By CSC	220
		III	
To Cash		By Bal	440
(Bal)		By Int	44
		By CSC	242

Notes on Concept :

Step I : First of all, Calculate Annual Amount of DBO on the basis of Actuarial Assumptions

Step II : Calculate Present value of each year contribution

Step III: Calculate Int. cost on o/s Balance in DBO A/c.

Step IV : Annual Contribution & Int. shall be assumed as Total Exp. For the current year.

e.g. i) Current Salary : 1,50,000 p.m
ii) Gratuity Promised : 1% of salary
iii) Remaining service : 4 years
iv) Discounting factor : 10% p.a
Apply PCUM.

Solution Annual Gratuity = 1,50,000x1% = $\frac{1,500}{4}$ = 375 p.a

Present value — p.value

Y(end) p.a		
1	375x.751	282
2	375x.826	310
3	375x.909	341
4	375x1	375

PVDBO A/c

To Bal c/d	282	I	By CSC	282
To Bal c/d	620	II	By Bal	282
			By Int.(282x10%)	28
			By CSC	310
To Bal c/d	1023	III	By Bal b/d	620
			By Int	62
			By CSC	341
To Cash (Bal)	1500	IV	By Bal	1023
			By Int	102
			By CSC	375

Part 2

Q.7 Solution — Calculation of PV of DBO

At the end	P.V		
Y_1	.683x131	=	89
Y_2	.751x131	=	98
Y_3	.826x131	=	108
Y_4	.909x131	=	119
Y_5	1 x131	=	131

PVDBO A/c

		Y1 → PL A/C	
To Bal c/d	89	By CSC	89
		Y2	
		By Bal b/d	89
		By CSC] PL A/c	98
To Bal c/d	196	By Int. (89x10%)	9
		Y3	
		By Bal b/d	196
		By CSC	108
To Bal c/d	324	By Int. (196x10%)	20
		Y4	
		By Bal b/d	324
		By CSC	119
To Bal c/d	475	By Int. (324x10%)	32
		Y5	
		By Bal b/d	475
		By CSC	131
To Cash	653	By Int. (475x10%)	47

Step II : Actuarial Assumptions *Imp

Assumptions

- Demographic Assumptions
  - (i.e., Death Rate of Emp., Labour Turnover Rate Etc.)
- Financial Assumptions
  - (i.e., Salary Incremental Rate, Discounting Rate etc)

* Discounting Rate should be "Govt. Bond Rate"

➡ If any Assumption is changed during the accounting Life of PVDBO then the difference will be transferred to PL A/c as "Actuarial Gain/Loss".

If PVDBO increases : Actuarial Losses

If PVDBO Decreases : Actuarial Gain

e.g.
i) Final Salary : 1,00,000
ii) Gratuity Promised : 2% For each year of service
iii) Period of service : 3 Years
iv) Discounting Rate : y_1 10%
but in y_2 it is Revised to 9% calculate Actuarial Loss/Gain in y_2

Solution — Calculations in I^{st} year End

Y_1	2000x.826	= 1652
Y_2	2000x.909	= 1818
Y_3	2000x1	= 2000

PVDBO A/c

		Y_1	
To Bal c/d	1652	By CSC	1652

Calculation of PVDBO at y_2 end (9%)

Y_1	2000x.842	= 1684
Y_2	2000x.917	= 1834
Y_3	2000x1	= 2000

PVDBO if Accounting is done @9% from Beginning

	Y_1	Y_2	Y_3
OB	0	1684	3670
CSC	1684	1834	2000
Int	-	152 (1684x9%)	330
CB	1684	3670	6000

PVDBO A/c

		Y_2	
		By Bal b/d	1652 = 10%
		By Int (9%)	149 = 9%
To Bal c/d	3670 = 9%	By CSC	1834 = 9%
		By Actuarial Loss (Bal. fig)	35 = PL
	3670		3670

i) Int Dr 149
CSC Dr 1834
A.Loss Dr 35
To PVDBO

ii) PL Dr
To Int
To CSC
To A.Loss

Step IV : Past service cost

$\boxed{\text{Past service cost}}$

Vested PSC | Unvested PSC

i) Vested PSC a/c Dr xxxx
Unvested PSC a/c Dr xxxx
To PVDBO xxxx
(Being PVDBO increased)

ii) PL a/c Dr xxxx
To Vested PSC xxxx
(Being vested PSC written off)

iii) Unvested PSC will be amortised over the Remaining Service Period on SLM Basis.

If any company increases the amount of Benefit of DBO then these may be 2 cases as follows:-

➔ If DBO is increased for those Employees who have already completed their minimum service as defined in plan then the Total amount of Increase in DBO will be written off in PL A/c. It is recognised as Past Service Cost (vested).

➔ If DBO is increased for those Employees whose service is not completed then PSC for those Employees shall remain unvested and it will be written off over remaining service period on SLM Basis.

Step V : Curtailment in PVDBO

If Liability in PVDBO is decrease/Reduced by the company then Reversal Entry may take place:-

PVDBO a/c Dr	xxxx		
To PL		xxxx	Due to Losses, Less Profit etc.
(Being Liab. Reduced)			

OR

PVDBO a/c Dr	xxxx		
To PL		xxxx	
To Unvested PSC		xxxx	(If any)

Q.6 Solution

Journal

PVDBO a/c Dr	200	(10%)
To PSC (Unvested)	6	(10%)
To PL (Bal. fig)	194	
(Being PVDBO Reduced/Curtailed)		

PVDBO 2000 10% → Vested 1940 10%

PVDBO 2000 10% → Unvested 60 10%

AS-15 : Disclosure Requirements Relating to PVDBO in Notes to A/cs

	Opening Balance in PVDBO	xxxx
Step I	(+) Current service cost	xxxx
	(+) Interest cost	xxxx
Step II	(±) Actuarial Gain/Loss	xxxx
	[Assumption changes]	
Step iV	(+) vested past service cost	xxxx
	(+) Uvested past service cost	xxxx
Step V	(-) Curtailments	xxxx
	Closing Balance in PVDBO	xxxx

V.V.I * Step III : Accounting for Plan Assets

e.g. Opening Balance in Plan Assets : 1,00,000

Contribution during the year : 10,000

Benefits Paid during the year : 8,000

→ PVDBO

Closing Balance in Plan Assets : 1,40,000

Income Rate on Plan Assets : 10% p.a

Solution

Fair Value — Plan Assets A/c

To Bal b/d	1,00,000	By Bank (sold)	8,000
To Bank	10,000	PL A/c	
*To Return on Assets	10,100	By Bal c/d	1,40,000
		PL A/c	
To Actuarial Gain	27,900	Fair Value	
(Bal. fig)	1,48,000		1,48,000

* 1,00,000x10% = 10,000

2,000x10% x 6/12 = 100

10,100

For the payment of PVDBO, the company can invest in Plan Assets on the Recommendation of Actuary. The fallowing assumptions may be considered while making Accounting Entries for Plan Assets:-

Assumption I : All contributions to Plan Assets & payment for Benefits will be made in the middle of year.

Assumption II : Loss or profit will not be calculated at the time of Sale of Assets

Assumption III : The Expected Return will be reinvested in Plan Asstes

Assumption IV : Plan Assets will be maintained at fair value only.

Assumption V : Difference in Plan Assets A/c will be assumed as Actuarial Gain/Loss and will be transferred to PL A/c.

Discussed in Class :- Q.5,Q.4

Q.1 Solution

Plan Assets A/c

To Bal b/d	1,00,000	By Bank	19,000
To Bank	49,000	30000	
		By Bal c/d	1,50,000
To Actual Return (Bal. fig)	20,000		
	1,69,000		1,69,000

Actual Return 20,000 → Income on Assets 10250+1538 = 11788
(1,00,000x10.25%)+(30,000x10.25/100x6/12)
→ Actuarial G/L (Bal) 8212

Accounting Entries :-

i) Plan Assets Dr
To Bank
(Being Contribution made)

ii) Bank Dr
To Plan Assets
(Being Benefits paid)

iii) Plan Assets Dr
To Income] Actual Return
To A. Gain]

iv) Actual Return Dr
To PL

Disclosures Related to Plan Assets in Notes to A/cs :-

O. Balance in Plan Assets	xxxx
(+) Contributions	xxxx
(-) Benefit paid	xxxx
(+) Income on Assets	xxxx
(±) Actuarial Gain/Loss	
Closing Balance at fair Value	xxxx

Retirement Benefits : Defined Contribution Plans
(Unfunded Liability)

Under Defined contribution plans, these will be no need of Discounting of Contribution made by Employer for the retirement of Employees. The Amt is contributed by Employer to the third party for Employees Retirement such as contributions for Provident Fund, ESI, Staff welfare fund etc.

Accounting: The Total amt will be written off as Employees Benefit Cost in same year in PL A/c which has been contributed by Co. for its Employees.

Concept 4 : Termination Benefits

Termination Benefits

VRS OR Retirement

VRS (Voulantary Retirement) Scheme	Retirement Compensation on Termination of Job of Emp.
It is Paid when an Employee leaves the job in consideration Of VRS Compensation	If job of an Employee is terminated by company at its own then It is paid.

Accounting : The amount of paid compensations will be written off in Same year in PL A/c in which such payment is made.
[w.e. f 31.3.2009 , It can not be Deferred]

Concept 3: Other Long Term Benefits

As per AS-15 , Other Long Term Benefits are those Benefits which are payable a company on Employees Retirement. These can also be considered as Retirement Benefits. These may be in the form of:-

i) Leave Encashment
ii) Bonus
iii) Profit Sharing
iv) Jublee Bonus

→ Payable at Retirement

Accounting : Same Accounting will be done as noted for Defined Benefits Obligations (PVDBO).

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

CHAPTER 13

Part 1

Accounting Standard : 28

Impairment of Assets

Coverage

Unit I	Unit II	Unit III
Impairment of an Individual Asset	Impairment of Cash Generating Unit (CGU)	Impairment of "Goodwill & Corporate Assets

Unit I: Impairment of an Individual Asset*

(*PPE, Intangible Assets, Investment Property)
L&B

As Per the Provisions of AS-28 Impairment means "Reduction in value of Assets." It is also called as Downward Revaluation. In case "Carrying Amt. of an Asset" exceeds its "Recoverable Amt" then the entity should recognise "Impairment Loss".

Impairment Loss = Carrying amt. of Assets > Recoverable Amt. of Assets

Meaning of Carrying Amt. : Carrying amt. means book value means Balance sheet value

Meaning of Recoverable Amt :

Recoverable Amt

Not Selling Price Of Assets **OR** Value in use

" Whichever is Higher"

Meaning of Net Selling Price: Expected selling Price - Expected Cost of Disposal

Meaning of Value in use: Present value of all future cash inflows (including salvage value of assets)

(P.V Factors x Cash Flows)

Journal Entries

a.) Impairment Loss a/c Dr xxxx

To Assets xxxx

(Being Downward Revolution made)

b.) * P&L a/c Dr xxxx

To Impairment Loss xxxx

(Being Loss on Downward Revaluation written off)

* As per the Provisions of AS-28, Impairment Loss should be written off in P&L.

Important Note

If Recoverable Amount exceeds Carrying Amount then It will be a case of "Upward Revaluation". This case will be covered by AS-10 only because AS-28 covers Downward Revaluation.

e.g. i) Carrying Amt of PPE : 250000

ii) Net Selling Price : 180000

iii) Value in use : 182000

Calculate Impairment Loss and pass journal entries.

Solution **I Calculation of Recoverable Amount**

Net Selling Price	₹ 180000
OR	
Value in Use	₹ 182000

Whichever is higher = ₹ 182000

II Calculation of Impairment Loss

Carrying Amount	₹ 250000
Recoverable Amount	(₹ 182000)
I. Loss	₹ 68000

Journal entries

(i) Impairment Loss A/C Dr.	68000	
To PPE		68000
(Being Downward Revaluation made)		
(ii) P&L A/C Dr.	68000	
To Impairment Loss		68000
(Being losses written off)		

E.g a) Carrying Amt. of PPE : ₹ 200000
b) Selling price of PPE : ₹ 190000
c) Expected cost of sale : ₹ 25000
d) Expected future cash flows from PPE

Ist Year	₹ 50000
IInd Year	₹ 60000
IIIrd Year	₹ 70000
IVth Year	₹ 80000

e) Salvage value at the end of 4th year : 10000

f) Discount Rate / cost of capital : 10%

Calculate Impairment Loss.

Solution

1.Calculation of Recoverable Amt.

a) Net selling price (190000 - 25000) ₹165000

OR

b) Value in Use

I^{st}	50000 x 0.909 = 45450	
II^{nd}	60000 x 0.826 = 49560	
III^{rd}	70000 x 0.751 = 52570	
IV^{th}	90000 x 0.683 = 61470	209050

(Including Salvage Value)

Whichever is higher = 209050

2. Calculation of Impairment loss

Carrying Amount of PPE	₹ 200000
Recoverable Amount of PPE	₹ 209050
I. Loss	*NIL

*RA exceeds C. Amt due to which there is no I. Loss.

Note : The given asset can be revalued upward if AS-10 allows because R.A Exceeds C.A

Solution Q.8 *IMP (Study material)

1.Calculation of recoverable amount

(In Lacs)

(i) Net Selling Price 20000

OR

(ii) Value in use

x 2 4000 x 0.870 = 3480

x 3 6000 x 0.756 = 4536

x 4	6000 x 0.658 = 3948		
x 5	8000 x 0.572 = 4576		
x 6	5000 x 0.497 = <u>2485</u>		19,025
	(Including salvage)		

Whichever is higher : $\boxed{20000}$

<u>2. Calculation of Carrying Amt of PPE as at 31.12.x1</u>

Original Cost of PPE	40000
Depreciation for $\underbrace{\text{xx,x0 \& x1}}_{\text{3 year}}$	<u>(14625)</u>

$$\left[\left(\frac{40000 - 1000}{8y}\right) \times 3y\right]$$

Carrying Amt.	<u>25375</u>

<u>3.Calculation of Impairment Loss</u>

Carrying Amt as at 31.12.x1	25,375
Recoverable Amt as at 31.12.x1	<u>(20000)</u>
I.Loss	<u>5375</u>

Revised Carrying Amt. After I. Loss = 25375 – 5375 = $\boxed{20000}$

<u>4.Calculation of Revised depreciation for x2</u>

Revised C.A

Revised Dep. = $\dfrac{(20000-1000)}{5y}$ = ₹ 3800

salvage

Q1 :- H.W

Q5 :- H.W

Q6 :- H.W

Solution Q.9 (study material)

1. Calculation of value in use

Years	CF	PVF	Present value
x 2	50	0.909	45.45
x 3	30	0.826	24.78
x 4	30	0.751	22.53
x 5	20	0.683	13.66
x 6	25	0.621	15.525
	(Including S .value)		121.945

2.Calculation of Recoverable Amount

a) Net selling price	60 lacs
Or	
b) Value in use	121.945 lacs
Whichever is higher	$\boxed{121.945}$

Note : In the given question, there is no impairment loss because recoverable amount is higher than carrying amt. The Recoverable Amt. is 121.945 and C. Amt. is 100 only

Solution Q.11 (study material)

1.Calculation of Loss on Revaluation

Original cost	150 Lacs
Depreciation for 4 years (150 x 40%)	(60 Lacs)
Carrying Amount	90 Lacs
Revalued Price	(75 Lacs)
Loss on Revaluation	15 Lacs

Revised Carrying Amt. after Revaluation loss = 90 - 15 = 75

2.Calculation of Impairment Loss

Revised Carrying Amt.	75 Lacs
Recoverable Amt.(60 L or *64.5 whichever) is higher	(64.50 lacs)
**I. Loss	10.50

(*NSP= 67.5 - 3 = 64.5)

** Impairment Loss of 10.50 Lacs will be written off in PL.

H.W :- Q.14

Part 2

Additional Concepts Under Unit I

*VVI Concept 1 : Indications For Impairment

(When to Conduct Impairment)

As per the Provisions of AS-28, Existence of any Indication is mandatory before Conducting Impairment Test on Assets. The required indications can be classified under 2 different headings as follows:-

A. External Indications (Outside the Company)

B. Internal Indications (Within the Company)

External Indications (At least one is required)

i) If decline in Value of Assets takes place more than expected decline
(i.e, It may be due to change in technology)

ii) If Market Rate of Interest is increased
(i.e, Value in use will get declined due to lower P.V factors on high rate)

iii) If market capitalisation becomes less than Book value of Net assets Of Company → "Market value of Shares" → Intrinsic value

iv) If any Restriction has been Imported by Govt. on Assets

<u>Internal Indications</u> (At least one is required)

i) If Physical Damage of Assets takes place

ii) If manner of use is not adequate

iii) If Estimation of cash flows has declined

<u>Concept 2 : Out of Scope</u>

The Following assets are not covered by AS-28:-

I. Inventories (AS-2)
II. Investments (AS-13)
III. Construction Contracts (AS-7)
IV. Deferred Tax Assets (AS-22)

<u>*IMP</u> <u>Concept 3 : Explanation on Value in use</u>

As per the Provisions of AS-28, the following factors should be considered while computing value in use :-

A. The Company should not project cash flows from the Assets for more than 5 years

<u>Note</u>: In Practical question, we will use all the given cash flows whether these are for less than 5 years or more than 5 years

B. If Cash flows are in Foreign currency then we will translate the Foreign currency cash flows in Indian Currency by using Exchange Rate which will be prevailing on the date of Impairment.

$$\boxed{VIU = \text{Foreign Currency C.f} \times \text{Exchange Rate} \times PVF}$$

C. If Cash flows are given in a range then we will compute the cash Flows as follows :-

"Cash Flows = $\frac{\text{Low Range + High Range}}{2}$"

↓

Avg. C.f.

D. If Probability factors are mentioned for different Cash flows then we will find the cash flows as follows :

$$\boxed{C.F = \text{Expected C.F} \times \text{Probability Factor}}$$

E. g

C.F		Prob.		Usable CF
100 L	x	22%	=	22
150 L	x	75%	=	75
200 L	x	3%	=	6
				103

E. If Market Rate of Interest is not available then PVF shall be computed on the basis of Incremental Borrowing Rate. [Discount Rate should be Pre-Tax]

Concept 4 : Explanation on Net Selling Price

As per AS 28 , Net Selling Price of an Asset can be identified by the Following techniques :-

i) Reference from Recent transaction of Similar Asset can be taken

Or

ii) Reference from Active market for Second hand assets can be taken

> Note : If NSP can not be identified then VIU will be considered as Recoverable Amt. for such asset.

*VVVVVI

Concept 5 : Impairment of Revalued Assets

If any Revalued Asset has been Impaired during the year then Impairment loss will be adjusted against available balance of Revaluation Reserve first. We can write off Impairment Loss in P&L A/C only if it is in excess of available amount in Revaluation Reserve.

Journal :

a) Impairment Loss A/C	Dr	xxxx	
To Assets			xxxx
(Being Downward Revaluation made)			
b) Revaluation Res. A/C	Dr	xxxx (B/S: Bal)	
P&L A/C	Dr	xxxx (Excess Loss)	
To I. Loss			xxxx
(Being Losses Written Off)			

Solution 15.*Imp. (Revalued Asset)

Assumption : In the Given question, Current Carrying Amt of Revalued Asset is Given due to which we have assumed that balance of R .Res is also current balance.

I. Impairment Loss = C. Amt. – R. Amt.
= 27.30 - 12
= 15.30

II. Treatment : a) I. Loss a/c Dr 15.3
To PPE 15.3
(Being Downward Revaluation made)

b) R. Res a/c Dr 14
PL a/c Dr 1.3
To I. Loss 15.3
(Being Losses written off)

III. Dep = 12L/3y = 4L P. a

Solution 10 *VV Imp (Revalued Asset)

Calculation of Carrying Amt. of asset on the date of Impairment

Original Cost (1.4.x0)	7 Crores
Depreciation for 4 Years ($\frac{7\text{ Crores}}{7Y}$ x 4y)	(4 Crores)
Carrying Amt. as at 1.4.x4	3 Crores
Add: Upward Revaluation (5.1-3)	2.10 Crores
Revised Revalued Amt. (1.4.x4)	5.10 Crores
Depreciation for 2 years ($\frac{5.1\text{ Crores}}{3}$ x 2)	(3.40 Crores)
Carrying Amt. as at 31.3.x6	1.70 Crores

Calculation of Balance in R.Res As at 31.3.x6

Revaluation Res. Created on 1.4.x4	2.1 Crores
(AS-10) R. Res. adjusted against Extra Dep. (2.1 Crore/3 x 2)	(1.40 Crores)
Available Bal.	0.70 Crore

Calculation of I. Loss

I. Loss = CA > RA

= 1.70 Crores > 0.79 Crore

= 0.91 Crores

Journal

(1)	I. Loss a/c Dr.	0.91	
	To PPE		0.91
	(Being Downward Rev. made)		
(2)	R. Res a/c Dr.	0.70	
	PL a/c Dr	0.21	
	To I. Loss		0.91
	(Being Loss Written Off)		

Part 3

VVVVVVI * **Concept 6 : Reversal of Impairment Loss**

E.g

i) Original Cost of Asset : 100000

ii) Salavage Value : NIL

iii) Estimated Useful life : 10 Years

iv) Recoverable Amt. :

a) After 2 Years of Acquisition of Asset : 60000

b) After 2 Years of Impairment : 80000

Calculate Impairment Loss and Reversal of Impairment Loss.

Solution

A. Calculation of Impairment Loss

Original Cost of Asset	100000
Depreciation for 2 years $\left(\frac{100000}{10} \times 2\right)$	(20000)
Carrying Amt. of Asset after 2 years	80000
Recoverable Amount after 2 years	(60000)
*Impairment Loss	20000

* Revised Carrying Amt of Asset after I. Loss = 80000 - 20000 = 60000
(Carrying Amt. − IL = Revised CA)

B. Calculation of Reversal of Impairment Loss

Revised Carrying Amt. after Impairment	60000
Depreciation for 2 Years $\left(\frac{60000}{8y} \times 2y\right)$	(15000)
Carrying Amt after 2 years of Impairment	45000
Recoverable Amount after 2 Years	(80000)
Increase in Value*	*35000

*Calculation of Allowed Reversal under AS-28 :-

Normal Carrying Amt. if no Impairment was done in Past (100000 – 40000) Dep (4y)	60000
Existing Carrying Amt.	(45000)
Allowed Reversal	15000

Comments : In the Given Case, Total Appreciation is of ₹ 35000 but Max. Allowed Reversal is ₹ 15000 which is upto Normal Carrying Amt. So we can Credit PL by ₹ 15000 only.

Journal :

i) Asset a/c Dr	15000	
To Reversal of I. Loss		15000
(Being Asset Appreciated upto allowed limit)		
ii) Reversal of I. Loss Dr.	15000	
To P&L		15000
(Being Reversal of Loss Credited)		

Note on Remaining Appreciation Of ₹ 20000 (35000 – 15000)

If the Entity chooses to apply Revaluation model then Excess Appreciation of ₹ 20000 will be transferred to Revaluation Reserve. In Case, Cost Model is applied then it will be Ignored.

Notes on Concept

If Indications do not Prevail in Current Situation on the basis of which Impairment was done in Past then we can reverse the Previously written off Impairment Loss. The Reversal of I. Loss will be allowed upto Normal Carrying Amt. that would have been there if no Impairment was done in the Past

Max Reversal in P&L	=	Normal Carrying Amt Without Impairment	-	Existing Actual Carrying Amt.

Journal

i) PPE/ I. Asset a/c	Dr.	xxxx	
To Reversal of I. Loss			xxxx
(Being Loss reversed)			
ii) Reversal of I. Loss a/c	Dr.	xxxx	
To P&L			xxxx
(Being Income Credited)			

Note :- If Appreciation in Value of Asset is more than Allowed Limit then Excess Amount can be recognised in Revaluation Reserve

Unit II : Cash Generating Unit (CGU)

Concept 1 : Meaning of CGU

As per the Provisions of AS-28, Cash Generating Unit should be recognised as a Smallest Group of Inter- related Assets. When Individual Impairment is not Possible for some Assets then we can Test their impairment by Grouping such Inter-related in a CGU.

Concept 2 : Impairment of CGU

Step I : Aggregate Carrying Amt of all Assets in CGU

Step II : Identify Recoverable Amt for whole CGU

Step III : Calculate I. Loss for whole CGU

Step IV *IMP : Allocate Impairment Loss over all assets in CGU in the ratio of Carrying Amount

E.G

i) Assets in a CGU :

Coal Mine : ₹ 2000000

Roads : ₹ 200000

ii) Recoverable Amt. for CGU : ₹ 1700000

Calculate I. Loss for CGU & Individual Assets in CGU.

Solution:- **I. Calculation of I. Loss For CGU**

Carrying Amt. of Coal Mine	2000000
Carrying Amt. of Roads	200000
Total Carrying Amt.	2200000
Recoverable Amount	(1700000)
I. Loss (CGU)	500000

II. Allocation of I. Loss Over Assets in CGU

Assets (I)	Carrying Amt. (II)	Ratio (III)	Share in I. Loss (IV)	Revised C. Amt (V) (II-IV)
Coal Mine	2000000	10	454545	1545455
Roads	200000	1	45455	154545
	2200000	11	500000	1700000

Concept 3:- Reversal of Impairment Loss in CGU

E.g i) Carrying Amt for Assets in CGU

A_1 (10 y)	2000000
A_2 (5 y)	500000

ii) After 2 years of above Carrying Amt. It is Estimated that recoverable Amt for CGU is ₹ 1500000

iii) After 2 years of Impairment, Recoverable Amt is 2300000

* Calculate I. Loss and Reversal of I. Loss

Solution — A. Calculation of Impairment Loss

Carrying Amt for CGU

Asset$_1$	2000000
Asset$_2$	500000

Depreciation for 2 Years

Asset$_1$	$\frac{(2000000 \times 2y)}{10y}$	(400000)
Asset$_2$	$\frac{(500000 \times 2y)}{5y}$	(200000)
Carrying for CGU on Impairment Date		1900000
Recoverable Amt for CGU		(1500000)
I. Loss		400000

B. Allocation of I. Loss Over Assets in CGU

Assets	C. Amt	Ratio	Share in I. Loss	Revised C. Amt
A$_1$	(20-4) 1600000	16	336842	1263158
A$_2$	(5-2) 300000	3	63158	236842
		19	400000	1500000

C. Calculation of Reversal of I. Loss

Carrying Amt.

Assets	Revised C. Amt	Dep. For 2 years	Existing C. Amt
A_1	1263158	$\left(\frac{1263158}{8y} \times 2y\right)$ 315790	947368
A_2	236842	$\left(\frac{236842}{3y} \times 2y\right)$ 157895	78947
		Total C. Amt	1026315
		R. Amt	2300000
		*Increase in Value	1273685

* Calculation of Max. Allowed Reversal

Normal Carrying Amt without Impairment :

A_1	(2000000 − *800000) $\left(\frac{2000000}{10y} \times 4y\right)$	1200000
A_2	(500000 − *400000) $\left(\frac{500000}{5y} \times 4y\right)$	100000
		1300000
	Existing C.Amt	1026315
	*Allowed Reversal	273685

* It is Max. Allowed Limit. for Reversal

D. Allocation of Reversal of Loss

$$A_1 = \frac{947368}{1026315} \times 273685 = 252632$$

$$A_2 = \frac{78947}{1026315} \times 273685 = 21053$$

Note on Concept

We will Follow the same procedure for Reversal of Impairment Loss in a CGU which was studied for Reversal of Impairment Loss of an Individual Asset. We can reverse I. Loss up to Normal Carrying Amt.

Concept 4 : Exceptional Point

If any Asset in a CGU has Impairment Loss individually but there is no Loss in CGU on overall basis then we will not consider individual Loss for such Asset because it's a part of CGU and Loss on Such Asset can be Allocated only if CGU has Impairment Loss.

Q9 Study Material Discussed in Class

Part 4

Unit III : Impairment of Goodwill & Corporate Assets

Part A : Impairment of GW

If any Business is acquired by the Company by making Payment Of Excess Purchase consideration over taken over Assets then Excess Payment is recognised as "Goodwill" at the time of Business Acquisition under AS-14.

As per the Provisions of AS-28, Impairment of such Goodwill can be Tested under Following 2 Cases :-

Cases For Goodwill

Case I : "GW is Allocable" On Related Assets

We will Follow "Bottom up Approach"

Case II : GW is "Unallocable" on Related Assets

We will Follow "Bottom up approach first" then we will Follow "Top Down Approach"

Note : If Question remains silent on Case of GW then we will always Prefer Case I while Solving questions

Case I : GW is Allocable

(Bottom up Approach)

E.G

a) Details of Business Acquisition :

Purchase Consideration : ₹ 240000

Assets Acquired :

CGU_1 (X)	₹150000
CGU_2 (Y)	₹ 50000

b) Details on Current Date at which impairment is tested :- [After 3years of Business Acquired]

i) Carrying Amounts :

GW	₹16000
X	₹280000
Y	₹70000

ii) Recoverable Amount :

X	₹ 270000
Y	₹ 65000

Calculate I. Loss for X,Y & GW assuming GW is allocable on X & Y

Solution

I Calculation of GW

(On the date of Business Acquisition)

Purchase Consideration	240000
Assets Acquired (X + Y) (150000 + 50000)	(200000)
GW	40000

Carrying Amt. for remaining life = 40000/5y x 2y => 16000

II Impairment Of X,Y & GW

(Bottom Up Approach)

	X	Y	Total
Carrying Amt (Present)	280000	70000	350000
Allocation of GW	12000	4000	16000
(Ratio of X & Y on Acquisition Date) [150000 : 50000]			
Total C. Amt (including GW)	292000	74000	366000
Recoverable Amt.	(270000)	(65000)	(335000)
I. Loss	22000	9000	31000

GW	X	GW	Y
12000	10000 (Bal)	4000	5000 (Bal)

Revised Carrying Amt. after Impairment:

	X	Y	GW
Exisitng C. Amt	280000	70000	16000
I. Loss	(10000)	(5000)	(16000)
Revised Carrying Amt.	270000	65000	NIL

Steps for Impairment Under Case I :-

Step I : Allocate Goodwill on related CGU in the Ratio of Original Taken Over values of related CGU on the date of Business Acquisition.

Step II: Calculate Impairment Loss for related CGU by Comparing Carrying Amt including GW with their Recoverable Amt.

Step III : Adjust GW first against impairment Loss in each CGU and Excess Loss against respective CGU. (Refer above example)

Q.3 (Solution) (Case I)

In the Given question ,GW is allocable on respective CGU' due to which we can follow Bottom Up Approach. The Following Statement may be considered.

Statement Showing Calculation of Impairment Loss

	X	Y	Z
Existing Carrying Amt	260	240	160
Add: Goodwill (240 : 160 : 80)	12	8	4
Total C. Amt including GW	272	248	164
Recoverable Amt	270		
I. Loss*	2		

* This Loss will be adjusted against GW of CGU X first

Revised C. Amt after Impairment

	X	Y	Z	GW
Carrying Amt	260	240	160	24
Impairment Loss	-	-	-	(2)
Revised C. Amt	260	240	160	22

Journal : (i) I. Loss a/c Dr 2
To GW 2
(Being I. Loss Debited)

(ii) P&L a/c Dr 2
To I. Loss 2
(Being Loss written off)

Q.2 (Solution) *Imp

Calculation of Value in Use

Period	C.F.	PVF@10%	P.V of C.F.
1	700	0.909	636.30
2	700	0.826	578.20
3	700	0.751	525.70
4	500	0.683	341.50
5	500	0.621	310.50
6	500	0.564	282
		VIU	2674.20
		(Round off) =	2674

Calculation of Impairment Loss

Existing Carrying Amt. :

i) CGU $\left(\frac{4000 \text{ Lacs} \times 6y}{8y}\right)$	3000 Lacs
ii) GW $\left(\frac{1000 \text{ Lacs} \times 3y}{5y}\right)$	600 Lacs
Total C. Amt	3600 Lacs
R. Amt. (VIU)	(2674 Lacs)
I. Loss	926 Lacs
i) Loss for GW	*600 Lacs
ii) Loss for CGU (Bal)	326 Lacs

Calculation of Revised C. Amt

	CGU	GW
Exisitng C. Amt	3000	600
I .Loss	(326)	(600)
Revised CA	2674	NIL

Q.4 (Solution)

Calculation of I. Loss

(Assumption : GW is allocable)

	A	B	C
Carrying Amt.	1300	1200	1800
GW			
(1200 : 800 : 400)	60	40	20
	1360	1240	1820
RA	1350		
*I. Loss	10		

* we will adjust it against GW first

Revised CA :

	A	B	C	GW
CA	1300	1200	800	120
I. Loss	-	-	-	(10)
Revise CA	1300	1200	800	110

Case II : If Goodwill is Unallocable

(Bottom Up first ,then Top Down Approach)

a) A. Ltd. acquired B Ltd on the basis of : -

Purchase Consideration : ₹ 1200000

Net Assets Acquired :

CGU X	₹ 450000
CGU Y	₹ 350000

b) Carrying Amount (Current) : [After 2y]

i) Goodwill ₹ 240000
ii) X ₹ 470000
iii) Y ₹ 380000

c) Recoverable Amt. :

i) X ₹ 430000
ii) Y ₹ 370000
iii) A Ltd [Company'] ₹ 900000

↓

P. Co.

Solution Calculation of Impairment Loss

	X	Y	Total
Carrying Amt.	470000	380000	850000
Recoverable Amt	(430000)	(370000)	(800000)
I. Loss	40000	10000	50000
Revised Carrying Amt After I. Loss	430000	370000	800000
Add : Goodwill	-	-	240000
Total C. Amt	-	-	1040000
Recoverable Amt for A Ltd.	-	-	(900000)
Impairment Loss for GW	-	-	140000

Revised Carrying Amt. for GW = 240000 - 140000 = 100000

Steps for 2nd Case

Step I : Calculate Impairment Loss for each CGU without allocation of GW / without GW because GW is Unallocable

Step II: Calculate Revised Carrying Amt after Impairment Loss for each CGU

Step III : Add GW to the Total Carrying Amt of all CGU in "Company's Total Column"

Step IV : Calculate Recoverable Amt at Company Level

Step V : Step IV - Step III = Impairment of GW

(Refer Above Example)

Q.4 Solution

Unallocable Cash :

Calculation of I. Loss

	A	B	C	Total
Carrying Amt.	1300	1200	800	3300
Recoverable Amt.	(1350)	-	-	-
I. Loss	NIL	-	-	-
Revised Carrying Amt.	1300	1200	800	3300
Add: Goodwill	-	-	-	120
Total C. Amt.	-	-	-	3420
Recoverable Amt (Company)	-	-	-	(3400)
Impairment Loss For GW	-	-	-	20

Revised C. Amt. for GW = 120 – 20 = 100

Part B : Corporate Assets

As per the Provisions of AS-28, there may be some Assets with the Company which do not Generate Cash Flows directly, but these Assets help other Assets/CGU in Generating their cash flows. These assets are considered as Corporate Assets. These Assets may be in the form of Corporate Head office Building, R & D Centre etc.

For Impairment Test of Corporate Assets, we will follow the same Process as we have discussed for GW under Cases of Allocable and Unallocable.

Q.16 (Solution) *IMP

I Calculation of Carrying Amt as at 31.3.x2

Original Cost	5 Crore
Accumulated Dep till 31.3.x1	(4.15 Crore)
Carrying Amt. as at 1.4.x1	0.85 Crores
Depreciation for X1-X2	(0.25 Crores)
Carrying Amt. as at 31.3.x2	0.60 Crores

II Calculation of Amt. to be Written off in P&L for X1-X2

A. Recoverable Amt. :

Net Selling Price as at 31.3.x2 (30 L – 20%)	24 Lacs
OR	
Value in use as at 31.3.x2 (35L – 30%)	24.50 Lacs

Whichever is Higher = 24.50 L

B. Impairment Loss

I. Loss = CA > RA

= 60 Lacs > 24.5 Lacs

= $\boxed{35.50 \text{ Lacs}}$

C. Amt. to be written off = Dep + I. Loss

(X1 - X2) = 25L + 35.50 L

= $\boxed{60.50 \text{ L}}$

III If Company has Revaluation Res. of 12 Lacs

a) Carrying Amt. (Revalued) = 60L + 12L = 72 Lacs

b) I. Loss = 72L - 24.5 L = 47.5 → RR 12L ; PL 35.5 L (Bal)

(72L = CA, 24.5 L = RA)

(No Impact on Pl)

IV If RA is "0"

i) RA : VIU 0 → Higher 0

NSP -2 →

ii) I. Loss = CA > RA

= 60 Lacs > 0

= 60 Lacs

iii) Amt. to be written in P&L = 25L (Dep) + 60L (IL) = 85L

Q.13 (Solution) (5m)

Calculation of RA

Net Selling Price	(70000)
OR	
Value in Use	0

(Assumed because its not given in Question)

whichever is higher => 0

Calculation of IL

IL = CA > RA

IL = 600000 > 0

IL = 600000

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter 14

Accounting Standard : 1

Accounting Policies

Part 1

Concept 1 : Meaning of Accounting Policies

As per the Provisions of AS-1, Accounting Policies are the Principles & methods which are applied by an Entity while preparing financial Statements. There are different type of policies in different Areas i.e., Stocks: FIFO, W .Avg., Dep : SLM / WDV / VOP etc. An Entity should choose an appropriate policy while preparing financial statements. There are 3 Areas under AS-1 which are to be discussed as follows :-

- Fundamental Accounting Assumptions
- Factors to be considered while selection of a policy
- Disclosures relating Accounting Policy

Concept 2 : Fundamental Accounting Assumptions

As Per the Provisions of AS-1, financial statements are prepared on the basis of fundamental assumption. "There will be no disclosure in Notes to A/C's if assumptions are followed. There will be a disclosure in Notes to A/C's if the assumptions are not followed".

There are 3 Fundamental Assumptions as follows :-

i) Going concern : It is always assumed that Entity will not liquidate or curtail its operations in foreseeable future.

Coming 12 months

[An Appropriate Note in Notes to A/C's will be required if Assumption of Going concern fails.]

ii) Accrual : It is always assumed that Income & Expenses have been recognised on Accrual Basis. It means that Collection or Payment are not material, but accrual of income or expense within the period is important

[An Appropriate Note is required in Notes to A/C's if cash basis is adopted for Accounting]

iii) Consistency : It is always assumed that Accounting Policies have been applied on consistent basis each year.

[An appropriate Note will be made in Notes to A/C's if Policy is changed in current year than Previous year.]

Concept 3 : Factors while selection of Policy

An Accounting Policy should cover the following features of Accounting :

1. Prudence: No Accounting Policy can neglect concept of Prudence.
   (Prudence : Ignore Expected Incomes but Provide for Expected Losses)

2. Substance over form : Accounting should be done from the Point of view of its reality. It should not be according to legal status.
   [i.e., Hire Purchaser records acquisition of Assets even though Ownership will be obtained after Payment of all Instalments.]

3. Material Items : Accounting Policy should cover disclosure of all Material Items.
   [Definition of Material Items depends upon size of Enterprise.]

Concept 4 : Disclosures of Accounting Policies

[Place of Disclosures : Notes to A/cs]

1. All significant Accounting Policies should be disclosed.
2. If any changes has been made in Accounting Policy then It should be reported.
3. If Fundamental Accounting assumptions are not followed then disclosure should be made.
4. Recognise Disclosure of Policies as a Part of Financial Statements.

Discussed in Class :- Q.16,Q.15,Q.14,Q.13,Q.9

Part 2

Discussed in Class :-Q 21 : *Imp

Q-20 (Solution)

"Draft for Annual Reports"

The valuation of closing stock has been done at year end at works cost / factory cost which was done in Earlier Period at Prime cost. So, there will be an increase in Profits by 20 crores due to such change as closing stock is valued at 50 crore instead of 30 crores. In addition, Investments shall be declined due to permanent decline by ₹ 10 crore as No Provision has been created so far for such decline.

Q-19 (Solution)

In the Given case, company wants to apply Weighted Average for valuation of C. Stock instead of FIFO. It can be recognised as "change in Policy". There will be a decline in Net Profit by ₹ 16000 (163000-147000) due to reduction in valuation of stock under New Policy. The Realisable value of ₹ 195000 will be ignored because it is higher than cost of Inventories. The impact on Net Profit due to change in Policy will be reported separately.

Discussed in Class :- Q.12

Q-24 (Solution)

(i) In the Given case, Disclosure of fact by Bee Ltd. that it is not following AS-2 is not a True and Fair Presentation because AS-2 is manadatory in Nature. If company is not following AS-2 then Auditor should qualify his Audit Report

(ii) In the Given case, Cee Ltd. should recognise sale of building because Customer has paid full amount and he has also taken possession of Assets. So, Profit of ₹ 6 Lacs should be recognised on the basis of substance over form.

(iii) The company Dee Ltd. is not following fundamental Accounting Assumption of Accrual Basis because company has been following Cash Basis. This fact should be disclosed in Notes to A/cs.

(iv) The Company Jee Ltd is disclosing significant policies in director Report instead of in Annual Report which is a wrong Practice.

Discussed in Class :- Q.1

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter-15

Accounting Standard : 22 *VVI

Accounting for Taxes on Income

Part 1

e.g.

(i) Accounting Income : 2,00,000

(ii) Taxable Income : 1,50,000

(iii) Tax Rate : 30%

(Assumption : All differences are Timing Differences)

Calculate Tax Expense and Pass Journal Entries

Solution (i) Tax Exp. = Current Tax + Deferred tax

= 45,000+15,000

= 60,000

(ii) Current Tax = Taxable Income x TR

= 1,50,000 x 30%

= 45,000

(iii) Deferred tax = Timing Diff. x TR

(Liab) ↓

AI - TI

= (2,00,000-1,50,000)x30%

= 15,000 (DTL)

Journal Entries

(i) Tax Exp. a/c Dr 60,000

To Current Tax 45,000

To Deferred Tax Liab. 15,000

(Being Tax Exp. Recognised)

(ii) P & L a/c Dr 60,000

To Tax Exp. 60,000

(Being Exp. Written off)

e.g. i) Accounting Income : 4,00,000

ii) Taxable Income : 6,00,000

iii) Tax Rate : 30%

(Assumption: All Difference are Timing Diff.)

Solution (i) Tax Exp. = Current tax + Deferred Tax $\begin{bmatrix} + \text{DTL} \\ - \text{DTA} \end{bmatrix}$

= 1,80,000 - 60,000

= 1,20,000

(ii) Current Tax = Taxable Income x TR

= 6,00,000 x 30%

= 1,80,000

(iii) Deferred Tax Asset = Timing Diff. x TR

= 2,00,000 (6L-4L) x 30%

= 60,000 (DTA)

Journal Entries

a) Tax Expense a/c Dr 1,20,000

D.T Asset a/c Dr 60,000

To Current Tax 1,80,000

(Being Tax Exp. Recognised)

b) P & L a/c Dr 1,20,000

To Tax Exp. 1,20,000

(Being Exp. written off)

e.g. i) Accounting Income : 2,00,000

ii) Taxable Income : 1,00,000

iii) Tax Rate : 30%

(Assumption: 40% of Difference between AI & TI are Permanent)

Solution (i) Tax Exp. = Current tax + Deferred Tax

= 30,000 + 18,000

= 48,000

(ii) Current Tax = Taxable Income x TR

= 1,00,000 x 30%

= 30,000

(iii) Deferred Tax Liab. = $\underbrace{(\underbrace{1,00,000 \times 60\%}_{\text{Diff}}) \times \underbrace{30\%}_{\text{T.D.}}}$ = $\underbrace{18,000}_{\text{DTL}}$

* Deferred Tax is Never computed on permanent Diff.

Journal

(i) Tax Exp. a/c Dr 48,000

To Current Tax 30,000

To D.T. Liab. 18,000

(Being Tax Exp. Recognised)

(ii) P & L a/c Dr 48,000

To Tax Exp. 48,000

(Being Exp. Written off)

e.g.

i) Accounting Income before Depreciation : 2,00,000

ii) Taxable Income before Depreciation : 2,00,000

iii) Asset acquired for ₹ 1,00,000 which is 100% depreciable in Ist year in Tax Laws, but over the period of 2 year in books of A/cs

iv) Tax Rate 30%

Pass journal Entries for 2 years assuming Level of income is same in both years

Solution

Calculation of Accounting Income

	Y_1	Y_2
A.I before Dep.	2,00,000	2,00,000
Depreciation	(50,000)	(50,000)
A.I (Net)	1,50,000	1,50,000

Calculation of Taxable Income

	Y_1	Y_2
T. Income before Dep	2,00,000	2,00,000
Depreciation	(1,00,000)	0
T. I	1,00,000	2,00,000

Q.4 Solution

Accounting for I^{st} year

Tax Exp. = Current tax ± Deferred tax
= 30,000 + 15,000
= 45,000

Current tax = 1,00,000 (T.I) x 30% = 30,000

Deferred tax Liab. = (1,50,000 − 1,00,000) (AI-TI) x 30% = 15,000 (DTL)

Journal

(i) Tax Exp Dr	45,000		AI x 30%
To CT		30,000	
To DTL		15,000	

(ii) PL Dr 45,000
To Tax Exp. 45,000

Accounting for 2^{nd} Year

Tax Exp = CT ± DT
= 60,000 – 15,000 (Reversal of DTL)
= 45,000

i) Current Tax = 2,00,000 x 30% = 60,000
ii) Reversal of DTL = 50,000 x 30% = 15,000

Tax Exp. Dr 45,000
DTL Dr 15,000 (Reversal)
To C. Tax 60,000

PL Dr 45,000
To Tax Exp 45,000

Part 2

Concept 1 : Objective of AS-22

Objective : To calculate "Income tax Expense" on "Accounting Income" in place of "Taxable Income"

Concept 2 : Important Definitions

(i) Meaning of Accounting Income : It is PBT (Profit before tax) as per P & L A/c

(ii) Meaning of Taxable Income : It is Calculated as per Income Tax Act (Tax Laws)

(iii) Meaning of Tax Expense :

Tax Expense = Current tax ± Deferred Tax

(iv) Meaning of current tax :

Current Tax = Taxable Income x Tax Rate

(v) Meaning of Deferred Tax :

Deferred Tax = Timing Difference x Tax Rate

DTL or DTA

(vi) Meaning of Timing Diff. : If any difference between A.I. & T.I. Originates in current year, but will be reversed in subsequent years then it is called Timing Difference. It means that It has capacity of Reversal.

Timing Diff.

Originates & In CY

Reverses in in Later Year

(vii) Meaning of Permanent Diff. : If any difference between A.I & T.I does not have capacity of Reversal then it is called Permanent Diff. As per As-22, Calculation of Deferred Tax is not allowed on permanent Diff.

Permanent Difference

⬇

Disallowed Exp / Incomes under Tax Law

(i.e., Deduction of Donation under Tax Laws is not allowed if Donations are not made u/s 80G.)

Concept 3 : Situations to be Considered under As-22

Case I : Section 43B of I.T.Act

e.g. i) Accounting Income : 2,00,000

ii) A.I. is after deducting following Accrued Exp. :

a) Interest 10,000

b) Bonus to Emp. 50,000

iii) Tax Rate : 30%

Calculate Tax Expense.

Solution

Calculation of Taxable Income

Accounting Income	2,00,000
Expenses not deductible in CY u/s 43B :-	
1) Interest Accrued	10,000
2) Bonus Accrued	50,000
Taxable Income	2,60,000

Calculation of Tax Exp.

Current Tax (2,60,000 x 30%)	78,000
Deferred Tax Assets On T.D. u/s 43B :	
i) Int. (10,000 x 30%)	(3000)
ii) Bonus (50,000 x 30%)	(15,000)
Tax Exp.	60,000

Note : Deduction of Expenses u/s 43 B is allowed only if Actual Payment has been made in c.year or up to the date of filing Of Tax Return. It means that Deduction of Expenses u/s 43 B is not allowed on Accrual Basis. So, we have added back Int. Accrued and Bonus Accrued to Accounting Income while Computing Taxable Income.

Case II : Section 35 D of I.T. Act

(1/5th of Preliminary Exp. is allowed u/s 35D in each year)

e.g.

i) Accounting Income : 2,00,000

ii) A.I. is after deducting full Amt of Preliminary Exp of ₹ 15,000

iii) Section 35 D allowed 1/5th each year

iv) Tax Rate 30%

Calculate Tax Exp.

Solution

Calculation of Taxable Income

Accounting Income	2,00,000
Add back :	
Expenses not deductible under u/s 35D	
in current year (15,000-3,000)	12,000
T.I.	2,12,000

Tax Expense :

i) Current Tax (2,12,000 x 30%)	63,600
ii) DTA (12,000 x 30%)	(3600)
T. Exp.	60,000

Journal :

i) Tax Exp. a/c	Dr	60,000	
DTA a/c	Dr	3,600	
To C. Tax.			63,600
ii) P & L a/c	Dr	60,000	
To T. Exp.			60,000

Case III : Section 36 of I.T. Act

(PFDD is not deductible under I.T. Act but Actual Bad debts are allowed)

e.g.

i) Accounting Income : ₹ 2,00,000

ii) A.I is after PFDD of ₹ 20,000

iii) Tax Rate 30%

Solution

Calculation of Taxable Income

Accounting Income	2,00,000
PFDD (Not deductible u/s 36)	20,000
T. Income	2,20,000

Tax Exp:

	Current Tax (2,20,000 x 30%)	66,000
	DTA (20,000 x 30%)	(6000)
	T. Exp	60,000

Case IV : Section 35 (R & D)

Q. 1

i) A P & M is acquired for R & D of ₹1,50,000
(Useful life : 3year)

ii) A. Income & T. Income before Depreciation: 2,00,000 p.a
iii) Tax Rate : 40%
Calculated Tax Exp. For all 3 years.

Solution

Calculation of Accounting Income

	I	II	III
A.I. before Dep.	2,00,000	2,00,000	2,00,000
Depreciation (1,50,000/3y)	(50,000)	(50,000)	(50,000)
A.I (Net)	1,50,000	1,50,000	1,50,000

Calculation of Taxable Income

	I	II	III
Taxable Income before dep.	2,00,000	2,00,000	2,00,000
Dep u/s 35	(1,50,000)	-	-
Tax. Income	50,000	2,00,000	2,00,000

Calculation of Tax Exp.

	I^{st} Year	II^{nd} Year	III^{rd} Year
Current Tax	20,000	80,000	80,000
	(50,000 x 40%)	(2,00,000 x40%)	(2,00,000 x 40%)
Deferred Tax	40,000	(20,000)	(20,000)
AI-TI = T. Diff.	(1,00,000 x 40%)	(50,000 x 40%)	(50,000 x 40%)
	(DTL)	(Reversal of DTL)	(Reversal of DTL)
Tax Exp.	60,000	60,000	60,000

Journal (I^{st} Year)

(i) Tax Exp. a/c Dr 60,000
To C. Tax 20,000
To DTL 40,000
(Being Tax Exp. Recognised)

(ii) P & L a/c Dr 60,000
To Tax Exp 60,000
(Being Exp. Written off)

Journal (2^{nd} & 3^{rd} Year)

(i) Tax Exp. a/c Dr 60,000
DTL Dr 20,000 (Reversal)
To C. Tax 80,000
(Being Tax Exp. Recognised)

(ii) P & L a/c Dr 60,000
To Tax Exp 60,000
(Being Exp. Written off)

Q.4 Solution

Calculation of Taxable Income

Accounting Income	8,00,000
Elimination of Revaluation Gain	(3,50,000)
Depreciation Disallowed Under Tax Laws	50,000
T. Income	5,00,000

Calculation of Tax Exp

Current Tax (5,00,000 x 35%)	1,75,000
Deferred Tax Assets on Dep. (50,000 x 35%)	(17,500)
*Revaluation Gain [Permanent Diff]	-
T. Exp.	1,57,500

*Tax is never computed on Permanent Diff.

Q.5 Solution

Calculation of Taxable Income

Accounting Income	9,0,000
Advance Rent : Taxable in Tax Law in same year	16,000
Tax Free Income : Gov. Band	(20,000)
Allowed Extra Dep under Tax Laws	(10,000)
T. Income	76,000

Calculation of Tax Exp

Current Tax (76,000 x 35%)	26,600
DTA on Advance Rent (16,000 x 35%)	(5,600)
DTL on Dep (10,000 x 35%)	3,500
T. Exp.	24,500

* Exempted Income from Gov Bands is a Permanent Diff.

Q.6 Solution

Calculation of Tax Exp

Current Tax (1,40,000 x 35%)	49,000
DTL on Dep (25,000 x 35%)	8,750
Tax Exp	57,750

* Interest from Gov Bond and Disallowed Long term Loss are Permanent Diff.

*Imp **Case V : Application of Section 115 JB (MAT)**

(Minimum Alternative Tax)

As per the Provisions of As-22, Calculation of Deferred Tax will be made by Normal Tax Rate even if Company is paying current tax for current year u/s 115JB. It means that MAT Rate is never considered for Deferred Tax.

Q.12 Solution

Calculation of Tax Exp

I Current Tax :

Normal Tax on (100 x 35%) 35

Taxable Income

$\boxed{\text{OR}}$

MAT u/s 115JB (700 x 10%) 70

Whichever is higher 70

II * DTL on Timing Diff (AI-TI) (800-100) 35% 245

T. Exp 315

* Assumption : All Difference are Timing Diff.

H.W Question 18

Q.19 Solution

Calculation of Tax Exp

Current Tax

Normal Tax (2,50,000 x 20%) = 50,000

OR

MAT (7,50,000 x 7.5%) = 56,250

Whichever is higher 56,250

D. T. Liab on T. Diff 2,50,000

(15,00,000 – 2,50,000) x 20%

T. Exp 3,06,250

Part 3

Q.8 Solution *VVImp

Statement showing Calculation of

$\boxed{\text{Py = 2002-03}}$ Closing Balance of DTL/DTA $\boxed{\text{Cy = 2003-04}}$

as at 31.3.2004

	Deferred Tax Liab.	Deferred Tax Assets
Balance as at 1.4.2003	20,00,000	10,00,000

(i) DTA on Depreciation	-	10,00,000
(50,00,000 - 30,00,000) x 50%		
A/cs Tax Law		
(ii) Donation to Private Trust	-	-
(No Deferred Tax : Its a Permanent Diff)		
(iii) Reversal of DTA on Allowed Items in Current year which were Disallowed in Previous year	-	(5,00,000)
(10,00,000 x 50%)		
(iv) DTL on Excess Expenditure of Repair For Tax Purpose	25,00,000	-
[(100L - 50L) x 50%]		
(v) DTA on Disallowance of Int. Exp u/s 43B	-	10,00,000
[Amt paid on 1.11.2004]		
[20,00,000 x 50%]		
(vi) Reversal of DTA on Issued Exp. (35D) Incurred in 99-00	-	(2,50,000)
(5,00,000 x 50%) ↓ 50L x 1/10th		
Closing Balance in Deferred Tax	45,00,000	22,50,000

H.W Question 21

Q.23 Solution VVVIMP

Statement showing Calculation of Closing Balance in DTL/DTA as at 31.3.21

PY = 2019-20 | Cy = 2020-21

	DTL	DTA
Balance as at 1.4.2020	28,00,000	14,00,000
(1) DTA on Depreciation which is Less in Tax Laws (70,00,000 - 42,00,000) x 40%	-	11,20,000
(2) Reversal of DTA on Disallowed Items in P.Y, but Allowed in C.Y (14,00,000 x 40%)	-	(5,60,000)
(3) Reversal of DTA on Issue Exp. Allowed in 2020-21 (7,00,000 x 40%)	-	(2,80,000)
(4) DTL on Excess Repair Exp (140-70) x 40%	28,00,000	-
Closing Balance in Deferred Tax	56,00,000	16,80,000

Discoursed in class - Q24, Q22

H.W Question 26

Q.20 Solution

Calculation of Deferred Tax For 3 Years

A. Calculation of Differences between Taxable Income & Accounting Income

	20x0-x1	20x1-x2	20x2-x3
Accounting Income	11,00,000	16,00,000	21,00,000
Taxable Income	(7,00,000)	(18,00,000)	(23,00,000)
Difference in Income	4,00,000	(2,00,000)	(2,00,000)

B. **Calculation of Deferred Tax**

20x0-x1	Deferred Tax Liab. On Less Taxable Income (4,00,000 x 35%)	1,40,000
20x1-x2	Reversal of DTL due to Income in Taxable Income (2,00,000 x 35%)	(70,000)
20x2-x3	Reversal of DTL on Increase in Taxable Income (2,00,000 x 35%)	(70,000)
	Balance in Deferred Tax as at 31.3.x3	NIL

Deferred Tax Liab. A/c

Particulars	Amount	Particulars	Amount
		x0-x1	
To Bal c/d	1,40,000	By Tax Exp.	1,40,000
		x1-x2	
To Tax Exp (Reversal)	70,000	By Bal b/d	1,40,000
To Bal c/d	70,000		
		X2-x3	
To Tax Exp (Reversal)	70,000	By Bal b/d	70,000

H.W. Question 16, 17

VVI * Case VI : Deferred Tax in Taxable Losses

e.g.

i) Accounting Income : 20,000

ii) Taxable Losses : (40,000)

iii) Tax Rate : 30%

(Assumption : All Difference are Timing Diff)

Requirement : Calculate Tax Expense.

Solution

Tax Expense = Current Tax ± Deferred Tax

= 0 + 18,000 − 12,000

= $\boxed{6,000}$ DTL DTA

(1) Current Tax = Taxable Income x TR

= 0 x TR

= 0

(2) DTL on T. Diff. = 60,000 x 30% = 18,000

[20,000−(40,000)]

AI TL

*Imp

(3) DTA on Taxable Losses = 40,000 x 30% = 12,000

TL

* As per the Provision of AS-22, DTA should be created on Taxable Losses Because Taxable Losses can be adjusted against future Income and Burden of Current Tax can be reduced in future due such set off.

Q.3 Solution *Imp

Statement showing Tax Expense

	2001	2002	2003
Taxable Income	(1,00,000)	50,000 set off	60,000
Current Tax	NIL	NIL (50,000−50,000)	4,000 (60,000−50,000)40%
DTA on Taxable Loss (1,00,000)x40%	(40,000)	20,000 (50000 x 40%) (Reversal of DTA)	20,000 (Reversal of DTA)
T. Exp.	(40,000)	20,000	24,000

Journal

i) D.T. Asset a/c Dr 40,000
To Tax Exp. 40,000
(Being DTA created)

i) Tax Exp Dr 20,000
To DTA 20,000
(Being DTA reversed on set off)

i) Tax Exp Dr 24000
To DTA 20000
To CT 4000

ii) Tax Exp. Dr 40,000	ii) PL Dr 20,000	ii) PL Dr 24000
To P & L 40,000	To T. Exp 20,000	To T. Exp 24000
(Being Income Recognised)	(Being Exp written off)	

Concept 4 : Para 15 & Para 17 in AS-22

As per the Provisions, Deferred Tax Assets can be created in books Only if conditions, which are specified in Para 15 & 17, are satisfied.

The following Explanation may be referred :

D.T.A. on Timing Diff. (Para 15) :

As per the Provision, DTA on Timing Difference can be created Only if there is some reasonable certainty that Timing Difference will be reversed in future.

[Reasonable means Reference of Tax Laws should be there]

D.T. Assets on Taxable Losses (Para 17) :-

As per the Provisions of As-22, DTA on Taxable Losses can be created only if Entity has some virtual convincing Evidence regarding Future Income against which Taxable loss will be adjusted. This Evidence may be in the form of some Project Reports, Export binding orders or any other Proof of Future Income.

Q.3 *Imp

* Part 4*

Concept 5 : Explanation on Section 80IA, 80IB, 10A, 10B (Income Tax Act)

80IA & 80IB	10A & 10B
Infrastructure Companies	Export Companies

"Tax Holiday period : 10 years"

As per the Provisions of As-22, the following points should be considered for Deferred Tax Calculation for Entities which are covered under relevant sections :-

1. If any Timing Difference arises during Tax Holiday Period and it is also reversed during Tax Holiday Period then we will not calculate any Deferred for such Timing Diff. because there will be no Tax Liab. For current Tax during such Period.

*Imp

2. If any Timing Difference takes place during Tax Holiday Period, but It will be reversed during Taxable period then we will compute DTL/DTA for such differences only.

[Refer Q.9 & Q.15 for Practical Understanding]

Q. 9 (Solution) *Imp

Calculation of Timing Diff. u/s 80IA

Period	Depreciation as Per Books (1500L/15years)	Depreciations as Per Tax Laws @25%p.a	Difference (Timing)
1	100	375	275
2	100	281	181
3	100	210	110
4	100	158	58
5	100	119	19
6	100	89	(11)
7	100	67	(33)
8	100	50	(50)
9	100	38	(62)
10	100	28	(72)
11	100	21	(79)
12	100	16	(84)
13	100	12	(88)
14	100	9	(91)
15	100	7	(93)

Calculation of Deferred Tax

Total Timing Diff: arises during Tax Holiday Period	643L
(275+181+110+58+19)	
Total Timing Diff: reversible during Tax Holiday Period	(228L)
(11+33+50+62+72)	
Timing Diff. reversible in Taxable Period	415L
DTL @ 30%	124.50

* The reversal of 228 Lacs will be adjusted on fifo basis against T.D. From year I

Year wise DTL Calculation

I	275-228 = 47 x 30% =	14.1
II	181x30% =	54.3
III	110x30% =	33
IV	58x30% =	17.4
V	19x30% =	5.7
		124.5

Q. 15 (Solution)

Calculation of DTL

Total Timing Diff. in I^{st} & II^{nd} year	600L
(200L+400L)	
Total Timing Diff. reversible during 3^{rd} to 10^{th} year	80L
(10L x 8y)	
T.D. reversible in Taxable Period	520L
DTL @ 35%	182

* Calculation of DTL : year wise

I^{st} year (200L-80L) = 120L x 35% = 42

II^{nd} year = 400 x 35% = 140

182

Comments : As per the Provisions of As-22, we should not calculate Deferred Tax on Timing Diff which are reversible during Tax Holiday Period. So, we have computed DTL on 520Lacs which are reversible after Tax Holiday Period.

Concept 6 : Explanation on Long Term Capital Loss

We can create "DTA" on Long term Capital loss, but subject to Following Conditions:-

A. There should be a *virtual certainity that Entity will earn Long Term Capital Gain in future against which such Loss will be adjusted.

* supported by convincing Evidences

B. We will create "DTA" as per Applicable Tax Rate on Long Term Capital Gain. We will not consider Normal Tax Rate for DTA on Long Term Capital Loss.

Concept 7 : Unabsorbed Depreciation

As per the Provisions of As-22, DTA on Unabsorbed Depreciation can be created only if there is a reasonable certainity that it will be written off against future income.

Concept 8 : Presentation & Disclosure

We will disclose Current Tax & Deferred Tax in financial statement as Per schedule III Division I.

Q.7 solution

Calculation of Deferred Tax

Equipment (DTL on Excess of 80,000@ 40%)	32,000	DTL
Prepaid Exp (DTL on Excess Exp of 75,000@40%)	30,000	DTL
Provision (DTA on Disallowed Prov. 50,000 x 40%)	20,000	DTA

Discoursed in Class - Q25

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter 16

Accounting Standard : 25

Interim Financial Reporting (IFR)

Part 1

Concept 1 : Applicability

Listed Companies	Unlisted Companies	
Ind AS-34	Having Net worth 250 crores or More	Having Net worth Less than 250 Crores
IFR is mandatory for Listed companies as per SEBI Guidelines	Ind As-34	*As-25

* As per the Provisions, AS-25 does not mandate any company to Prepare "IFR", but It can be referred for Guidance only if company wants to Prepare "IFR". It means that AS-25 is not mandatory in Nature, but It helps the Entities in Preparing IFR.

Concept 2 : Objective of AS-25

Objective

- I : To keep the Investors Updated
- II : To Prepare *Financial Statements Timely

* V.V.Imp Concept 3 : Forms & Contents of *Financial Statements

(a) IFR means Preparation & Presentation of Quarterly financial statements (i.e., financial statements means Quarterly B/S, Quarterly P&L, Quarterly cash flow, Quarterly Notes)

(b) Required financial statements :-

1. B/S : Quarterly Basis for each Quarter separately with comparatives of same Period in Preceding year

B/S

Q1	Q1	Q2	Q2	Q3	Q3	Q4	Q5
CY	PY	CY	PY	CY	PY	CY	PY

Q1 = A-J Q2 = July-Sep Q3 = Oct-Dec Q4 = J-M

2. P&L Statement : a) Quarterly Basis for each Quarter separately with comparative for same Period in Previous year

b) *Cumulative Basis up to date till the end of each quarter with its comparative

Cumulative = 3M, 6M, 9M, 12M

3. Cash Flow Statement : CFS is required only on Cumulative Basis with its comparatives

* CFS is not required for each Quarter separately

(b) Form of IFR :

Form of IFR

Complete form | Condensed form

I Complete form : If IFR is prepared in complete form then we will disclose B/S, CFS & Notes in same manner as these Statements are Prepared for Annual Report.

[Note : Practically, this form is not advised for IFR because Important Information can be revealed in this form to competitors.]

II **Condensed Form** : This Presentation is always advised because the company reveals only material facts to the Investors instead of complete information, but Headings & Subheadings are required to be maintained as these are mentioned in Annual reports. Under condensed form, the following statements are required :

Compressed Information

i) Condensed Balance sheet
ii) Condensed P&L
iii) Condensed Cash Flow
iv) Condensed Notes to A/cs

V.V.V.V.I*

Concept 4 : Factors to be considered while Preparing IFR

A. **Accounting Policies**: As per the Provisions, Accounting Policies should remain same in IFR & Annual Reports. It means that we can not use Different Policies in 2 sets of Reports.

B. **Change in Accounting Policy Takes Place in any Quarter (If any)** :- As per the Provisions, change in Policy should be adjusted on "Retrospective" Basis. It means that we will consider its impact in related Quarter as well as in Earlier quarters on Proportionately Basis.

C. **Change in Accounting Estimates (if any)** : As per the Provisions, change in Estimate is always adjusted on Prospectively Basis. So, Impact of change in Estimate will be recorded in related quarter only. There will be no adjustment in Earlier quarters.

* Imp

D. Seasonal Business : As per the Provisions, Incomes and Expenses shall be reported in the Quarter to which Items are related even if Nature of Business is seasonal. It means that we can not Allocate Revenues or Expenses of a Quarter over any other quarter.

E. Extra-ordinary Items : - Same Rule will be followed - which has been
(i.e., fire, flood etc.) specified for seasonal Business
[i.e., No Deferrment is allowed]

F. Heavy Advertisements, : - Same Rule will be followed – which has been
Promotion Exp specified for seasonal Business
[i.e., No Deferrment is allowed]

g. Provisions : At the end of each quarter, Provision will be created for Expected future Losses.

H. Retirement Benefits : As per the Provisions, current service cost,
(Gratuity, Pension etc) Interest cost and PVDBO shall be Provided
For 3 months only in Quarterly Reports.

I. Foreign Currency : The Application of AS-11 will be made on Quarterly Reports on same line as we Apply it for Annual Reports.

*VVI

J. Income Tax : As per AS-25, Quarterly Tax will be computed on the basis of "WATR"

[*WATR = Weighted Average Tax Rate]

$$* \text{ WATR} = \frac{\text{Total Estimated Annual Tax}}{\text{Total Estimated Annual Income}} \times 100$$

e.g. i) Annual (Estimated) Income : 2000000

ii) Tax : First 5L = 10%

Next 10L = 20%

Remaining = 30%

Calculate WATR

Solution

I Calculation of Total Estimated Tax

Tax up to 5L = 500000 x 10% = 50000

Tax on Next 10 L = 1000000 x 20% = 200000

Remaining 5L = 500000 x 30% = 150000

T. E. Tax 400000

II WATR = $\frac{400000}{2000000}$ x 100 = 20%

Q1

Q2

Q3

Q4

Q-13 Solution

A. Calculation of Estimated Annual Tax

i) up to 40000 = 40000 x 30% = 12000

ii) Remaining 60000 = 60000 x 40% = 24000

T. E. Tax 36000

B. WATR Calculation

WATR = $\frac{36000}{100000}$ x 100 = 36%

C. Quarterly Tax

	Q1	Q2	Q3	Q4
Estimated Income	25000	25000	25000	25000
WATR	36%	36%	36%	36%
Tax Exp	9000	9000	9000	9000

Q-14 Solution

I Calculation of Total Estimated Tax (Other than Capital Gain Tax)

(Annual Income other than Capital Gain = 100000-20000 = 80000)

I Tax on first 40000 = 40000 x 30% = 12000

II Tax on Balance 40000 = 40000 x 40% = 16000

28000

II WATR

$$WATR = \frac{28000}{80000} \times 100 = 35\%$$

III Quarterly Tax

	Q1	Q2	Q3	Q4
Estimated Income	25000	25000	25000	25000
Tax	8750	3750	8750	8750
	(25000x35%)	(5000x35%) + *(20000x10%)	(25000x35%)	(25000x35%)

* Capital Gain Tax is 10%

HW Question 11

Part 2

Q-4 Solution *Imp

Calculation of Net Income for 3rd Quarter

Net Income as per Given Information	₹102000
Extra-ordinary Gain wrongly considered (It is related to second Quarter)	(₹20000)
Losses related to Earlier Quarters due to Change in Policy, but considered in 3rd Quarter	₹10000
Correct N. Income	₹92000

Q-12 Solution

Statement showing calculation of Net Income

(For 3^{rd} Quarter ending on 30.9)

Profit before Tax (Given in question)	₹400000
Adjustments :	
(1) Dividend Income remained Unrecognised	₹300000
(2) Sales Promotion Exp. remained Unrecognised	(₹1200000)
(₹1500000 x 80%)	
[Note : Deferment of Exp. is not allowed]	
(3) Change in method of Depreciation and adjusted	-
In 3^{rd} Quarter "Change in Estimation"	
[Note : This adjustment has been recorded correctly]	
(4) Extra-ordinary Gain remained unrecognised	₹100000
[Note : Deferment of Gain is not allowed]	
(5) Reversal of Excess Loss which is related with Earlier quarters	₹100000
(6) Reversal of Gain on Sale of Investment which is related with I^{st} Quarter	(₹500000)
Correct Net Income	(800000)

Q-7 Solution

Calculation of Net Income

Given Net Income	720000
Bad debts remained Unrecognised	(20000)*
(Note: Deferment of Exp. is not Allowed)	
N. Income	700000

* 40000 x 50% = 20000

Comment : We have ignored adjustments for Extra-ordinary Items and change in method of Dep in above statement because these adjustments are already recorded correctly by company.

Q-6 Solution

In the Given question, we will not calculate Average Tax Rate because Average Tax Rate is already Given for each year which is 20% for x0 - x1 and 30% for x1 - x2. The following Tax will be shown for each Quarter :-

	Q1	Q2	Q3	Q4
	x0 - x1		x1 - x2	
Profit	200	200	200	200
W. A. T. Rate	20%	20%	30%	30%
Tax Exp.	40	40	60	60

Q-5 Solution

In the Given question, the company' view to defer the Expense is not correct because AS-25 does not allow deferrment of Expenses. So, all Income and Expenses which are related with Ist Quarter shall be noted in Ist Quarter respectively.

Calculation of N. Income

Sales			80 crores
Expenses :	Salary	60 crores	
	Adv.	4 crores	
	Adm. Exp.	8 crores	(72 crores)
		Profit	8 crores

Discussed in Class :- Q.3,Q.2,Q.1

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter 17

Company Final A/cs

* Part 1 *

Coverage

Concept 1:	Concept 2:	Concept 3:	Concept 4:	Concept 5:
Managerial	Divisible	DDT	Deferred	Final A/cs
Remuneration	Profits		Tax	(Schedule III)

Concept 1 : Managerial Remuneration

Unit I : Maximum Limit (Sec.197)

Unit II : Net Profits (Sec.198)

Unit III : Minimum Remuneration (Sec.197)

Unit IV : Effective Capital (Schedule V)

Unit I : Maximum Limit for Managerial Rem. (Sec 197)

Cases	% of Rem.
Case I : If company has only one whole time Director without having any Part time Director	5%
Case II : If Company has more than one whole time Director without having any Part time Director	10%
Case III: If Company has only Part time Directors (one or more than one) without having whole time Directors	3%
	5
Case IV : Case I + Case III	6% 1
	10
Case V : Case II + Case III	11% 1

Note : The specified % of Remuneration are to be applied on Net Profits which is to be calculated u/s 198.

Unit II : Calculation of NP u/s 198

Net Profit after Tax (PAT) as per PL statement	xxxx
Provision for Tax (+)	xxxx
All Appropriations if wrongly debited in P&L A/c (+)	xxxx
(i.e., Transfer to Reserves, Dividends etc.)	
All Provisions if debited in P&L as a matter of (+)	xxxx
Prudence (i.e., Prov. for Doubtful debts etc.)	
Capital Expenditure on R&D (+)	xxxx
Actual Dep. debited in P&L (+)	xxxx
Allowed Dep. as per Schedule II of Co. Act	(xxxx)
Voluntary Compensation [*Actual - Allowed] (+)	xxxx
Voluntary Donations [*Actual - Allowed] (+)	xxxx

[Note : If Allowed values are not Given in questions then we will not add any Amt assuming that Actual Payment is Equal to Allowed Limit.]

Profit / Loss on Sale of Investments (+-)	xxxx
(Note : Income on Investments are allowed)	
Profit m Sale of Fixed Assets (-)	xxxx
(Only if Selling Price Exceeds original cost)	
Managerial Rem. / Comm. If already debited on adhoc Basis (+)	xxxx
(Excluding Director Fees)	
NP u/s 198	xxxx

Q-5 (Solution)	
Calculation of NP u/s 198	
Alternative I :- Net Profits	396000
Rebate Res.	15000
Prov. for Tax	250000
C. R. Res	40000
Depreciation (Actual)	55000
Depreciation (Allowed)	(45000)
M. D. Rem.	15000
Profit on SOI	(15000)
NP	711000
Alternative II :- Gross Profit	1200000
Dividend Income	9000
Transfer fees	1000
Adm. OH	(400000)
Int. on Loan	(50000)
Depreciation	(45000)
D. Fees	(4000)
NP	711000
a) Rem. to M.D. = 711000 x 5% = $\boxed{35550}$	
(Still Payable = 35550 - 15000 = 20550)	
b) Rem. to others = 711000 x 1% = $\boxed{7110}$	
Q-7 (Solution)	
Calculation of NP u/s 198	
Net Profits	870410
Actual Depreciation	310000
Allowed Depreciation	(260000)
Provision for Repairs	25000
Actual Repairs	(15000)
NP	930410

Case I : One WTD = 930410 x 5% = 46521
Case II : Two WTD = 930410 x 10% = 93041
Case III :Two WTD + 1PTD = 930410 x 11% = 102345

Q-4 (Solution)

Calculation of NP u/s 198

Gross Profits		900000
Subsidy From Govt.		60000
Profit on sale of Assets : Total	100000	
Exceeding cost	(30000)	70000
Salaries		(192500)
G. Exp.		(74000)
Dep. (Schedule II)		(81000)
NP		763500

Comm. = $(682500 - 30000) \times \frac{1}{101} = 6460$

(Still Payable = 6460 − $\underbrace{6000}_{\text{Paid}}$ = 460)

Q-4 (Solution) *Imp

Calculation of NP u/s 198

Net Profits	250000
Actual Depreciation	47800
Allowed Depreciation	(32800)
Provision for Tax	122500
Capital Expenditure	12500
NP	400000

Calculation of Max. Rem.

Assume Rem. to WTD = x

Rem to PTD = (400000 − x) 1%

= 4000 − .01x

Rem. to WTD = (NP - Rem. to PTD) 10%

x = [400000 - (4000 - .01x)] 10%

x = (400000 - 4000 + .01x) 10%)

x = 39600 + .001x

$x = \frac{39600}{.999} = 39640$ ➡ WTD

PTD = (400000 - 39640) 1% = 3604 ➡ PTD

HW Question 1

Unit III : Minimum Remuneration (Sec 198) *Imp

(If Company does not have adequate Profits)

No Company can Pay Managerial Remuneration Less than the Prescribed minimum limits in any case. The following Limits may be considered :-

Level of Effective Capital	Mini. Rem. (P.a)
a) If It is Less than 5 Crores	60 Lacs
b) If It is 5 crores or more but Less than 100 crores	84 Lacs
c) If It is 100 crores or more but Less than 250 crores	120 Lacs
d) If It is 250 crores or more	120 Lacs+.01% of Capital Exceeding 250 crores

Unit IV : Calculation of Effective Capital (Schedule V)

Paid up Capital (ESC + PSC)	xxxx
R&S (Excluding Revaluation Res.)	xxxx
* Long Term Loans / Borrowings (Which are Repayable after one year)	xxxx
* Short Term Borrowing are not considered. (B. od / Working Capital Loan / cc etc.)	
Accumulated Losses	(xxxx)
Investment [Not required for Business Running]	(xxxx)
Effective Cap.	xxxx

Note on Investment held by Investment Companies :-

If Effective capital is to be calculated for an Investment Company then we will not deduct Investments because Business can not run of these Companies without holding Investments.

Note : Share Application Money / Share warrants are not to be considered as a Part of Paid up Capital because Allotment has not been made yet.

Discussed in Class = Q2, Q3

HW Question 16

* Part 2 *

Concept 2 : Divisible Profits

(Dividend Declared Rules 2014)

Rule 1 : Payment of Dividend out of General Reserve

Step I : Calculation of Deficit in P&L A/c for Payment of Dividends

Balance in PL : Opening Balance		xxxx
Current Year Profit		xxxx
	कम ⬅	xxxx
Required Amount of Dividend :-		
i) Fixed on PSC	ज्यादा ⬅	(xxxx)
ii) *Dividend on ESC		(xxxx)
Deficit in PL		xxxx

* Dividend on ESC :

a) 10% (Fixed) or b) Average Dividend distributed in 3 Preceding Years

Whichever in Lower

Step II : Calculate Maximum allowed Limit for withdrawal from G. Res. :-

Condition I : Withdrawals = (ESC + PSC + G Res)10% = xxxx

or

Condition II : G. Res - $\boxed{\text{(ESC + PSC)15\%}}$ = xxxx

To be Retained in B/S

Whichever is Lower, will be allowed.

Note : If Allowed Limit is sufficient then Dividends can be Paid out From G. Res. In case Allowed Limit is Lower than deficit in P&L then Company should reduce its Dividend on ESC.

Q-10 (Solution) *Imp

Calculation of Deficit in P&L for the Payment of Dividend

P&L : Opening Balance	18000
Net Profit during the year	102000
	120000
Required Dividends :-	
i) PSC (5L x 8%)	(40000)
ii) ESC (20L x *10%)	(200000)
Deficit	120000

* 10% or Avg. Dividend during Past 3 years whichever is Lower

15%

Calculation of Max. Allowed Limit

i) (ESC +PSC + G Res)10% = (20L + 5L +6L)10% = 310000

OR

ii) G. Res - 15% of capital = 6L - (25L x 15%) = 225000

To be Retained

Whichever is Lower = 225000

Note: In the Given case, Allowed Limited is higher than Required Dividend. So, Company can distribute its dividend from General Reserve without any Problem.

Rule 2 : Dividends can be Paid out of Divisible Profits only

[Rule 2 is Applied before Applying Rule 1 in Practical life☺]

As per the Provisions, Dividend can be Paid out of Divisible Profits only.

Divisible Profit is the Profit which is after Providing Depreciation for current year as well as Unabsorbed Depreciation for Previous year.

Q-9 (Solution) *Imp

Calculation of Divisible Profits

1992 :	Unabsorbed Depreciation	10000 Dr
1993 :	Profits Earned	26000 Cr
	Dividend Declared	10000 Dr
	Divisible Profits as on 31.12.93	6000 Cr
1994 :	Unabsorbed Depreciation	20000 Dr
	Divisible Profit as on 31.12.94	14000 Dr
1995 :	Profit Earned	35000 Cr
	Dividend Declared	10000 Dr
	Divisible as on 31.12.95	11000 Cr
1996 :	Unabsorbed Dep.	10000 Dr
	Divisible Profit as on 31.12.96	1000 Cr
1997 :	Profits Earned	18000 Cr
	Divisible Profit 31.12.97	19000 Cr

*** Part 3 ***

Q-11 (Solution)

Balance Sheet of Omega Ltd. as at 31.3x2

Particular	Notes	₹
A. Shareholders Fund :-		
i) Share Capital	1	300000
ii) Reserves & Surplus	2	500000
B. Non Current Liab. :-		
Long Term Debt	3	200000
C. Current Liabilities :		
Trade Payable	-	52000
Other current Liab.	4	30000
	Total	1082000
D. Non Current Assets :		
i) PPE : Tangible Assets	5	880000
E. Current Assets :		
i) Inventory	-	86000
ii) Trade Receivable	-	96000
iii) Cash & Cash Equivalents	-	20000
	Total	1082000

P&L Statement of Omega Ltd. For the year ending x1 - x2

Particular	Notes	₹
Revenues :		
i) Revenue from operations	6	700000
ii) Other Income	7	2000
	Total (a)	702000

Expenses :		
1) Purchases (Adjusted)	-	320000
2) Finance Cost	-	20000
3) Depreciation & Amort.	8	76000
4) Other Expenses	9	120000
	Total (b)	536000
(a-b) Net Profit		166000

Notes to A/cs :-

1. **Share Capital :**

A. Authorised Share Capital of 40000 shares of 10 each	400000
B. Issued & Paid up Capital of 30000 shares of 10 each	300000

2. **Reserve & Surpluses**

General Reserve		130000
Securities Premium		40000
Revaluation Reserve (360000 - 220000)		140000
P&L A/c : Opening Bal.	72000	
Net Profit (cy)	166000	
	238000	
Interim Dividend	(18000)	
Declared Dividend	(30000)	190000
(300000x10%)		500000

3. **Long Term Debts :-**

10% Debentures	200000
	200000

4. **Other Current Liab**

Declared Dividend	30000

5. P.P.E

Land (Revalued)			360000
P&M : Balance as per B/S		770000	
at cost Sold P&M		(10000)	
Accumulated Dep :			
O. Bal	172000		
Sold	(8000)		WDV
Dep.	76000	(240000)	520000
[760000x10%]			880000

6. Revenue From Operations : Sales 700000

7. Other Income : Profit on sale of P&M

Suspense A/c (Selling Price)	4000
WDV of sold Assets (10000 - 8000)	(2000)
Profit	2000

8. Depreciation [760000x10%] = 76000

9. Other Exp. :

Fac. Exp.	60000
Adm. Exp.	30000
Selling Exp.	30000
	120000

Q-12 (Solution)

Balance Sheet of Haria chemicals Ltd. as at 31.3.x1

Particular	Notes	₹
Shareholders Fund :-		
A. Share Capital	-	2500000
B. Reserves & Surplus	1	740000
Non Current Liab. :-		
Long Term Debt	2	1145000
Current Liabilities :		
Trade Payable	-	281000
	Total	4666000
Non Current Assets :		
PPE	3	3005000
Intangible Assets	4	265000
Current Assets :		
Inventory	-	823000
Trade Receivable	-	440000
Cash & Cash Equivalents	5	53000
Loans & Advances (Short Term)	6	80000
	Total	4666000

Profit & Loss Statement for Haria for the year ended as at 31.3.x1

Particular	Notes	₹
Revenues :		
1. Revenue from operations	7	4268000
2. Other Income	8	56000
	Total (a)	4324000

Expenses :		
1) Purchases	-	2319000
2) Changes in Inventories	9	(143000)
3) Employees Cost	10	900000
4) Finance Cost	11	171000
5) Other Expenses	12	476000
	Total (b)	3723000
(a-b) Net Profit		601000

Notes to A/cs :	
1. Reserves & Surplus	
P&L (OB)	139000
Net Profit (CY)	601000
	740000
2. Long Term Debt :	
11% Debentures	500000
Bank Loan	645000
	1145000
3. PPE : Furniture	200000
Fixtures	300000
P&M (860000 - 146000)	714000
Land	1546000
Tools	245000
	3005000
4. I. Assets : Goodwill	265000
5. Cash & Cash Equivalents :	
Cash in hand	8000
Bank Balances	45000
	53000

6. Loans & Adv. : Loans to Directors	80000
7. Revenues From Operation : Sales	4268000
8. Other Incomes : Rent	46000
Transfer Fees	10000
	56000
9. Changes in Stock : Opening Stock	680000
C. Stock	(823000)
	(143000)
10. Employees Cost : Wages	900000
11. Finance Cost : Int on Loan	116000
Int on Deb	55000
	171000
12. Other Exp.	
Discount	40000
Advert.	20000
Bad debts	35000
Commission	120000
Rentals	25000
Preliminary Exp	10000
Consumables	84000
Dealer Aid	21000
Insurance	30000
T. Exp	37000
Freight	54000
	476000

Q-14 (Solution) *Imp

Balance Sheet of Pioneer Ltd. as at 31.3.x1

Particular	Notes	₹
Shareholders Fund :-		
Share Capital	1	999000
Reserves & Surplus	2	296700
Non Current Liab. :-		
Long Term Debt	3	263500
Current Liabilities :		
Trade Payable	-	200000
Other Current Liab.	4	67500
Short Term Provisions (Tax)	-	68000
	Total	1894700
Non Current Assets :		
A. PPE	5	1125000
B. I. Assets	-	-
Current Assets :		
A. Inventory	6	250000
B. Trade Receivable	7	200000
C. Cash & Cash Equivalents	8	277000
D. Short Term Advances		42700
	Total	1894700

Notes to A/cs :

1. Share Capital

Issued Capital (10000 shares of 100 each)	1000000
(including 2000 shares of 100 each issued For other than Cash)	
Calls in Arrear	(1000)
	999000

2. Reserves & Surplus			
General Reserve			210000
P&L A/c			86700
			296700
3. Long Term Debts			
Loan from state Corporation			142500
(150000 - 7500)			
Unsecured Loan			121000
			263500
4. O. C. Liab :			
Dividend Payable			60000
O/S Int.			7500
			67500
5. PPE			
Land			200000
Building :	Cost	400000	
	Dep (Bal)	(50000)	350000
P&M :	Cost	700000	
	Dep (Bal)	(175000)	525000
Furniture :	Cost	62500	
	Dep (Bal)	(12500)	50000
			1125000
6. Inventory : FG			200000
RM			50000
			250000
7. Trade Receivable			
O/S for more than 6m			52000
O/S for Less than 6m			148000
			200000

8. Cash & C. E

Cash in hand	30000
Bank Balance :	
Scheduled Bank	245000
Non Scheduled Bank	2000
	277000

* Part 4 *

Q-13 (Solution) *Imp

Notes to A/cs :

1. Share Capital :

A. Authorised Capital

6% P. S. Capital of 5000 shares of 100 each	500000
E. S. Capital of 10000 shares of 100 each	1000000
	1500000

B. Issued, Subscribed & Paid up Capital :-

(i) 6% P. S. Capital (5000 shares of 100 each)	500000
(ii) E. S. Capital (8000 shares of 100 each)	*800000
(* we will Transfer 5000 from forfeiture A/c	1300000

to Capital Reserve because
forfeited shares have already been Re-Issued)

2. Reserve & Surplus :-

a) Capital Reserve		5000
b) G. Reserve (200000 - *30255)		169745
c) P&L Balance :		
Opening Balance	41500	
Net Profit (cy)	22245	
*Transfer from GR $\boxed{\text{(Bal) 30255}}$		
	94000	
Declared Dividends :		
a) ESC (8Lx8%)	(64000)	
b) PSC (5Lx6%)	(30000)	NIL
		174775

3. Long Term Debts :-		
2000 Debtors (6%) of 100 each		200000
		200000
4. Trade Payables :		42000
5. Other Current Liab. :		
a) Declared Dividend Payable (64000+30000)		94000
b) O/S Interest (200000x6%)		12000
c) O/S wages & Salaries		1280
		107280
6. PPE : A. Building	850000	
Dep. @2%	(17000)	833000
B. Furniture	86300	
Dep. @5%	(4315)	81985
		914985
7. Intangible Assets : Goodwill		500000
8. Non Current Investments : Investments		272300
9. Inventory		
Wines, Cigars		22500
Food stuff		16400
		38900
10. Trade Receivables :		19260
11. Cash & Cash Equivalents :		
i) Cash in Hand		2200
ii) Bank Balance		76380
		78580

12. Revenue From Operations	
Sale of wines	68400
Sale of Food	57600
Room Rent	48000
Billiards (Games)	5700
Misc. Receipts	2800
	182500
13. Other Incomes :	
Discount Received	3300
Transfer Fees	700
	4000
14. Purchases :	
Wines, Cigars	45800
Food stuff	36200
	82000
15. Changes in Stocks :	
Opening Stock (12800+5260)	18060
Closing Stock (22500+16400)	(38900)
Increase in Stock	20840
16. Employees Benefit Exp :	
Wages & Salaries Paid	28300
O/S wages	1280
	29580
17. Finance charges (200000x6%)	12000
18. Depreciation : Building	17000
Furniture	4315
	21315

19. Other Exp :

Rent	8900
Laundry	750
Coal	3290
Carriage	810
S. Exp	5840
Advertising	8360
Repairs	4250
Pre. Exp	8000
	40200

Balance Sheet

Equity & Liab.	Notes	₹
A. Shareholders Fund :-		
Share Capital	1	1300000
Reserves & Surplus	2	174745
B. Non Current Liab. :-		
Long Term Debt	3	200000
C. Current Liabilities :		
(1) Trade Payable	4	42000
(2) Other current Liab.	5	107280
	Total	1824025
D. Non Current Assets :		
(1) PPE :	6	914985
(2) I. Assets	7	500000
(3) N. C. Investments	8	272300
E. Current Assets :		
(1) Inventory	9	38900
(2) Trade Receivable	10	19260
(3) Cash & Cash Equivalents	11	78580
	Total	1824025

Statement of P&L

Particular	Notes	₹
Revenues :		
1. Revenues from operations	12	182500
2. Other Income	13	4000
	Total A	186500
Expenses :		
1) Purchases	14	82000
2) Changes in Stock	15	(20840)
3) Employees Cost	16	29580
4) Finance Charges	17	12000
5) Dep.	18	21315
6) Other Expenses	19	40200
	Total B	164255
(A-B) Net Profit		22245

Q-20 (Solution)

Journal Entries

(1) Calls in Advances Dr	120000	
Interest on Advances Dr	6000	
To Bank		126000
(Being money Refunded on Calls in Advances)		
(2) Bank a/c Dr	21200	
To Calls in Arrear		20000
To Int. on Arrears		1200
(Being Amt Recovered on Arrear)		
(3) P&L a/c Dr	6000	
To Interest on Adv.		6000
(Being Exp. written off)		
(4) Int on Arrear Dr	1200	
To P&L		1200
(Being Int. Income recognised)		
(5) P&L a/c Dr	70000	
To Declared Dividend		70000
(Being Dividend Declared @20% on Paid up ESC)		
(6) P. S. Capital Dr	200000	
Premium on Red Dr	20000	
To P. S. holders		220000
(Being Amt made due)		
(7) G Res a/c Dr	220000	
To CRR		200000
To Premium on Red.		20000
(Being CRR created & Premium written off)		

(8) Bank a/c Dr	220000	
To Deb.		220000
(Being Deb. Issued)		
(9) P. S. holders Dr	220000	
To Bank		220000
(Being Redemption on PSC made)		

Assumption : In the Given question, we have assumed that Dividend as PSC has already been Paid because PSC is Redeemable. So, we have ignored Dividend on PSC.

Notes to A/cs :

1. **Reserves** :

A. **General Reserve** :

Balance	300000	
CRR Created	(200000)	
Premium on Red.	(20000)	80000
B. Capital Redemption Res.		200000
C. P&L Balance :		
Balance	270000	
Net Loss	(4800)	
Dividend Declared	(70000)	195200
		475200

2. **Long Term Debts** : Debentures Issued 220000

3. **Cash & C.E** :

Balance	200000
Amt Refunded	(126000)
Amt Recovered	21200
	95200

SOPL

Particular	Notes	₹
Revenues :		
A. Other Income	-	1200
	Total A	1200
Expenses :		
B. Finance Charges	-	6000
	Total B	6000
(A-B) Net Profit		4800

Balance Sheet

Particular	Notes	₹
Shareholders Fund :-		
1. Share Capital	-	350000
2. Reserves & Surplus	1	475200
Non Current Liab. :-		
Long Term Debt	2	220000
Current Liabilities :		
Trade Payable	-	280000
Other Current Liab. (Dividend)	-	700000
	Total	1395200
Non Current Assets :		
PPE		700000
Current Assets :		
Cash & Cash Equivalents	3	95200
Other Current Assets		600000
	Total	1395200

Concept 3 : Dividend Distribution Tax (DDT)

or

Corporate Dividend Tax (CDT)

—— This Concept has been Eliminated Now by I. T. Department. ——

" Ignore it because ICAI is not covering it in its module "

Concept 4 : Deferred Tax

—— Refer AS-22 for Discussion on Deferred Tax ——

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter-18

V.V. Imp* Branch Accounting (8-10 Marks)

* Part 1 *

Coverage

Domestic Branch (Indian) → Dependent, Independent

Foreign Branch (AS-10) → Independent only

Accounting Coverage

Unit I :	Unit II :	Unit III :
Dependent Branch	Independent Branch	Foreign Branch

Unit I : Dependent Branch

Practically, Branch is a Unit of Business which is opened by companies to increase Sales and Profits. It is opened under Expansion Programme to approach new customers at different locations. If any Branch is operated as a "Dependent Branch" then the following features can be identified :-

(a) All the Goods shall be transferred by Head office to Branch which are required by Branch for sale
(Note: It means that Branch is not free to buy Goods from market.)

(b) All of Branch Expenses shall be Paid by Head office
(Note: It means that Branch can not utilise its cash)

(c) Accounting Records of Branch shall be maintained by Head office

(Note: It means that <u>Branch can not maintain its Accounting Records itself.</u>)

<u>Concept 1 : Methods for Accounting</u>

There are 3 methods for the Accounting of Dependent Branches. These are as follows :-

- Method I : Stock & Debtors method
- Method II : Debtors method
- Method III : Final A/cs method

Note: <u>Any method can be applied in the absence of any specific requirement because Answer will be same under all methods</u>. If any method is specifically Required then Required method should be applied.

<u>Concept 2 : Stock & Debtors Method</u>

Required A/cs :
- i) Branch Stock A/c
- ii) Branch Debtors A/c
- iii) Branch cash A/c
- iv) Branch Expenses A/c
- v) Branch P&L A/c
- vi) Goods sent to Branch A/c (GSTB)

These A/cs are Prepared For Branch ← (i) to (v)

It is not related with Branch. It is for H.O. itself. ← (vi)

In the books of H.O.

B. Stock A/c

Particular	₹	Particular	₹
To GSTB	xxxx	By GSTB (Returns)	xxxx
To B. S. Return :		By B. Sales :	
Cash xxxx		Cash xxxx	
Credit xxxx	xxxx	Credit xxxx	xxxx
To Gross Profit (Bal)	xxxx	By Bal C/d [Closing stock]	xxxx
	xxxx		xxxx
Next year			
To Bal b/d	xxxx		

[Opening stock]

B. Debtors A/c

Particular	₹	Particular	₹
To B. Sales (credit)	xxxx	By B. S. Return	xxxx
		By B. Cash (Collection)	xxxx
		By Bad debts	xxxx
		By Disc. / Allow.	xxxx
		By Bal c/d	xxxx
Next year			
To Bal b/d	xxxx		

B. Cash A/c

Particular	₹	Particular	₹
To B. Sales (credit)	xxxx	By B. S. Return	xxxx
To B. Debtors (Collection)	xxxx	By B. Exp.	xxxx
		By H.O. Cash (Remitted)	xxxx
To H.O. Cash (Received)	xxxx	By Bal c/d	xxxx
	xxxx		xxxx
Next year			
To Bal b/d	xxxx		

B. Expenses A/c

Particular	₹	Particular	₹
To Bad debts	xxxx	By B. P&L (Bal. fig)	xxxx
To Disc. / Allow.	xxxx		
To B. Cash	xxxx		
To H.O. Cash	xxxx		
	xxxx		xxxx

B. P&L A/c

Particular	₹	Particular	₹
To B. Exp.	xxxx	By G. Profit	xxxx
To Net Profit	xxxx		
	xxxx		xxxx

Goods sent to Branch A/c (GSTB)

Particular	₹	Particular	₹
To B. Stock (Returns)	xxxx	By B. Stock	xxxx
To Trading A/c (H.O) (Bal. fig)	xxxx		
	xxxx		xxxx

Accounting Steps

Step I : Goods sent by H.O to Branch

B. Stock a/c Dr xxxx
To GSTB xxxx
(Being Goods sent to Branch)

Step II : Goods Returned by Branch to H.O.

GSTB a/c Dr xxxx
To B. Stock xxxx
(Being Goods Returned by Branch)

Step III : Goods sold by Branch on cash & credit

(a) B. Cash a/c Dr xxxx
B. Debtors a/c Dr xxxx
To B. Sales xxxx
(Being Goods sold by Branch)

(b) B. Sales a/c Dr xxxx
To B. Stock xxxx
(Being Sales transferred)

Step IV : If Goods Returned by customer to Branch

a) B. Sale Return a/c Dr xxxx
To B. Cash xxxx
To B. Debtors xxxx
(Being Returns Recorded)

b) B. Stock a/c Dr xxxx
To B. Sale Return xxxx
(Being Goods transferred to stock)

Step V : Collections made by Branch from its Debtors

B. Cash a/c Dr xxxx
To B. Debtors xxxx
(Being collection made)

Step VI : Bad debts, Discounts, Allowances etc. related with Debtors

a) Bad debts a/c Dr xxxx
Discounts a/c Dr xxxx
Allowances a/c Dr xxxx
To B. Debtors xxxx
(Being Expenses debited)

b) B. Expenses a/c Dr xxxx
To Bad Debts xxxx
To Discounts xxxx
To Allowances xxxx
(Being Expenses Transferred)

Step VII : B. Expenses Paid by Branch

B. Exp. Dr xxxx
To B. Cash xxxx
(Being Exp. Paid by Branch)

Step VIII : B. Expenses Paid by H. O.

B. Exp. Dr xxxx
To H. O Cash xxxx
(Being Exp. Paid by H.O)

Step IX : Cash Remitted by Branch H. O.

H.O. Cash Dr xxxx
To B. Cash xxxx
(Being Cash Remitted)

Cash transferred by H.O to Branch

B. Cash a/c Dr xxxx
To H.O Cash xxxx
(Being Cash Received from H.O.)

* Part 2 *

Concept 3 : Additional Points under Stock & Debtors method

Point 1 : Daily Remittances by Branch to Head office

If Daily Remittances are mentioned in questions then the following 3 Points should be considered :-

(a) There will be no opening or closing Balance in Branch cash A/c.
(b) Total Collections = Total Remittances
(c) The Payment for Branch Expenses will be made by H.O. due to NIL Balance in B. Cash A/c.

Point 2 : Petty Cash A/c

B. Petty Cash A/c

To Bal b/d	xxxx	By B. Petty Exp. (Bal. fig)	xxxx
To H.O Cash A/c (Cash Received from H.o for Petty Exp.)	xxxx	By Bal c/d	xxxx
	xxxx		xxxx

"These Expenses shall be transferred to B. Expenses A/c"

Q-2 (Solution) (Concept Building Question)

In the books of Bombay Trading Co.

Delhi Stock A/c

To Bal b/d	7000	By GSTB A/c	1000
To GSTB A/c	26000	By B. Sales : Cash	17500
To B. S. Return	500	Credit	28400
To G. Profit (Bal. fig)	19900	By Bal c/d	6500
	53400		53400

Delhi Debtor A/c

To Bal b/d	12600	By Allowances	200
To B. Sales	28400	By Discount	1400
		By B. debts	600
		By B. S. Return	500
		By B. Cash	28500
		By Bal c/d	9800
	41000		41000

Delhi Cash A/c

To Bal b/d	-	By H.O Cash A/c (Bal fig)	46000
To B. Sales	17500		
To B. Debtors	28500	By Bal c/d	-
	46000		46000

Delhi Expenses A/c

To Allowances	200	By D. P&L (Bal. fig)	10500
To Discount	1400		
To B. debts	600		
To H.O. Cash (Total)	8200		
To B. Petty Cash	100		
	10500		10500

Delhi P&L A/c

To D. Exp.	10500	By GP	19900
To N. Profit (Bal)	9400		
	19900		19900

GSTB A/c

To B. Stock	1000	By B. Stock	26000
To H.O. Trading A/c (Bal. fig)	25000		
	26000		26000

Delhi Petty Cash A/c

To Bal b/d	200	By B. Exp. (Bal. fig)	100
		By Bal c/d	100
	200		200

Point 3 : If Goods are sent by Head office to Branch at "Invoice Price"

Step I : At the time of Goods sent by H.O at I. P.

(a) B. Stock a/c Dr xxxx (IP)
  To GSTB xxxx (IP)
(Being Goods sent to Branch)

(b) GSTB a/c Dr xxxx
  To B. Adjust. xxxx
(Being Loading in Stock transferred)

Step II : If Goods Returned by Branch to H.O

(a) GSTB a/c Dr		xxxx (IP)	
	To B. Stock		xxxx (IP)
(Being Goods Returned)			
(b) B. Adjust. a/c Dr		xxxx	
	To GSTB		xxxx
(Being Loading Reversed)			

Step III: Calculate OSR & CSR because B. Stock is maintained at Invoice Price in Adjustment A/c.

B. Stock A/c (IP)

To Bal b/d	xxxx	By GSTB	xxxx
To GSTB	xxxx	By B. Sales : Cash	xxxx
To B. S. Return	xxxx	Credit	xxxx
To GP	xxxx	By Bal c/d	xxxx
	xxxx		xxxx

NIL or Nominal

GSTB A/c

Loading

To B. Adjust.	xxxx	By B. Stock Loading	xxxx
To B. Stock (Returns)	xxxx	By B. Adjust.	xxxx
To H.O. Trading A/c (Bal. fig)	xxxx		xxxx

B. Adjustment A/c

To GSTB (Returns)	xxxx	By GSTB (Loading)	xxxx
To S. Res (c)	xxxx	By S. Res. (O)	xxxx
To G. Profit (Total)	xxxx	By GP (Nominal)	xxxx
	xxxx		xxxx

Q-5 (Solution) (Concept Building Question)

In the books of H.O.

B. Stock A/c (IP)

To Bal b/d	60000	By GSTB (Returns)	12000
To GSTB A/c	600000	By B. Sales : Cash	200000
To B. S. Return	8000	Credit	360000
To GP (Nominal : Bal)	24000	By Bal c/d	120000
	692000		692000

B. Debtors A/c

To Bal b/d	72000	By B. Cash	320000
To B. Sales	360000	By Discount	6000
		By B. debts	4000
		By B. S. Return	8000
		By Bal c/d (Bal. fig)	94000
	432000		432000

B. Cash A/c

To Bal b/d	-	By H. O Cash (Bal. fig)	520000
To B. Sales	200000		
To B. Debtors	320000	By Bal c/d	-
	520000		520000

B. Expenses A/c

To Discount	6000	By B. P&L (Bal)	94000
To B. debts	4000		
To H. O. Cash (Exp)	84000		
	94000		94000

B. P&L A/c

To B. Exp.	94000	By P&L (Total)	129600
To NP	35600		
	129600		129600

GSTB A/c

To B. Adjust. (6Lx25/125)	120000	By B. Stock (IP)	600000
To B. Stock (Returns)	12000	By B. Adjust	2400
To H. O Trading (Bal. fig)	470400	(12000x25/125)	
	602400		602400

B. Adjust. A/c

To GSTB (Returns)	2400	By GSTB A/c	120000
To S. Res. (Closing)	24000	By S. Res. (Opening)	12000
(120000x25/125)		(60000x25/125)	
To GP (Total)	129600	By GP (Stock)	24000
	156000		156000

Q-4 (Solution)

In the books of Sell Well Ltd.

B. Stock A/c (IP)

To Bal b/d	-	By B. Sales (Credit)	135000
To GSTB A/c	165000	By GSTB (Returns)	42000
(150000+10%)		By Bal c/d	53400
To GP (Bal. fig)	27600		
	192600		192600

B. Debtors A/c

To Bal b/d	-	By B. Cash	106000
To B. Sales	135000	By Bal c/d	29000
	135000		135000

B. Cash A/c

To Bal b/d	-	By B. Cash	106000
To B. Debtors	106000	By Bal c/d	-
	106000		106000

GSTB A/c

To B. Adjust.	15000	By B. Stock	165000
To B. Stock	4200	By B. Adj. (4200x10/110)	382
To H. O Trading (Bal. fig)	146182		
	165382		165382

B. Adjust. A/c

To GSTB (Returns)	382	By GSTB	15000
To S. Res. (53400x10/110)	4855	By GP (Stock)	27600
To GP (Total)	37363		
	42600		42600

Q-3 (Solution) *Imp (8 Marks) * Part 3 *

In the books of Harrison Ltd.

B. Stock A/c (IP)

To Bal b/d (25000+20%)	30000	By B. Sales :	
To GSTB A/c	240000	Cash 59000	
	(2L+20%)	Credit 165000	224000
		By Bal c/d :	
To GP (Bal. fig)	2000	In Transit 20000	
		In hand 28000	48000
	272000		272000

B. Debtors A/c

To Bal b/d	32750	By Bad debts	750
To B. Sales	165000	By B. Cash (Bal. fig)	171000
		By Bal c/d	26000
	197750		197750

B. Cash A/c

To Bal b/d	5000	By H. O. Cash	222500
To B. Sales	59000	(Remittances)	
To B. Debts	171000	By B. Exp. (Bal. fig)	10000
		By Bal c/d	2500
	235000		235000

B. Expenses A/c

To Bad debts	750	By B. P&L (Bal. fig)	22750
To H. O. Cash (Exp)	12000		
To B. Cash	10000		
	22750		22750

B. P&L A/c

To B. Exp.	22750	By GP	39000
To NP	16250		
	39000		39000

GSTB A/c

To B. Adjust. (Loading)	40000	By B. Stock	240000
To H. O Trading (Bal)	200000		
	240000		240000

B. Adjust. A/c

To S. Res (C)	8000	By GSTB A/c (Loading)	40000
[48000x20/120]		By S. Res. (o)	5000
To GP (Total)	39000	By GP (Stock)	2000
	47000		47000

HW Question 20, 21

Point 4 : Treatment of Abnormal Losses of Stock at Branch

(i.e., Loss by fire, Loss by theft, Loss by Pilferage etc.

(a) Abnormal Losses a/c Dr xxxx (IP)
To B. Stock xxxx (IP)
(Being Abnormal Losses recorded)

(b) B. P&L a/c Dr xxxx (Upto Cost)
B. Adj. a/c Dr xxxx (Loading)
To Abnormal Loss xxxx (IP)
(Being Losses written off)

Treatment of I. Claim if Received for Abnormal Loss

(a) B. Cash a/c Dr	xxxx	
To I. Claim		xxxx
(Being Claim Received)		
(b) I. Claim a/c Dr	xxxx	
To B. P&L		xxxx
(Being Income transferred)		

Q-7 (Solution) *Imp

In the books of Bombay Traders Limited

B. Stock A/c (IP)

To Bal b/d	80000	By Abnormal Loss (Pilferage + LIT)	21000
To GSTB	1200000	By B. Sales	1219000
		By Bal c/d	40000
	1280000		1280000

B. Adjust. A/c

To A. Loss (21000x25/125)	4200	By S. Res (O) (80000x25/125)	16000
To S. Res (c) [40000x25/125]	8000	By GSTB	240000
To GP (Bal. fig)	243800		
	256000		256000

B. P&L A/c

To A. Loss (21000-4200)	16800	By I. Claim	10000
To B. Exp.	60000	By GP	243800
To NP (Bal. fig)	177000		
	253800		253800

GSTB A/c

To B. Adjust.	240000	By B. Stock	1200000
(12Lx25/125)			

Q-16 (Solution)

In the books of X & Co.

B. Stock A/c (IP)

To Bal b/d	2250	By B. Sales :	
To GSTB A/c	150000	Credit 27600	
(100000+1/2)		Cash 121050	148650
To B. S. Return	300	By GSTB (Returns)	780
To GP (Bal)	840	By Abnormal Loss	1260
		By Bal c/d	2700
	153390		153390

B. Debtors A/c

To Bal b/d	1320	By B. Cash (Collection)	26390
To B. Sales	27600	By B. S. Return	300
		By Bal c/d	2230
	28920		28920

B. Cash A/c

To Bal b/d	-	By H. O Cash (Remi H.)	26390
To B. Debtors	26390	By Bal c/d (Bal. fig)	121780
(Collections)			
To B. Sales	121050		
To I. Claim	730		
	148170		148170

B. Expenses A/c

To H. O. Cash (Exp)	36780	By B. P&L	36780
	36780		36780

B. P&L A/c

To A. Loss (1260 - 420)	840	By I. Claim	730
To B. Exp.	36780	By GP	50010
To NP	13120		
	50740		50740

GSTB A/c

To B. Adjust.	50000	By B. Stock	150000
[150000x1/3]		By B. Adj. (780x1/3)	260
To B. Stock (Returns)	780		
To H. O Trading (Bal. fig)	99480		
	150260		150260

B. Adjust. A/c

To GSTB A/c (Return)	260	By GSTB A/c (Loading)	50000
To S. Res (2700x1/3)	900	By S. Res (2250x1/3)	750
To A. Loss (1260x1/3)	420	By GP - Stock	840
To GP (Total)	50010		
	51590		51590

Point 5: Treatment of Normal Losses (i.e., Leakage, Shortage etc.)

There will be No Accounting for Normal Loss as it is adjusted in C. Stock Valuation. It can also be said that Impact of Normal Loss can be taken on Gross Profit by reduction in C. Stock.

[Just ignore Normal Loss if Given in questions]

Q-17 (Solution)

In the books of Atlantic Papers

B. Stock A/c (IP)

To Bal b/d	5000	By A. Loss	3500
To GSTB	20000	(LIT + theft)	
		By B. Sales	25500
To GP (Bal)	10000	By Bal c/d	6000
	35000		35000

B. Adj. A/c

To S. Res (3500x20/120)	583	By S. Res (5000x20/120)	833
To S Res (6000x20/120)	1000	By GSTB	3333
		(20000x20/120)	
To GP	12583	By GP	10000
	14166		14166

B P&L A/c

To A. Loss (3500-583)	2917	By I. Claim	2000
To B. Exp	8000	By GP	12583
To NP	1666		
	14583		14583

Q-15 (Solution)

In the books of Empire Store Limited

B. Stock A/c (IP)

To Bal b/d	15000	By GSTB (Returns)	700
To GSTB A/c	50800	By B. Sales :	
To B. S. Return	580	Cash 33500	
		Credit 60000	93500
To GP (Bal. fig)	44720	By A. Loss	3000
		By Bal c/d	13900
	111100		111100

B. Debtors A/c

To Bal b/d	26200	By Allowances	320
To B. sales	60000	By B. S. Return	580
		By Discount	2400
		By B. debts	600
		By B. Cash (Bal)	51200
		By Bal c/d	31100
	86200		86200

B. Cash A/c

To Bal b/d	300	By H. O Cash	74900
To H. O Cash (Received)	1500	By B. Exp. (Total)	9100
To B. Sales	33500	By Bal c/d (Bal fig)	2500
To B. Debtors	51200		
	86500		86500

B. Expenses A/c

To Allowances	320	By B. P&L (Bal. fig)	12420
To Discount	2400		
To B. debts	600		
To B. Exp.	9100		
	12420		12420

B. P&L A/c

To A. Loss	3000	By GP	44720
To B. Esp.	12420		
To NP	29300		
	44720		44720

GSTB A/c

To B. Stock (Returns)	700	By B. Stock	50800
To H. O Trading (Bal)	50100		
	50800		50800

* Part 4 *

Point 6 : Inter Branch Transfer (IBT)

If there are some Transactions between the Branches then these transactions are called Inter Branch Transactions. These transactions are recorded as these are undertaken by branches with H. O. It can also be said that there will be no accounting between branches.

e.g. Cash sent by one Branch to other

In the books of H. O.

Sending Branch	Receiving Branch
(H. O) Cash a/c Dr	B. Cash a/c Dr
To B. Cash	To (H. O) Cash A/c

e.g. Goods sent by one Branch to other Branch

Sending Branch		Receiving Branch	
i) GSTB a/c Dr	xxxx	i) B. Stock a/c Dr	xxxx
To B. Stock	xxxx	To GSTB	xxxx
ii) B. Adjust. a/c Dr	xxxx	ii) GSTB a/c Dr	xxxx
To GSTB	xxxx	To B. Adjust.	xxxx

Q-12 (Solution) *V.V.V. Imp

In the books of Sell well Limited

B. Stock A/c (IP)

Particular	C	B	Particular	C	B
To Bal b/d	10000	10000	By GSTB (Returns)	3000	-
To GSTB	60000 (50000 +20%)	50000 (40000 +25%)	By GSTB (IBT)	6000 (5000+ 20%)	-
To B. S. Return	5000	4000			
To GSTB (IBT)	-	6250 (5000 +25%)	By B. Sales	76000	73500
			By Bal c/d	24000	NIL
To GP (Bal)	34000	3250			
	109000	73500		109000	73500

B. Cash A/c

Particular	C	B	Particular	C	B
To Bal b/d	2000	1000	By H. O Cash	80000	80000
To H. O Cash	15000	15000	(Remittances)		
(Received)			By B. S. Return	5000	4000
To H. O Cash	2000	-	By B. Exp.	9000	3000
(IBT)			By H. O Cash	-	2000
To B. Sales			(IBT)		
(Bal. fig)	76000	73500	By Bal c/d	1000	500
	95000	89500		95000	89500

B. Expenses A/c

Particular	C	B	Particular	C	B
To B. Cash	9000	3000	By B. Fixed	4000	-
			Asset A/c		
			By B. P&L	5000	3000
			(Bal. fig)		
	9000	3000		9000	3000

B. P&L A/c

Particular	C	B	Particular	C	B
To B. Exp.	5000	3000	By GP	41000	16500
To NP	36000	13500			
	41000	16500		41000	16500

GSTB A/c

Particular	C	B	Particular	C	B
To B. Adjust.	10000	10000	By B. Stock	60000	50000
To B. Stock (Return)	3000	-	By B. Adj. (3000x20/120)	500	-
To B. Stock (IBT)	6000	-	By B. Adj. (IBT)	1000	-
			By B. Stock(IBT)	-	6250
To B. Adjust (IBT)	-	1250			
To H. O Trading A/c (Bal. fig)	42500	45000			
	61500	56250		61500	56250

B. Adjust. A/c

Particular	C	B	Particular	C	B
To GSTB (Return)	500	-	By S. Res (O)	2500	2000
			By GSTB	10000	10000
To GSTB (IBT)	1000	-	By GSTB (IBT)	-	1250
To C. S. Res (24000x20/120)	4000	-	By GP	34000	3250
To GP (Total)	41000	16500			
	46500	16500		46500	16500

Point 7 : If Branches are opened for Purchase of Goods instead of Selling the Goods

In the Given case, the following changes may be observed :-

a) B. Debtors A/c will be replaced by B. Creditors A/c

b) GSTB will be replaced by Goods sent to H. O (GSTH).

c) There will be no Branch P&L A/c and All the Expenses of Branch shall be transferred to H. O. P&L A/c

Q-10 (Solution)

In the books of H. O.

B. Stock A/c

To Bal b/d	180000	By Goods sent to H. O	1230000
To Purchases	1200000		
		By Bal c/d	150000
	1380000		1380000

Creditors A/c

To Bal b/d (Advance)	500000	By Bal b/d	300000
To B. Bank	950000	By Purchases	1200000
To H. O. Bank	350000		
To Bal c/d (Bal. fig)	150000	By Bal c/d (Advance)	450000
	1950000		1950000

B. Bank A/c

To Bal b/d	75000	By B. Exp.	25000
To (H. O) Bank A/c	1000000	By B. Creditors	950000
Received		By Bal c/d	100000
	1075000		1075000

B. Exp. A/c

To Bal b/d (Prepaid)	10000	By Bal b/d (o/s)	13000
To B. Bank	25000	By H. O P&L (Bal)	21000
To Bal c/d (o/s)	11000	By Bal c/d (Prepaid)	12000
	46000		46000

* VVImp

Point 8 : Accounting for Retail Branch

In case Retail Branch is Given in questions then the following Points should be considered :-

- B. Stock A/c will be maintained at whole Sale Price.
- GSTB A/c will also be maintained at whole Sale Price. It means that GSTB will be credited in H. O. Trading at WSP.
- We will not open B. Adjust. A/c as there is no concept of Loading in Retail Branch. We will Give credit to Branch only for Retail Profits.
- The calculation of OSR/CSR on B. Stock will be made by H.O in its P&L due to which we do not have to show anything in questions.

Q-8 (Solution)

B. Stock A/c (WSP)

To Bal b/d	15000	By B. Sale	154770
To GSTB	140000	By A. Loss(660/132x120)	600
To GP (154770/132x12)	14070	By Bal c/d (Bal fig)	13700
	169070		169070

B. P&L A/c

To A. Loss	600	By GP	14070
To B. Exp	7200		
To NP (Bal)	6270		
	14070		14070

*** Part 5 ***

Q-14 (Solution) — In the books of Rahul Ltd.

B. Stock A/c

To Bal b/d	30000	By Sales (60000/25x150)	360000
To GSTB	324000	By Abnormal Loss	18000
		(Bal. fig)	
To GP	60000	By Bal c/d	36000
	414000		414000

B. P&L A/c

To A. Loss	18000	By GP	60000
To Exp.	20000		
To NP (Bal)	22000		
	60000		60000

Q-22 (Solution)

B. Stock A/c (WSP)

To Bal b/d	220000	By Sales	1200000
To GSTB	1100000	By C. Stock (Bal. fig)	360000
To GP (12Lx30/150)	240000		
	1560000		1560000

B. P&L A/c

To Exp.	45000	By GP	240000
To NP	195000		
	240000		240000

Stock Res = 1) OSR = 220000 x 20/120 = 36667

↓ 2) CSR = 360000 x 20/120 = 60000

H. O. P&L

HW Question 18 = Ans :- B. Stock = Gross Loss 800

HW Question 19

V.V.I* Concept 4 : Debtors Method

(Net Effect of Stock & Debtors)

Under Debtors method, we Prepare "Branch Account" only. We do not Prepare multiple A/cs, but we Prepare Single A/c on behalf of all A/cs. The following Net Effect will remain in Branch A/c after Eliminating contra Entries :-

(1) B. Stock A/c : Opening Bal., Closing., GSTB, GSTB Return
(2) B. Debtors : Opening & Closing Balances
(3) B. Cash : Opening Bal., Closing Bal., Cash Received from H. O, Remittances
(4) B. Exp. : Paid by H. O. only
(5) B. P&L : Net Profits
(6) B. Adjust. : Loading in GSTB & Return, OSR, CSR
(7) B. Petty Cash : O. Bal, C. Bal, Cash Received from H. O

Branch A/c

Particular	₹	Particular	₹
To Bal b/d		By GSTB (Return)	xxxx
Stock	xxxx	By H. O Cash (Remitt.)	xxxx
Debtors	xxxx	By OSR	xxxx
Cash	xxxx	By Loading in GSTB	xxxx(Net)
P. Cash	xxxx		
To GSTB A/c	xxxx	By Bal c/d: Stock	xxxx
To H. O Cash (Received)	xxxx	Debtors	xxxx
To CSR Petty	xxxx	Cash	xxxx
To H.O Cash (Received)	xxxx	P. Cash	xxxx
To H.O Cash (Exp.)	xxxx		
To Net Profit	xxxx		
	xxxx		xxxx

Note : The specified method is not suitable for Accounting of Branch, but It is suitable for Reconciliation of Profit at year End. It is suitable to verify mistakes / Errors in A/cs.

Q-2 (Solution)

In the books of H. O

Branch A/c

To Bal b/d :		By H. O Cash (W. N#1)	46000
Stock	7000	(Remittances)	
Debtors	12600		
P. Cash	200		
To GSTB (Net)	25000	By Bal c/d : Stock	6500
To H. O Cash (Exp.)	8200	Debtors	9800
To NP (Bal. fig)	9400	P. Cash	100
	62400		62400

W. N # 1

B. Cash A/c

To Bal b/d	-	By H. O Cash (Bal. fig)	46000
To B. Cash	17500		
To B. Debtors	28500	By Bal c/d	-
	46000		46000

Q-6 (Solution) *Imp

In the books of H. O

Branch A/cs

Particular	K	L	Particular	K	L
To Bal b/d	-	-	By Loading in	30000	25000
To GSTB	150000	125000	GSTB(25/125)		
To H. O Cash			By H. O Cash	161000	170400
(Exp) :			(W. N#1)		
Rent	3200	4500			
Salaries	16000	18000	By Bal c/d :		
G. Exp	2600	1500	Debtors	34500	23600
Advert.	7500	5200	Stock	45000	35000
To C. S. Res	9000	7000			
(25/125)					
To NP (Bal. fig)	82200	92800			
	270500	254000		270500	254000

W. N#1 **B. Cash A/c**

Particular	K	L	Particular	K	L
To Bal b/d	-	-	By H. O Cash	161000	170400
To B. Sales	78600	85200	(Bal. fig)		
To B. Debtors	82400	85200	By Bal c/d	-	-
(W. N#2)					
	161000	170400		161000	170400

W. N#2 **B. Debtors A/c**

Particular	K	L	Particular	K	L
To Bal b/d	-	-	By Bad debts	6000	-
To B. Sales	125200	110000	By Discount	-	-
			By B. S. Return	2300	1200
			By B. Cash	82400	85200
			(Bal. fig)		
			By Bal c/d	34500	23600
	125200	110000		125200	110000

Q-11 (Solution) *Imp (16 Marks)

In the books of H. O

Branch A/c

Particular	₹	Particular	₹
To Bal b/d :		By O. S. Res.	180000
Cash	10000	(1080000x20/120)	
Debtors	384000	By Loading in GSTB	2188000
Stock	1080000	(13128000x20/120)	
Furnit.	500000	By H. O Cash (Remitt.)	11700000
To GSTB A/c	13128000	(W.N#3)	
(13200000-72000)		By Bal c/d : Cash	10000
To H. O Cash (Furniture)	100000	(W.N#1) Debtors	485000
To C. S. Res	245000	(W.N#4) Stock	1470000
(1470000x20/120)		(W.N#2) Furniture	516000
To Bal c/d : O/S Exp.	6000		
To NP (Bal. fig)	1096000		
	16549000		16549000

W. N#1 — **B. Debtors A/c**

To Bal b/d	384000	By B. Cash	2842000
To B. Sales	3140000	By Bad debts	37000
		By Discount	58000
		By B. S. Return	102000
		By Bal c/d (Bal. fig)	485000
	3524000		3524000

W. N#2 — **B. Furniture A/c**

To Bal b/d	500000	By Depreciation :	84000
To H. O Cash	100000	(5Lx16%)+(1Lx16%x3/12)	
		By Bal c/d (Bal. fig)	516000
	600000		600000

W. N#3 — **B. Cash A/c**

To Bal b/d	10000	By B. Exp.	842000
To B. GSTB	2842000	By H. O Cash	11700000
To B. Sales	9700000	(Remitt.) (Bal. fig)	
		By Bal c/d	10000
	12552000		12552000

W. N#4 — **B. Stock A/c (IP)**

To Bal b/d	1080000	By GSTB (Return)	72000
To GSTB	13200000	By B. Sales : Cash	9700000
To B. S. Return	102000	Credit	3140000
		By Bal c/d (Bal. fig)	1470000
	14382000		14382000

Q-9 (Solution) *V. V. Imp (16 Marks)

In the books of H. O

Branch A/c

Particular	₹	Particular	₹
To Bal b/d : Stock	44000	By H. O Cash	613250
Debtors	75750	(Remitt.)	
Cash	7540		
Furniture	6250		
To GSTB :			
Ghee (25x1000x12)	300000		
Oil (15x1000x1500)	270000	By Bal c/d : Stock	58000
To H. O Cash (Exp)	14250	(W.N#1) Debtors	86900
To Commission	5303	Cash	12350
(58335x10/110)		Furniture	5625
To NP (Bal. fig)	53032		
	776125		776125

W. N#1

B. Debtors A/c

To Bal b/d	75750	By B. Cash	647330
To B. Sales (Total)	658480	(Includes cash sale)	
(including Cash Sales)		By Bal c/d (Bal. fig)	86900
	734230		734230

Trading & P&L
Arnold Brothers
(Excluding Branch Transactions)

To O. Stock	500000	By Sales (Total)	4587600
To Purchase (Total)	4407000	By GSTB	570000
To D. Exp	383275	By C. Stock	729750
To GP	597075		
	5887350		5887350

		By GP	597075
To Dep on Furniture	2150	By B. Profit	53035
(21500x10%)			
To Dep on P&M	136500		
(307250+602750) 15%			
To GM Salary	24000		
To G. Exp	24000		
To Comm.(463460x10/110)	42133		
To NP	421327		
	650110		650110

HW Question 23, 24, 25

* Part 6 *

Q-1 (Solution)

In the books of H. O

Branch A/c

To Bal b/d : I. Cash	2000	By H. O Cash	170000
Debtors	25000	(Remittances)	
Stock	40000		
To H. O Cash (Purchases)	45000	By Bal c/d : Stock	25000
To GSTB	60000	I. Cash	2000
To H. O Cash (Received)	4000	Debtors	24000
To H. O Cash (Exp)	30000	(W.N#1)	
To NP (Bal. fig)	15000		
	221000		221000

W.N#1

B. Debtors A/c

To Bal b/d	25000	By Bad debts	1000
To B. Sales	130000	By Discount	2000
		By B. S. Return	3000
		By B. Cash (W.N#2)	125000
		By Bal c/d (Bal. fig)	24000
	155000		155000

W.N#2 — B. Cash A/c

To Bal b/d	-	By H. O Cash	170000
To B. Sales	45000	By Bal c/d	-
To B. Debtors (Bal. fig)	125000		
	170000		170000

Concept 5 : Final A/cs Method

Under this method, B. Trading & P&L A/c is Prepared. It should be applied in questions only if it is required in questions.

Important Note

Where we Prepare B. Trading & P&L A/c, It should be Prepared at cost only. It can not be Prepared & Disclosed at Invoice Price.

Q-2 (Solution)

In the books of H. O

B. Trading & P&L

To O. Stock	7000	By Sales :Cash 17500	
To GSTB (Net)	25000	Credit 28400	
To GP	19900	Returns (500)	45400
		By C. Stock	6500
	51900		51900
To Allowances	200	By GP	19900
To Discounts	1400		
To B. debts	600		
To salaries	6200		
To Rent	1200		
To S. Exp.	800		
To P. C. Exp.	100		
To NP	9400		
	19900		19900

Q-13 (Solution) *Imp

In the books of H. O

B. Trading & P&L A/c

To O. Stock	10000	By Sales :Cash 46000		
(12000x100/120)		Credit 100000		146000
To Goods from H. O	110000	By Abnormal Loss		2500
(132000x100/120)		(Bal. fig)		
To GP [(46000x20/120)+	41000	By C. Stock		12500
(100000x50/150)]		(15000x100/120)		
	161000			161000
To Discounts	13365	By GP		41000
To Expenses	6000			
To Abnormal Loss	2500			
To Prov. for Discount	1485			
(W.N#2)				
To NP (Bal. fig)	17650			
	41000			41000

W.N#1 Calculation of Current year' Trend of Prompt Payment

a) Prompt Collection (C.Y) $= \frac{13365}{15\%} = 89100$

b) Total Dues in Current year = 10000+100000-11000 = 99000

c) C. Y. % of Prompt Collection $= \frac{89100}{99000} \times 100 = \boxed{90\%}$

W.N#2

Prov. for Expected Discount = 11000 CB x 90% x 15% = 1485

* Part 7 *

Unit II : Independent Branch

Concept 1 : Journal Entries

Particular	H.O Books	Branch Books
1. Purchase made by Branch for cash & credit	- No Entry -	Purchase Dr To Cash To Credit (Being Purchase made)
2. Purchase made by Branch to its Creditors	- No Entry -	Creditors Dr To Bank
3. Sales made by Branch on Cash & Credit	- No Entry -	Cash Dr Debtors Dr To Sales
4. Collection made by Branch from its Debtors	- No Entry -	Bank a/c Dr To Debtors
5. Expenses Paid by Branch	- No Entry -	Expenses Dr To Bank
6. Expenses of Branch Paid by H.O	Branch Dr To Cash	Expenses Dr To H.O
7. Remittances made by Branch to H.O	Cash Dr To Branch	H.O Dr To Cash
8. Cash Remitted by H.O to Branch	Branch Dr To Cash	Cash Dr To H.O
9. Collection from b. Debtors made by H.O	Cash Dr To Branch	H.O Dr To Debtors

10. Payment by H.O to Branch Creditors	Branch Dr To Cash	Creditors Dr To H.O
11. H.O Expenses Paid by Branch	Expenses Dr To Branch	H.O Dr To Cash
12. Collection made by Branch from H.O Debtors	Branch Dr To Debtors	Cash Dr To H.O
13. Payment made by Branch to H.O Creditors	Creditors Dr To Branch	H.O Dr To Cash

Concept 2 : Journal Entries related with specific cases

Case I : Goods sent by H.O to Branch

Particular	H.O Books	B. Books
1. Goods sent by H.O to Branch	Branch Dr (Sale) To GSTB	Goods from H.O Dr (Purchase) To H.O
2. Goods Returned by Branch to H.O	GSTB Dr To Branch [Reversal of above]	H.O Dr To GFH [Reversal of above]

Case II : Inter Branch Transfers (IBT)

Particular	H.O Books	Sending Branch Books	Receiving Branch Books
I Sending Branch Transfers Cash to Receiving Branch	i) Case Dr To S. B. ii) R. B. Dr To Cash	HO Dr To Cash - No Entry -	- No Entry - Cash Dr To H.O.

➡ Net : R. B. Dr
To S. B

II Sending Branch	i) GSTB Dr	H.O Dr	- No Entry -
Transfers Goods	To S. B.	To GFH	
to Receiving	ii) R. B. Dr	- No Entry -	GFH Dr
Branch	To GSTB		To H.O.

➡ Net : R. B. Dr
To S. B

Q-32 (Solution) (6 Marks)

Statement Showing Net Position of Branches

Particular	Bombay	Madras	Calcutta	Patna
Bombay Branch :-				
i) Received Goods	10000 Dr	-	6000 Cr	4000 Cr
ii) Sent Goods	18000 Cr	-	8000 Dr	10000 Dr
iii) Received B/R	6000 Dr	-	-	6000 Cr
iv) Sent B/R	6000 Cr	-	4000 Dr	2000 Dr
Madras Branch :-				
i) Received Goods	4000 Cr	14000 Dr	10000 Cr	-
ii) Sent Cash	6000 Dr	8000 Cr	2000 Dr	-
Calcutta Branch :-				
1) Sent Goods	-	-	6000 Cr	6000 Dr
2) Paid B/P & Sent Cash	-	-	8000 Cr	8000 Dr
Net Position	6000 Dr	6000 Dr	16000 Cr	16000 Dr

Journal Entry

(In the books of H.O at the end of month)

Madras Branch Dr	6000	
Patna Branch Dr	16000	
To Bombay Branch		6000
To Calcutta Branch		16000

(Being Adjustment Entry Passed)

Q-35 (Solution) (6 Marks)

Statement Showing Net Position of Branches

Particular	Delhi	Kanpur	Nagpur	Ahmedabad
Delhi Branch :-				
i) Received Goods	15000 Dr	-	9000 Cr	6000 Cr
ii) Sent Goods	27000 Cr	-	12000 Dr	15000 Dr
iii) Received B/R	9000 Dr	-	-	9000 Cr
iv) Sent B/R	9000 Cr	-	6000 Dr	3000 Dr
Kanpur Branch :-				
1) Received Goods	6000 Cr	21000 Dr	15000 Cr	-
2) Sent Cash	6000 Dr	9000 Cr	3000 Dr	-
Nagpur Branch :-				
1) Sent Goods	-	-	9000 Cr	9000 Dr
2) Received B/R	-	-	9000 Dr	9000 Cr
3) Received Cash	-	-	5000 Dr	5000 Cr
Net Position	12000 Cr	12000 Dr	2000 Dr	2000 Cr

Journal

Kanpur Branch Dr	12000	
Nagpur Branch Dr	2000	
To Delhi Branch		12000
To Ahem. Branch		2000

(Being Net Position adjusted)

HW Question 40, 59

Case III : Accounting for Branch Fixed assets

Particular	H.O Books	B. Books
I Branch F. Assets Purchased by Branch	- No Entry -	F. Assets Dr To Bank
Depreciation on above	- No Entry -	Dep. Dr To F. Assets

II Branch F. Assets	Branch Dr	F. Assets Dr
Purchased by H.O	To Cash	To H.O
Depreciation on above	- No Entry -	Dep. Dr
		To F. Assets
III B. Fixed Assets	F. Assets Dr	H.O Dr
Purchased by Branch,	To Branch	To Cash
but F. Assets A/c will		
be maintained by H.o		
Depreciation on above	Branch Dr	Dep. Dr
	To F. Assets	To H.O
IV B. Fixed Assets	F. Asset Dr	- No Entry -
Purchased by H.O	To Cash	
but F. Assets A/c are		
maintained by H.O		
Dep. on above	Branch Dr	Dep. Dr
	To F A	To H.O

Case IV : Accounting Entries for Transit Items

There may be two types of Transit Items and Adjustment for Transit Items shall always be made in the books of Receiving Party.

(a) If Cash is remitted by Branch, but It is not Received by H.O. then H.O will record the following Entity :-

Cash in Transit Dr	xxxx
To Branch	xxxx

(b) If Goods are sent by H.O, but Not Received by Branch then Branch will adjust the following Entry :-

Goods in Transit Dr	xxxx
To H.O	xxxx

Q39 → Discussed in Class

Q-47 (Solution)

In the books of Branch

Particulars	Dr	Cr
(i) H.O a/c Dr	2800	
To Incomes		2800
(Being Income Allocated by H.O to Branch)		
(ii) P&L a/c Dr	1000	
To Head office		1000
(Being Prov. created)		
(iii) H.O a/c Dr	3000	
To Salaries		3000
(Being Rectification made)		
(iv) H.O a/c Dr	5000	
To Cash		5000
(Being Exp. Paid on behalf of other Branch)		
(v) - No Entry -		
(Transit Items are Recorded in Receiving Party)		
(vi) Expenses a/c Dr	75000	
To H.O		75000
(Being Expenses Paid by H.O)		
(vii) H.O Dr	30000	
To Debtors		30000
(Being collection of Debtors made by H.O)		
(viii) GIT Dr	10000	
To HO		10000
(Being Transit Item adjusted)		

HW Question 48, 49

* Part 8 *

Concept 3 : Branch Final A/cs

Requirement : i) B. Trading & P&L A/c

ii) B. Balance sheet

Q-34 (Solution) *Imp (Branch final A/c)

B. Trading & P&L A/c

Particular	₹	Particular	₹
To O. Stock	8200	By Sales	34950
To Purchases (Net)	12500	By C. Stock	14350
To Wages	6550		
To M. Exp.	3400		
To GFH	7200		
To GP	11450		
	49300		49300
To Rent (1700+150)	1850	By GP	11450
To Salaries	5500	By Discount	150
To G. Exp.	2000	By N. Loss (Bal. fig)	400
To Dep.	2650		
	12000		12000

B. Balance Sheet

H.O a/c (14000+2650)	16650	F. Assets	-
Creditors	2700	Debtors	4000
Rent o/s	150	Cash	750
		C. Stock	14350
		PL (Dr)	400
	19500		19500

Q-36 (Solution) (Branch final A/c)

Trading & P&L A/c

To O. Stock	-	By Sales :	
To Goods From H.O.	200000	Credit 250500	
To Purchases :		Cash 46000	296500
Credit 155500		By C. Stock	120000
Cash 30000	185500		
To GP	31000		
	416500		416500
To Expenses	86500	By GP	31000
To Depreciation	1750	By Net Loss (Bal. fig)	60250
	91250		91250

Balance Sheet

H.O A/c (W.N I)	96750	F. Assets	-
Creditors (W.N II)	13000	Stock	120000
Creditors for furniture	35000	C&B (W.N III)	18500
Advance from Debtors	54000	PL (Dr)	60250
(W.N IV)			
	198750		198750

W. N#1 **H.O A/c**

To Creditors (FA)	35000	By Bal b/d	-
To Cash	110000	By GFH A/c	200000
To Bal c/d (Bal. fig)	96750	By Dep. (35000x5%)	1750
		By Cash	40000
	241750		241750

W.N#2 **Creditors A/c**

To Cash	142500	By Bal b/d	-
T Bal c/d (Bal. fig)	13000	By Purchase	155500
	155500		155500

W.N#3 Cash A/c

To Bal b/d	-	By Purchase	30000
To Sales	46000	By Creditors	142500
To Debtors	304500	By Expenses	89500
To H.O A/c	40000	By H.O A/c	110000
		By Bal c/d (Bal. fig)	18500
	390500		390500

W.N#4 Debtors A/c

To Bal b/d	-	By Cash	304500
To Sales	250500		
To Advance from Debtors (Bal. fig)	54000		
	304500		304500

Q-33 (Solution) *Imp

Adjustment Entries

(a) Goods in transit Dr	10	
To H.O A/c		10
(Being GIT recorded)		
(b) Expenses a/c Dr	1	
To H.O		1
(Being Expenses charged by H.O to Branch)		

Trading & P&L A/c

To O. Stock	60	By Sales	360
To G F H (Net)	283	By C. Stock (in hand)	62
To Carriage	7		
To GP	72		
	422		422
To Exp. (Paid by H.O)	1	By GP	72
To Depreciation	2		
To Salaries	25		
To Rent	10		
To Advertisement	6		
To Telephone	3		
To S. Exp.	1		
To N P	24		
	72		72

Balance Sheet

H.O a/c (80+10+1)	91	Furniture	18
P&L A/c	24	Debtors	20
O/S Exp	3	C&B	8
		GIT	10
		Stock in hand	62
	118		118

Q-30 (Solution) *Imp (6-8 Marks)

H.O A/c

To Cash	38400	By Bal b/d	168000
To Building	4000		
To Bal c/d (Bal. fig)	125600		
	168000		168000

Balance Sheet			
H.O a/c	125600	F. Assets	-
P&L A/c	152800	C&B	29600
Creditors (W.N III)	26800	Debtors (W.N II)	272000
		Prepaid Salaries	2000
		Prepaid Insurance	1600
	305200		305200

W.N#1	**Trading & P&L A/c**		
To Purchase	48000	By Sales	240000
To Wages	20000		
To GP	172000		
	240000		240000
To Discount	8000	By GP	172000
To Salaries (6400-2000)	4400	By Discount	1200
To G. Exp	1600		
To Insurance	1600		
To M. Salary	4800		
To NP	152800		
	173200		173200

W.N#2	**Debtors a/c**		
To Bal b/d	200000	By Cash	160000
To Sales	240000	By Discount	8000
		By Bal c/d (Bal. fig)	272000
	440000		440000

W.N#3	**Creditors A/c**		
To Cash	60000	By Bal b/d	40000
To Discount	1200	By Purchases	48000
To Bal c/d (Bal. fig)	26800		
	88000		88000

W.N#4 — C&B A/c

To Bal b/d	8000	By Creditors	60000
To Debtors	160000	By Wages	20000
		By Salaries	6400
		By G. Exp.	1600
		By Insurance	3200
		By H.O a/c	38400
		By Building	4000
		By M. Salary	4800
		By Bal c/d	29600
	168000		168000

Q-41 (Solution)

Trading & P&L A/c

To O S	60000	By Salaries	380000
To Purchase	178000	By C. Stock	27000
To GFH (Net)	30000		
To GP	139000		
	407000		407000
To Salaries	15000	By GP	139000
To Rent	9600		
To Exp	4700		
To NP	109700		
	139000		139000

B/S

P&L	109700	H.O (32400-25000)	7400
Creditors	18500	Debtors	37000
		GIT	25000
		Stock	27000
		Cash	17800
		Furniture	14000
	128200		128200

* Part 9 *

Concept 4 : Consolidation of Final A/cs

Requirement : i) Consolidated B/s
ii) Consolidated P&L

Consolidated A/cs = $\underbrace{\text{H.O Final A/cs + Branch Final A/cs}}$

Company Final A/cs

Format — Consolidated B/S (H.O+B) (Non Corporate Entity) ➡ Total B/S at Business Level

Liabilities		₹	Assets		₹
Capital :			Fixed Assets :-		
O. Balance	xxxx		H.O	xxxx	
Profit : HO	xxxx		B	xxxx	xxxx
B	xxxx				
Drawings	(xxxx)	xxxx	Investment (H.O)		xxxx
Loans : H.O	xxxx		Current Assets :-		
B	xxxx	xxxx	H.O	xxxx	
			B	xxxx	xxxx
Current Liab : H.O	xxxx				
B	xxxx	xxxx			
		xxxx			xxxx

Important Points to be considered Prior to Consolidation :-

Step I : Reconciliation of H.O A/c & Branch A/c

In case the Given Balance in Respective Trial Balance are not equal then we should reconcile the Given Balances. There may be two reasons for difference in A/cs as follows :-

➡ Reason I : Transit Items
➡ Reason II : Unrecorded Items

i) Adjust Transit Items in the books of Receiving Part (i.e., GIT, CIT etc.)

ii) Adjustment of Unrecorded Items shall be made in the books of Respective Parties in which such Transaction remains unrecorded.

Step II : Incorporation of Branch Trial Balance in the books of H.O :-

(It will be disclosed in solution only If it is Required)

H.O Books		B. Books	
(i) Assets Dr	xxxx	(i) H.O a/c Dr	xxxx
To Branch	xxxx	To Assets	xxxx
(Being Assets incorporated)		(Being Assets Closed to H.O)	
(ii) Branch Dr	xxxx	(ii) Liab. a/c Dr	xxxx
To Liab.	xxxx	PL a/c	xxxx
To PL	xxxx	To H.O	xxxx
(Being Liab. & Profit incorporated)		(Being Liab. & Profit transferred)	

* All Entries are Reversed in the beginning of Next year

Step III : Stock Reserve on B. Stock if GSTB was made at Selling Price

If GSTB was made by H.O at Selling Price then H.O. should create OSR/ CSR on B. Stock to show inventory in B/s at cost.

In H.O P&L A/c

Q-26 (Solution) *VVI (16 Marks)

W.N#1 Reconciliation of A/cs

H.O Books		B. Books
i) CIT a/c Dr	3000	
To Branch	3000	- No Entry -
(Being CIT Recorded)		

H.O Books	B. Books
ii) Loss in Transit Dr 1700	- No Entry -
To Branch 1700	
(Being CIT debited as Branch manager Declined to admit any Liab.)	

Branch A/c				H.O A/c			
To Bal b/d	133710	By CIT	3000	To Bal c/d	129010	By Bal b/d	129010
		By LIT	1700				
		By Bal	129010				

I Incorporation of B. Trial Balance

H.O Books	B. Books
i) F. Assets Dr 95000	i) H.O a/c Dr 171110
Stock Dr 50460	To F. Assets 95000
Debtors Dr 19100	To Stock 50460
Cash Dr 6550	To Debtors 19100
To Branch 171110	To Cash 6550
(Being Assets incorporated)	(Being Assets closed)
ii) Branch Dr 42100	ii) Creditors Dr 10400
To Creditors 10400	PL Dr 31700
To PL 31700	To H.O 42100
(Being Liab & Profit incorporated)	(Being Liab. & PL Closed)

Branch A/c (After Reconc.)				H.O A/c			
To Bal b/d	129010	By FA	95000	To FA	95000	By Bal b/d	129010
To Creditors	10400	By Stock	50460	To Stock	50460	By Creditors	10400
To PL	31700	By Debtors	19100	To Debtor	19100	By PL	31700
		By Cash	6550	To Cash	6550		
	171110		171110		171110		171110

Consolidated B/S of Ring Bell Ltd.		
Shareholders Funds :		
Share Capital	-	800000
R&S	Note 1	207510
N. C. Liab		-
Current Liab : Trade Payable	Note 2	32300
		1039810
Non Current Assets : PPE	Note 3	625000
C. Assets : Inventory	Note 4	272930
T. Receivable	Note 5	69600
C& C.E	Note 6	72280
		1039810

W.N#2 Notes to A/cs

Note 1 : R&S			100000
General Reserve			
P&L : OB		25310	
CY : HO		82200	
Lit		(1700)	
B		31700	
I.D.		(30000)	107510
			207510
Note 2 : Trade Payables : Creditors (HO)			21900
	(B)		10400
			32300
Note 3 : P.P.E :- H.O			530000
B			95000
			625000
Note 4 : C. Assets			
Inventory : H.O			222470
B			50460
			272930

Trade Receivable : H.O		50500
	B	19100
		69600
C & C.E. : H.O		62723
	B	6550
	CIT	3000
		72280

Q-38 (Solution) *V.V.I

Trading & P&L A/c

Particular	H.O	B	Particular	H.O	B
To O. Stock	40000	100000	By Sales	4250000	2185000
To GFH	-	1875000	By GSTB	1900000	-
To Purchases	4570000	-	By C. Stock	60000	75000
To GP	1600000	285000			
	6210000	2260000		6210000	2260000
To C. S. Res.	20000	-	By GP	1600000	285000
To Dep @ 10%	175000	50000	By O. S. Res.	20000	-
To Prov. for Bad debts	-	2500	By PFDD	30000	-
To Expenses	1402500	107500			
To NP	52500	125000			
	1650000	285000		1650000	285000

Consolidated B/S

Capital :		Fixed Assets :	
O. Bal. 2050000		H.O 1750000	
Profits : HO 52500		B 500000	
B 125000		Prov. for Dep :	
Drawings (200000)	2027500	H.O (875000)	
Creditors (H.O)	250000	B (200000)	1175000
		Cash & Bank :-	
		H.O 77500	
		B 65000	
		CIT 250000	392500
		Stock :-	
		H.O 60000	
		B 75000	
		GIT 25000	
		S. Res. (20000)	140000
		(1L×25/125)	
		Debtors :	
		H.O 300000	
		B 300000	
		PFDD : H.O (15000)	
		B (15000)	570000
	2277500		2277500

W.N#1 **Reconciliation of A/cs**

H.O Books	B. Books
(1) - No Entry -	(1) GIT a/c Dr 25000 To H.O 25000 (Being GIT adjusted)
(2) CIT a/c Dr 250000 To Branch 250000	(2) - No Entry -

Branch A/c				H.O A/c			
To Bal b/d	875000	By CIT	250000	To Bal	625000	By Bal b/d	600000
		By Bal	625000			By GIT	25000

Q-37 (Solution)

Trading & P&L A/c

Particular	H.O	B	Particular	H.O	B
To O. Stock	30000	40000	By Sales (Net)	300000	350000
To Purchases (Net)	170000	260000	By Transfers	50000	70000
To Transfers	65000	48000	By C. Stock	46000	54000
To GP	131000	126000			
	396000	474000		396000	474000
To Expenses	25200	41800	By GP	131000	126000
To Dep. @ 10%	5000	8000			
To NP	100800	76200			
	131000	126000		131000	126000

Consolidated B/S

Liabilities	₹	Assets	₹
Anil Cap	181230	F. Assets :	
Sunil Cap	159770	H.O 50000	
		B 80000	
B. Overdraft (B)	6000	Dep. (13000)	117000
		C&B :	
Advance from Debtors :		H.O 70000	
HO 4000		B -	
B 3000	7000	CIT 5000	75000
		Stocks :	
Creditors : HO 32000		H.O 46000	
B 51000	83000	B 54000	
		GIT 5000	107000
		Debtors :	
		H.O 64000	
		B 71000	135000

		Advance to Creditors :	
		H.O 2000	
		B 1000	3000
	437000		437000

Reconciliation of A/cs

H.O Books	B. Books
(1) - No Entry -	(1) CIT a/c Dr 5000
	To H.O 5000
	(Being CIT Recorded)
(2) Branch a/c Dr 2800	(2) Expenses a/c Dr 2800
To Expenses 2800	To H.O 2800
(Being Expenses charged to Branch)	(Being Exp. transferred from H.O)
(3) GIT a/c Dr 5000	(3) GIT a/c Dr 2000
To Branch 5000	To H.O 2000
(Being GIT Recorded)	(Being GIT Recorded)

Branch A/c

To Exp.	2800	By Bal b/d	5000
To Bal c/d	7200	By GIT	5000

H.O A/c

To Bal	17000	By CIT	5000
		By Exp	2800
		By GIT	2000
		By Bal	7200

W.N#1 **Calculation of Closing Bal. in Capital A/cs**

		Anil	Sunil
Capital :	HO	83000	40000
	B	35000	70000
Drawings :	HO	(30000)	(5000)
	B	(4000)	(25000)
Profit : 40%		40320	22860
		(100800x40%)	(76200x30%)
PSR		56910	56910
(100800+76200-40320-22860) 1:1			
		181230	159770

* Part 10 *

Q-27 (Solution) *V.V.Imp (16 Marks)

Trading & P&L A/c

Particular	H.O	B	Particular	H.O	B
To O. Stock	-	-	By Sales	1420000	640000
To Manufacturing A/c (FG)	1848000	-	By GSTB	651200	-
			By A. Loss	-	4000
To GFH	-	640200	(5000 x 110)		
To GP	343200	128000	137.5		
			By C. Stock	120000	124200
	2191200	768200		2191200	768200
To S. Exp.	224000	27000	By GP	343200	128000
To A. Loss	-	4000			
To CSR	12291	-			
To NP	106909	97000			
	343200	128000		343200	128000

Consolidated B/S

Liabilities	₹	Assets	₹
Capital :		F. Assets	-
Opening Bal. 220000		C&B : H.O 162000	
Profits : HO 106909		B 34000	
B 97000		CIT 43750	239750
Drawings (25000)	398909	Stock : HO 120000	
		B 124200	
Creditors : HO 583350		GIT 11000	
B 2400	585750	$\frac{135200 \times 10}{110}$ CSR (12291)	242909
		Stock of Raw Material	180000
		Debtors : HO 230000	
		B 92000	322000
	984659		984659

W.N#1 **Reconciliation of A/cs**

H.O Books	B. Books
CIT a/c Dr 43750	GIT a/c Dr 11000
To Branch 43750	To H.O 11000
(Being CIT Recorded)	(Being GIT Recorded)

Branch A/c				H.O A/c			
To Bal b/d	205550	By CIT	43750	To Bal	161800	By Bal	150800
		By Bal	161800			By GIT	11000

W.N#2 **Manufacturing A/c (H.O)**

To O. Stock (RM)	-	By Trading A/c (Bal)	1848000
To Purchases	1993350	By C. Stock	180000
To Cost of Proc.	34650		
	2028000		2028000

W.N#3 **Calculation of C. Stock**

a) H.O : COGS = OS + P – CS

Sales – GP = OS + P – CS

i) Sales 1420000
GSTB 651200
T. Sales 2071200

GP : 1) $1420000 \times \frac{25}{125}$ (284000)

2) $651200 \times \frac{10}{110}$ (59200)

COGS 1728000

2) COGS = OS + P – CS

1728000 = NIL + 1848000 – CS

$\boxed{CS = 120000}$

ii) Branch $= \left(640000 - \frac{27.5}{137.5}\right) = NIL + 640200 - CS$

$= 512000 = 640200 - CS$

$= 128200$ AL

Net Closing Stock = 128200 − 4000 = $\boxed{124200}$

Q-29 (Solution) *V.V.I

W.N#1 Reconciliation of A/cs

H.O Books		B. Books	
CIT a/c Dr	1500	GIT a/c Dr	1500
To Branch	1500	To H.O	1500
(Being CIT Recorded)		(Being GIT Recorded)	

Branch A/c

To Bal b/d	5000	By CIT	1500
		By Bal	3500

H.O A/c

To Bal c/d	3500	By Bal b/d	2000
		By GIT	1500

W.N#2 Manufacturing A/c

To O. Stock (RM)	1800	By P&L A/c (Bal. fig)	182000
To Purchases	35000	By C. Stock	2300
To Wages	108500		
To F. OH	39000		
	184300		184300

W.N#3 Calculation of C. Stock

(a) COGS :

	H.O	B
Sales	200000	65200
GSTB	46000	-
	246000	65200
GP : Sales @ 30%	(60000)	(19560)
GSTB @ $\frac{15}{115}$	(6000)	-
COGS	180000	45640

(b) C. Stock :

	H.O	B
OS	13000	9200
Production	182000	-
GFH	-	44500
Total Goods	195000	53700
COGS	(180000)	(45640)
CS	15000	8060

W.N#4 Notes to A/cs

1. Employees Cost :

	H.O	B
a) Adm. Salaries	13900	4000
b) Salesmen "	22500	6200
c) Bonus	-	156
	36400	10356

2. Other Exp.

	H.O	B
Other A. OH	12500	2300
OSR	(12000)	-
CSR [8060+1500] 15/115	1247	-
	12547	2300

3. Inventory :

H.O (FG)	15000	
B (FG)	8060	
GIT	1500	
S Res	(1247)	23313
Stock of Raw Material		2300
		25613

4. C & C.E :

H.O	22000
B	1000
CIT	1500
	24500

P&L Statement of KP Ltd.

Particular	H.O	Branch	Consolidated
Revenues :-			
Sales	200000	65200	265200
GSTB	46000	-	46000
Other Income	-	-	-
Total (a)	246000	65200	311200
Expenses :-			
Purchases (W.N#2)	182000	-	182000
Goods from H.O	-	44500	44500
Changes in Stock : OS	13000	9200	22200
CS	(15000)	(8060)	(23060)
Employees Cost (Note 1)	36400	10356	46756
Finance Cost	-	-	-
Depreciation	-	-	-
Other Exp. (Note 2)	12547	2300	14847
Total (b)	228947	58296	287243
(a-b) NP	17053	6904	23957

B/S of KP Ltd.

Shareholders Funds :		
Share Capital	-	50000
R&S : PL Bal.	-	23957
Non Current Liab :	-	-
Current Liab : 1) Trade Payable	-	13000
2) Other C. Liab (Bonus o/s)	-	156
	Total	87113
Non Current Assets		
Current Liab : Inventory	Note 3	25613
Trade Receivable	-	37000
C & CE	Note 4	24500
	Total	87113

Q-31 (Solution)

II Reconciliation of A/cs

H.O Books			B. Books		
(1) - No Entry -			(1) GIT a/c Dr	3641	
			To H.O		3641
			(Being GIT Recorded)		
(2) CIT a/c Dr	3500		(2) - No Entry -		
To Branch		3500			
(Being CIT Recorded)					
(3) - No Entry -			(3) H.O a/c Dr	750	
			To Debtors		750
			(Being Collection from Debtors Made by H.O)		
(4) - No Entry -			(4) F. Assets Dr	2500	
			To H.O		2500
			(Being B. Assets Purchased by H.O)		

Branch A/c

To Bal b/d	31536	By CIT	3500
		By Bal	28036

H.O A/c

To Debtors	750	By Bal b/d	22645
To Bal b/d	28036	By GIT	3641
		By FA	2500

W. N#2 Notes to A/cs :-

1. PPE :	HO	75125
	B	18901
	Lorry	2500
		96526
2. C. Assets :	H.O	121809
	B	23715
	CIT	3500
	GIT	3641

Collection from Debtors	(750)
C S Res (4565+3641) 10	(746)
110	
	151169

3. Current Liab : H.O 34567

H.O	34567
B	9721
	44288

4. Revenue A/c : H.O

H.O	43210
B	10250
C S Res	(746)
O S Res	693
	53407

Balance sheet

Shareholders Fund :		
SC	-	150000
Res	Note 4	53407
NCL	-	-
CL	Note 3	44288
		247695
NCA : PPE	Note 1	96526
CA		151169
		247695

Q-36 (Solution)

Incorporation of Trial Balance

H.O Books		B. Books	
(1) Stock Dr	120000	(1) HO Dr	198750
Cash Dr	18500	To Stock	120000
PL Dr	60250	To Cash	18500
To Branch	198750	To PL	60250
(Being Assets & Losses incorp.)		(Being Assets Closed)	

(2) Branch Dr 102000
To CRS 13000
To CRS 35000
To Adv 54000
(Being Liab. incorporated)

(2) Creditors (Goods) Dr 13000
Creditors (Fur.) Dr 35000
Advances Dr 54000
To H.O 102000
(Being Liab. Closed)

Branch A/c

To Bal	96750	By Stock	120000
To CRS	13000	By Cash	18500
To CRS	35000	By PL	60250
To Adv.	54000		
	198750		198750

Unit III : Foreign Branch (AS-11)

Concept 1 : Meaning of Foreign Operation

As per the Provisions of AS-11, Foreign Operation is a Branch which is operated by an Entity outside India. It can be operated in into forms :-

(a) IFO (Integral Foreign Operation)
(b) NIFO (Non Integral Foreign Operation)

Concept 2 : IFO

If Separate Entity is not Established outside India and All the transactions are undertaken in the name of H.O then All transactions are. considered as a Part of Business of Head office. At B/S date, Consolidation of foreign Branch with Head office can be made only after Transaction of Trial Balance from foreign currency into Indian currency.

Transaction Rules

Particular	Debit	Credit	Workings
Fixed Assets	xxxx	-	Actual Rate
			(Date of Acquisition)
			of F. Assets
C. Assets	xxxx	-	Closing Rate
C. Liab.	-	xxxx	" " "
Loans	-	xxxx	" " "
H.O A/c	-	xxxx	No Conversion
			(It will be equal to
			Branch A/c Balance in H.O
			Books)
Incomes	-	xxxx	Average Rate
Expenses	xxxx	-	Average Rate
Except			
i) Depreciation	xxxx	-	Actual Rate (F. Assets)
ii) O. Stock	xxxx	-	opening Rate
iii) Goods From H.O	xxxx	-	No Conversion
			(It will be equal to GSTB
			in H.O Books)
iv) Specific Exp.	xxxx	-	Spot Rate on the date of
			Transaction
	xxxx	xxxx	
Exchange Loss	xxxx	-	(Bal. fig)
Exchange Gain	-	xxxx	
	xxxx	xxxx	

C. Stock = Closing Rate

Q-52 (Solution)

Conversion of Trial Balance from Dollars into Indian currency

Particular	Debit	Credit	Workings
P&M	4104000	-	$ 108000 x 38
Dep. on P&M	456000	-	$ 12000 x 38
Furniture	273600	-	$ 7200 x 38
Dep on Furniture	30400	-	$ 800 x 38
O. Stock	2184000	-	$ 56000 x 39
Purchases	9600000	-	$ 240000 x 40
Sales	-	16640000	$ 416000 x 40
GFH	3940000	-	Equal to GSTB
Wages	121000	-	(2000 x 40)+(1000x41)
O/S Wages ➡ CL	-	41000	(1000 x 41)
Carriage	40000	-	$ 1000 x 40
Salaries	240000	-	$ 6000 x 40
Rent	80000	-	$ 2000 x 40
Insurance	40000	-	$ 1000 x 40
T. Exp.	40000	-	$ 1000 x 40
H.O a/c	-	4300000	Equal to Branch A/c in H.O Books
Debtors	984000	-	$ 24000 x 41
Creditors	-	697000	$ 17000 x 41
C&B	246000	-	$ 6000 x 41
	22379000	21678000	
Exchange Gain	-	701000	
	22379000	22379000	

C. Stock = $ 52000 x 41 = 2132000

B. Trading & P&L A/c

To O. Stock	2184000	By Sales	16640000
To Purchases	9600000	By C. Stock	2132000
To Wages	121000		
To Carriage Inward	40000		
To GFH	3940000		
To GP	2887000		
	18772000		18772000

To Dep on P&M	456000	By GP	2887000
To Dep on Fur	30400	By E. Gain	701000
To Salaries	240000		
To Rent	80000		
To Ins.	40000		
To T. Exp	40000		
To NP	2701600		
	3588000		3588000

BS

H.O a/c	4300000	P&M	4104000
PL	2701600	Furniture	273600
Creditors	697000	Stock	2132000
O/S Wages	41000	Debtors	984000
		C&B	246000
	7739600		7739600

Q-53 (Solution) * Imp

Conversion of Trial Balance ₹ From into $

Particular	Debit	Credit	Workings
O. Stock	7500	-	₹ 300000/40
Purchases	19512.19	-	₹ 800000/41
Sales	-	29268.29	₹ 1200000/41
Debtors	9523.81	-	₹ 400000/42
Creditors	-	7142.86	₹ 300000/42
B/R	2857.14	-	₹ 120000/42
B/P	-	5714.28	₹ 240000/42
Wages	13658.54	-	₹ 560000/41
Rent	8780.49	-	₹ 360000/41
S. Charges	3902.44	-	₹ 160000/41
Computers	2400	-	₹ 6000 x 40%
Dep. on Computers	3600	-	₹ 6000 x 60%
Bank	10000	-	₹ 420000/42
H.O A/c	-	39609.18	Given
	81734.61	81734.61	

C. Stock = ₹ 420000/42 = 10000

HW Q. 53 B. Trading & P&L A/c And Balance Sheet

GL = 1402.44

NL = 17685.37

BS = 52466.32

* Part II *

Q-50 (Solution) * Imp

Note : In the Given question, C. Stock & Branch manager commission is missing. We should not calculate the missing Items of a Foreign Branch into Indian currency directly. We should calculate the missing Items of a Foreign Branch into Foreign currency First then we should Translate it into Indian currency.

Conversion of Trial Balance From Dollars into ₹

Particular	Debit	Credit	Workings
F. Assets	410400	-	108000 x 3.8
Dep. on F. Assets	45600	-	12000 x 3.8
D. Stock	425600	-	56000 x 7.6
GFH	2463000	-	GSTB Given
Sales	-	3150000	42000 x 7.5
Expenses	187500	-	25000 x 7.5
Debtors	184800	-	24000 x 7.7
Creditors	-	130900	17000 x 7.7
Cash	46200	-	6000 x 7.7
H.O a/c	-	860000	Branch Bal. given
Commission	18095	-	2350 x 7.7
O/S Commission	-	18095	2350 x 7.7
	3781195	4158995	
E. Loss (Bal)	377800	-	
	4158995	4158995	

C. Stock = $ 40000 x 7.7 = 308000

B. Trading & P&L A/c

To O. Stock	425600	By Sales	3150000
To GFH	2463000	By C. Stock (W.N#1)	308000
To GP	569400		
	3458000		3458000

To Depreciation	45600	By GP	569400
To Expenses	187500	By NL	59595
To Commission (W.N#2)	18095		
To E. Loss	377800		
	628995		628995

BS

H.O a/c	860000	F. Assets	410400
Creditors	130900	Debtors	184800
O/S Commission	18095	Cash	46200
		Stock (W.N#1)	308000
		PL Dr	59595
	1008995		1008995

W.N#1 Calculation of C. Stock (In Dollars)

O. Stock		56000
GFH		320000
	Total Goods	376000
COGS $\left(420000 - \frac{27.5}{137.5}\right)$ (Sales - GP)		(336000)
	C. Stock	40000

W.N#2 B. Trading & P&L A/c (In $)

To O. Stock	56000	By Sales	420000
To GFH	320000	By C. Stock	40000
To GP	84000		
	460000		460000
To Exp.	25000		84000
To Dep	12000		
To NP (Before comm.)	47000		
	84000		84000

Comm. = 47000 x 5% = 2350

Q-51 (Solution) * V. V. Imp

I B. Loan A/c

31.12.x1		1.1.x1	
To Bank	181656	By B. Fixed Assets	561000
[(3000 x 26.10) + 103356]		(22000 x 25.50)	
To Bal c/d	495900	31.12x1	
(19000 x 26.10)		By E. Loss	13200
		(26.10-25.5) x 22000	
		By Interest	103356
		(22000 x 18% x 26.10)	
31.12.x2		1.1.x2	
To Bank	169488	By Bal b/d (19000)	495900
[(26.40 x 3000) + 90288]			
		31.12.x2	
To Bal c/d	422400	By E. Loss	5700
(16000 x 26.40)		(26.40-26.10) x 19000	
		By Interest	90288
		(19000 x 18% x 26.40)	
31.12.3x3		1.1x3	
To Bank	248136	By Bal b/d (16000)	422400
[(3000 x 42.20) + 121536]			
		31.12.x3	
To Bal c/d	548600	By E. Loss	252800
(13000 x 42.20)		(42.20-26.40) x 16000	
		By Interest	121536
		(16000 x 18% x 42.20)	

F. Assets A/c

1.1.x1		31.12x1	
To Bank (3000 x 25.5)	76500	By Depreciation (1/10)	65070
To Loan (22000 x 25.5)	561000	By Bal c/d	585630
31.12.x1			
To E. Loss	13200		
1.1x2			
To Bal b/d	585630	By Dep (1/9)	65703
31.12.x2		By Bal c/d	525627
To E. Loss	5700		
1.1.x3			
To Bal b/d	525627	By Dep (1/8)	97303
31.12.x3		By Bal c/d	681124
To E. Loss	252800		

Conversion of Trial Balance

Particular	Debit	Credit	Workings
F. Assets	681124	-	Refer F. A. A/c
Depreciation	97303	-	Refer F. A. A/c
Loans	-	548600	Refer Loan A/c
Interest	121536	-	Refer Loan A/c
O. Stock	216480	-	8200 x 26.40
GFH	2146200	-	GSTB Given
Sales	-	3839800	105200 x 36.50
Salaries	554800	-	15200 x 36.50
Cash	71740	-	1700 x 42.20
Debtors	894640	-	21200 x 42.20
H.O A/c	-	412716	Given
	4783823	4801116	
E. Loss	17293	-	
	4801116	4801116	

C. Stock = 2400 x 42.20 = 101280

Case II : NIFO (Non Integral Foreign Operation)

If any Foreign Branch is operated as a Separate Entity outside India then there shall be two major changes as follows :-

I F. Assets shall be converted at Closing Rate instead of Actual Rate

II Diff. in Trial Balance will be transferred to "FCTR" Foreign currency Translation Reserve.

[It will be disclosed separately in B/S]

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Chapter 19

Part 1

Coneptual Framework on Financial Statements

(We will study this Topic directly from Study Material)

Coverage

a) Components of Financial Statements	(Theory)
b) Users of Financial Statements	(Theory)
c) Fundamental Acounting Assumptions	(Practical)
d) Elements of Financial Statements	(Practical)
e) Measurement Values for Assets & Liab.	(Theory)
f) Concept of Capital Maintenance	(Practical)
g) Qualitative Characteristics of Financial Statements	

I Components of Financial Statements

a) Balance Sheet
b) Profit & Loss A/C
c) Cash Flow Statement
d) Notes to A/cs

Refer theory from Study Material for self reading.

II Users of Financial Statements

Users

Investors (Shareholder) | Financers (Lenders) | Employees | Supplier | Customer | Public | Govt.

Objective to Study Financial Statement of each user is Different : Refer Study Material for detailed theory

III Fundamental Accounting Assumptions

(AS – 1)

Going Concern | Accrual | Consistency

" We have already studied these Assumptions in AS-1 "

Illustration 1 : Study Material

(Note : If Assumption of Going Concern fails then we consider Realisable Value & Payable Value for all Assets & Liab instead of Normal Values)

Trading & P&L a/c

Particulars	Going Concern	No Going Concern	Particulars	Going Concern	No Going Concern
To O. Stock	30000	30000	By Sales	450000	450000
To Purchases	400000	400000	By C. Stock	32000	40000
To GP	52000	60000			
	482000	490000		482000	490000
To Depreciation	13000	500	BY GP	52000	60000
	(65000/5y)	(65000 – 60000)	By Discount	-	600
To Expenses	14900	14900	on Creditors		
To Deferred Exp	2500	10000			
To PFDD	2000	6000			
To Penalty	-	2500			
To NP	19600	22200			
	52000	60600		52000	60600

Balance Sheet

Liablities	Going Concern	No Going Concern	Assets	Going Concern	No Going Concern
Capital	60000	60000			
PL A/C (OB+NP)	44600	47200	PPE	52000	60000
Loan	35000	37500	Stock	32000	40000
Creditors	12000	11400	Debtors	23000	19000
			Deferred Exp	7500	NIL
			Cash	37100	37100
	151600	156100		151600	156100

*Study Material => Q 10 H.W.

Example 1 : Study Material (Cash Basis & Accrual Basis)

Cash Basis

P&L A/C (Period I)

To Purchases	2000		
To Profit	58000	By Sale	60000

P&L A/C (Period II)

To Purchase	50000	By Sales	25000
		By Loss	47500

Accrual Basis

P&L A/C

To Purchases : Cash	2000	By Sales : Cash 60000	
Credit	50000	Credit 2500	62500
To Profit	10500		

IV Qualitative Characteristics of FS

Q.C

Understandable | Reliable | Comparable | Relevant

"For Detailed theory refer "
S.M

V Elements of Financial Statements

Elements
- Assets
- Liabilitites
- Equity [Assets - Liab.] → Shareholder Fund
- Income
- Exp.

Example 3 : Study Material

Equity = Assets - Liabilities

I Opening Equity = 300000 (500000 - 200000)

II Capital Introduced = 320000 (520000 - 200000)

III Income Earned = 328000 (528000 - 200000)

-30000 -31000

IV Settlement Liab. = 329000 (498000 - 169000)

V Wages Paid = 327000 (496000 - 169000)

VI Rent O/S = 32600 (496000 - 170000)

VII Drawings = 322000 (492000 – 170000)

VI Measurement Values

Values

Historical Value	Present Value	Realisable Value	Current Cost
AS 10 : PPE, AS 26 : IA – Cost Model	AS - 19 PV of MLP/GI	AS-2 Cost or NRV	Revaluation Model
	Lessee, Lessor	Lower	

(Refer Study Material for Detailed theory)

*Study Material :- Q 9 H.W.

VII Concept of Capital Maintenance

Capital Maintenance

- Financial Capital Maintenance
  - Historical Capital Maintenance
  - Current Purchasing Power Maintenance
- Physical Capital Maintenance

Historical Capital Maintenance (Traditonal Concept)

Step I: Calculate Closing Capital

CC = Opening Cap + Profits + Additional Cap - Drawings

Step II : Retained Profits / Capital Maintenance

Closing Capital − Opening Capital = "+" → Capital is maintained

Current Purchasing Power Maintenance :

Step I : Calculate Closing Capital

CC = OC + P + AC − Drawings

Step II : Capital Maintenance

$\text{Closing Capital} - \text{Opening Capital} \times \frac{\text{Current Index}}{100} = $ "+" → It is maintained ; "(−)" → It is not maintained

Physical Capital Maintenance

Step I : Calculate Closing Capital

CC = OC + P + AC − D

Capital = A − L (A: Current MV ; L: Current MV)

Step II : Capital Maintenance

Closing Capital − (Opening Capital at Current Cost) = + → Maintained ; − → Not Maintained

*Study Material : Illustration 2

Statement Showing Capital Maintenance

(CC = 12000 + 6000 − 6000 = 12000)
OC P D

Concept 1 : Historical Concept

Closing Capital	12000
Opening Capital	(12000)
Retained Profit	0

Comments : In the Given Case, Company is maintaining its Capital ,but its Retained Profit is 0.

Concept 2 : <u>Purchasing Power</u>

Closing Capital	12000
Opening Capital (12000/100 x 125)	(15000)
Retained Profit	(3000)

Comments :- Company is not maintaining its Capital as per Current Purchase Power.it should reduce its Drawings to maintain its capital.

Concept 3 : <u>Current Cost</u>

Closing Capital	12000
Current Cost of Inventory (6000 x 2.5)	(15000)
	(3000)

Comments : Company' maintained Capital is Negative . It should reduce its Drawings.

H.W:- Q.8

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal