CHAPTER – 1

ACCOUNTING STANDARDS - INTRODUCTION

Total Questions: 5

Q.1 List the Criteria for classification of non-corporate entities as level I Entities for the purpose of application of Accounting Standards as per the Institute of Chartered Accountants of India. **(Jan 21)**

Ans. Criteria for classification of non-corporate entities as level 1 entities for purpose of application of Accounting Standards decided by the Institute of Chartered Accountants of India is given below: Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore (as per amendment- Rupees two fifty crore) in the immediately preceding accounting year.

(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore (as per amendment- Rupees fifty crore) at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Q.2. "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. "Discuss and explain the benefits of Accounting Standards. **(Nov 18)**

Ans. Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

(i) Standardization of alternative accounting treatments: Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.

(ii) **Requirements for additional disclosures:** There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) **Comparability of financial statements:** The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

Q.3. Explain the objective of 'Accounting Standards' in brief. State the advantages of setting Accounting Standards. **(Nov '22)**

Ans. Accounting Standards are the written policy documents issued by Government relating to various aspects of measurement, treatment, presentation and disclosure of accounting transactions and events.

Following are the objectives of Accounting Standards:

(a) Accounting Standards harmonize the diverse accounting policies and practices followed by different companies in India.
(b) Accounting Standards facilitate the preparation of financial statements and make them comparable.
(c) Accounting Standards give a sense of faith and reliability to the users.

The main advantages of setting accounting standards are as follows:

(a) Accounting Standards make the financial statements of different companies comparable which helps investors in decision making.
(b) Accounting Standards prevent any misleading accounting treatment.
(c) Accounting Standards prevent manipulation of data by the management.

Q.4. What are the issues, with which Accounting Standards deal? **(RTP Nov 20)**

Ans. Accounting Standards deal with the issues of (i) Recognition of events and transactions in the financial statements, (ii) Measurement of these transactions and events, (iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and (iv) Disclosure requirements.

Q.5 An organization whose objects are charitable or religious, believes that the Accounting Standards are not applicable to it since only a very small proportion of its activities are business in nature. Comment. **(RTP May '22)**

Ans. Accounting Standards apply in respect of any enterprise (whether organized in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes. Accounting Standards however, do not apply to enterprises solely carrying on the activities, which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise were considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those, which are not commercial, industrial or business in nature.

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CHAPTER – 2

FRAMEWORK FOR PREPARATION & PRESENTATION OF FINANCIAL STATEMENTS

Total Questions: 5

Q.1 Aman started a business on 1st April 2020 with Rs. 24,00,000 represented by 1,20,000 units of Rs. 20 each. During the financial year ending on 31st March, 2021, he sold the entire stock for Rs. 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 2020-21 if Financial Capital is maintained at historical cost.

(RTP May '21) (RTP Nov 18) (Similar to RTP Nov 19 but different figures) (Jan 21 but different figures)

Ans

Particulars	**Financial Capital Maintenance at Historical Cost (Rs)**
Closing equity (Rs 30* 1,20,000 units)	36,00,000 represented by cash
Opening equity	1,20,000 units* Rs 20= 24,00,000
Permissible drawings to keep capital intact	12,00,000 (36,00,000-24,00,000)

Q.2 What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain in brief.

(RTP Nov 21, Dec 21)(MTP March 19, April 19 & March 21)

Ans Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The framework recognizes four alternative measurement bases for the purpose. These bases can be explained as:

Historical cost	This is the Acquisition price. According to this, assets are recorded at an amount of cash and cash equivalent paid or the fair value of the assets at time of acquisition.
Current Cost	Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
Realizable (Settlement value)	For assets, amount currently realizable on sale of the asset in an orderly disposal. For liabilities, this is the undiscounted amount expected to be paid on settlement of liability in the normal course of business.
Present Value	Assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

In preparation of financial statements, all or any of the measurement basis can be used in varying combinations to assign money values to financial items.

Q.3 Summarized Balance Sheet of Cloth Trader as on 31.03.2020 is given below:

Liabilities	**Rs**	**Assets**	**Rs**
Proprietor's capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Trade Receivables	1,00,000
Trade Payables	50,000	Deferred expenses	50,000
		Cash & Bank	25,000
	6,85,000		**6,85,000**

Additional Information is as follows:

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realizable value of fixed assets on 31.03.2021 was ₹ 3,25,000.

(2) Purchases and Sales in 2020-21 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2021 were ₹ 2,00,000 and ₹ 2,50,000 respectively.

(4) Expenses for the year amounted to ₹ 78,000 which includes interest on 10% loan amount for the year.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Trade receivables on 31.03.2021 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing trade payables are ₹ 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2021 is ₹ 4,22,000.

(9) There is an early repayment penalty for the loan of ₹ 25,000. You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2020-21.

(2) Balance Sheet as on 31st March, 2021.

(RTP May '22 & RTP Nov 22) (May 19 & Nov 20)

Ans Books of Cloth Trader

Profit and Loss Account for the year ended 2020-21 (not assuming going concern)

Particulars	Rs	Particulars	Rs
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses	78,000	By Trade Payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		
To Deferred cost	50,000		
To Loan penalty	25,000		
To Net profit (b.f.)	3,89,500		
	30,07,500		**30,07,500**

Balance Sheet as at 31st March, 2021 (not assuming going concern)

Liabilities	Rs	Assets	Rs
Capital	3,00,000	Fixed Assets	3,25,000
Profit & Loss A/c	5,14,500	Stock	2,50,000
10% Loan	2,35,000	Trade Receivables (Less: provision)	1,20,000
Trade Payables	67,500	Deferred costs	Nil
		Bank	4,22,000
	11,17,000		**11,17,000**

Q.4 A trader commenced business on April 1, 2020 with ₹ 120,000, represented by 6000 units of a certain product at ₹ 20 per unit. During the year 2020-21 he sold these units at ₹ 30/- per unit and had withdrawn ₹ 60,000. The price of the product at the end of financial year was ₹ 25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether Answer would be different if the trader had not withdrawn any amount. **(July'21)**

Ans Physical Capital Maintenance at Current Cost

In the given case, the specific price index applicable to the product is 125 (25/20X100). Current cost of opening stock = (₹ 1, 20,000 / 100) x 125 Or 6,000 unit's x ₹ 25 = ₹ 1, 50,000

Current cost of closing cash = ₹ 1, 20,000 (₹ 1, 80,000 – ₹ 60,000) Opening equity at closing current costs = ₹ 1, 50,000

Closing equity at closing current costs = ₹ 1, 20,000 Retained Profit = ₹ 1, 20,000 – ₹ 1, 50,000 = (-) ₹ 30,000

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of ₹ 1, 20,000 is not sufficient to buy 6,000 units again at increased price of ₹ 25 per unit. The drawings should have been restricted to ₹ 30,000 (₹ 60,000 – ₹ 30,000).

If the trader had not withdrawn any amount, then the answer would have been as below: Current cost of opening stock = ₹ 1, 80,000

Opening equity at closing current costs = ₹ 1, 50,000

Retained Profit = ₹ 1, 80,000 – ₹ 1, 50,000 = ₹ 30,000

If the trader had not withdrawn any amount, then the retained profit would have been₹ 30,000.

Q.5 As on 1st April, 2021 opening Balance Sheet of Mr. Mohanty is showing the aggregate value of Assets, Liabilities and Equity ₹ 12 Lakhs, 3 Lakhs and 9 lakhs respectively. During the accounting period 01/04/2021 to 31/03/2022, Mr. Mohanty has the following transactions:

(1) A liability of ₹ 50,000 was finally settled at a discount of 2%.

(2) Dividend earned @ 15% on 1,000 (F.V 100 each) Equity shares held @ ₹ 12,000.

(3) Rent of the premises paid ₹ 20,000.

(4) Mr. Mohanty withdrew ₹ 10,000 for personal purposes and also withdrew Goods worth ₹ 5,000 for personal purposes.

(5) ₹ 15,000 were received against Bill Receivables.

You are required to show the effect of the above transactions on Balance Sheet in the form of Assets - Liabilities = Equity equation after each transaction. .

(Nov '22 & Dec 21 but different figures) (MTP April 21 & April 22)

Ans: Effects of each transaction on Balance sheet of the trader is shown below:

Transactions	Assets (Rs Lakh)	-	Liabilities (Rs Lakh)	=	Equity (Rs Lakh)
Opening	12	-	3	=	9
(1) Settlement of creditors	12-0.49 = 11.51	-	3-0.50= 2.50	=	9+0.01=9.01
(2) Dividend received	11.51+0.15=11.66	-	2.50	=	9.01+0.15=9.16
(3) Rent paid	11.66-0.20=11.46	-	2.50	=	9.16-0.20=8.96
(4) Drawings	11.46-0.15=11.31	-	2.50	=	8.96-0.15=8.81
(5)Money received against bills receivables	11.31+0.15-0.15= 11.31	-	2.50	=	8.81

*No change as cash received from bills receivable will have impact on individual asset only (will reduce bill receivables with corresponding increase in cash).

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CHAPTER – 11
FINANCIAL STATEMENTS OF COMPANIES
Unit 1: Preparation of Financial Statements
Total Questions: 7

Q.1 Om Ltd. has the Authorised Capital of ₹ 15,00,000 consisting of 6,000 6% Redeemable Preference shares of ₹ 100 each and 90,000 equity Shares of ₹10 each. The following was the Trial Balance of the Company as on 31st March, 2021:

Particulars	Dr (Rs)	Cr (Rs)
Investment in shares at cost (non-current investment)	1,50,000	
Purchases	14,71,000	
Selling expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and wages (included ₹ 30,000 being Director's Remuneration)	1,56,000	
Cash on hand	84,000	
Bills receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on debentures upto 30th Sep (1st half year)	11,250	
Sundry Debtors and Sundry Creditors	1,50,300	2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of ₹ 45,000	1,05,000	
6% Redeemable Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on freehold properties		4,50,000
Dividends received		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft (secured by hypothecation of stocks and receivables)		4,50,000
Technical knowhow fees (cost paid during the year)	4,50,000	
Audit fees	18,000	
Total	**44,72,850**	**44,72,850**

Other Information:

1. Closing Stock was valued at ₹ 4,27,500.
2. Purchases include ₹ 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include ₹ 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable include ₹ 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of ₹ 6,000 maturing after 31st March were discounted.

6. Depreciation on Furniture to be charged at 10% on Written Down Value.

7. Interest on Debentures for the half year ending on 31st March was due on that date.

8. Technical Knowhow Fees is to be written off over a period of 10 years.

9. Trade receivables include ₹ 18,000 due for more than six months.

You are required to prepare the Balance Sheet as at 31st March, 2021 and Statement of Profit and Loss for the year ended 31st March, 2021 as per Schedule III to the Companies Act, 2013 after taking into account the above information. Ignore taxation. **(RTP Nov 21) (Similar to May 19 but fewer concepts)**

Ans **Balance sheet of Om Ltd. as at 31st March, 2021**

Particulars	Note no	Rs
I Equity and Liabilities		
(1) Shareholders' funds:		
(a) Share capital	1	12,00,000
(b) Reserves and surplus	2	1,14,150
(2) Non-current liabilities:		
Long term borrowings	3	4,50,000
(3) Current liabilities:		
(a) Short term borrowings	4	4,50,000
(b) Trade payables		2,63,550
(c) Other current liabilities	5	11,250
Total		**24,88,950**
II ASSETS		
(1) Non- Current Assets:		
(a) Property, plant and equipment	6	11,49,900
(b) Intangible assets	7	4,05,000
(c) Non-current investments (Shares at cost)		1,50,000
(2) Current Assets:		
(a) Inventories		4,27,500
(b) Trade receivables	8	2,72,550
(c) Cash and Cash equivalents – Cash on hand		84,000
Total		**24,88,950**

Note: There is a Contingent liability for Bills receivable discounted with Bank Rs 6000.

Statement of Profit and Loss of Om Ltd. for the year ended 31st March, 2021

Particulars	**Note no**	**Rs**
I Revenue from Operations		20,11,050
II Other income (Dividend income)		12,750
III Total Revenue (I &+ II)		**20,23,800**
IV Expenses:		
		14,56,500

(a) Purchases of Inventory (14,71,500 – Advertisement Expenses 15,000)		8,100
(b) Changes in Inventories of finished Goods / Work in progress & inventory (4,35,600 – 4,27,500)		1,20,000
(c) Employee Benefits expense		51,900
(d) Finance costs		56,100
(e) Depreciation & Amortization Expenses		3,02,550
(f) Other Expenses		**19,95,150**
Total Expenses		28,650
V Profit before exceptional, extraordinary items and tax		-
VI Exceptional items		28,650
VII Profit before extra-ordinary items and tax		-
VIII Extraordinary items		28,650
IX Profit before tax		

Notes to Accounts

		Rs
1. Share Capital		
Authorized capital:		
90,000 Equity Shares of ₹ 10 each.	9,00,000	
6,000 6% Preference shares of ₹ 100 each	6,00,000	
Issued, subscribed & called up:		
60,000, Equity Shares of ₹ 10 each	6,00,000	
6,000 6% Redeemable Preference Shares of 100 each	6,00,000	**12,00,000**
2. Reserves and Surplus		
Balance as on 1st April, 2020	85,500	
Add: Surplus for current year	28,650	
Balance as on 31st March, 2021		**1,14,150**
3. Long Term Borrowings		
5% Mortgage Debentures (Secured against Freehold Properties)		**4,50,000**
4. Short Term Borrowings		
Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)		**4,50,000**
5. Other Current liabilities		
Interest due on Borrowings (5% Debentures)		**11,250**
6. Property, plant and equipment		
Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance	1,05,000	
Add: Depreciation	45,000	
Cost of Furniture	**1,50,000**	

Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages	6,000	
Total Gross block of Furniture A/c	**1,56,000**	
Accumulated Depreciation Account: Opening Balance-given in Trial Balance		
Depreciation for the year:		
On Opening WDV at 10% i.e. (10% x 1,05,000) 10,500		
On additional purchase during the year at 10% i.e. (10% x 6,000) 600		
Less: Accumulated Depreciation	(56,100)	99,900
Freehold Property (at cost)		10,50,000
		11,49,900
7. Intangible Assets		
Technical knowhow	4,50,000	
Less: Written off	(45,000)	**4,05,000**
8. Trade Receivables		
Sundry Debtors (a) Debt outstanding due more than six months	18,000	
(b) Other Debts (refer Working Note)	1,34,550	
Bills Receivable (1,24,500 - 4,500)	1,20,000	**2,72,550**
9. Employee benefit expenses		
Salaries & Wages	1,56,000	
Less: Wages incurred for installation of electrical fittings to be capitalized	(6,000)	
Less: Directors' Remuneration shown separately	(30,000)	**1,20,000**
Balance amount		
10. Finance Costs		
Interest on bank overdraft	29,400	
Interest on debentures	22,500	**51,900**
11. Depreciation & Amortisation Expenses Depreciation [10% of (1,05,000 + 6,000)] Technical knowhow	11,100	
written of (4,50,000/10)	45,000	**56,100**
12. Other Expenses		
Payment to the auditors	18,000	
Director's remuneration	30,000	
Selling expenses	2,37,300	
Advertisement (Goods and Articles Distributed)	15,000	
Bad Debts (4,500 x 50%)	2,250	**3,02,550**

Working Note:

Calculation of Sundry Debtors-Other Debts	
Sundry Debtors as given in Trial Balance	1,50,300

Add Back: Bills Receivables Dishonoured	4,500
	1,54,800
Less: Bad Debts written off – 50% of ₹ 4,500	(2,250)
Adjusted Sundry Debtors	**1,52,550**
Less: Debts due for more than 6 months (as per information given)	(18,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	**1,34,550**

Q.2 Following is the trial balance of Delta limited as on 31.3.2021. (Figures in ₹ '000)

Particulars	**Dr**	**Particulars**	**Cr**
Land at cost	800	Equity share capital (shares of 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (balance on 1.4.20)	75
Trade receivables	120	Securities premium	40
Inventories (31.3.21)	96	Sales	1,200
Cash at bank	28	Trade payables	30
Adjusted purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2,455		**2,455**

Additional Information:

(i) The authorized share capital of the company is 80,000 shares of ₹ 10 each.
(ii) The company revalued the land at ₹ 9,60,000.
(iii) Equity share capital includes shares of ₹ 50,000 issued for consideration other than cash.
(iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2020. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.
(v) Depreciation is to be provided on plant and machinery at 10% on cost.
(vi) Balance at bank includes ₹ 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.
(vii) Make provision for income tax @30%.
(viii) Trade receivables of ₹ 50,000 are due for more than six months.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.2021 and Statement of Profit and Loss with notes to accounts for the year ended 31.3. 2021 as per Schedule Ill. Ignore previous year's figures & taxation. **(RTP May 22)**

Ans. **Delta Ltd**

Balance Sheet as at 31st March, 2021

Particulars	Note no	(Rs in '000)
A. Equity and Liabilities		
1. Shareholder's funds		
(a) Share Capital	1	495
(b) Reserves & Surplus	2	807.20
2. Non-Current Liabilities		
(a) Long Term Borrowings	3	300
3. Current Liabilities		
(a) Trade Payables		30
(b) Short term provision	4	163.80
Total		**1,796**
B. Assets		
1. Non-Current Assets		
(a) Property, Plant and Equipment	5	1,550
2. Current Assets		
(a) Inventories		96
(b) Trade Receivables	6	120
(c) Cash & Cash equivalents	7	30
Total		**1,796**

Statement of Profit & Loss for the year ended 31st March, 2021

Particulars	Note no	(Rs in '000)
I. Revenue from Operations		1,200
II. Other Income	8	6
III. Total Income (I+II)		1,206
IV. Expenses:		
Purchases (adjusted)		400
Finance costs	9	30
Depreciation (10% of 800)		80
Other expenses	10	150
Total expenses		660
V. Profit/(Loss) for the period before tax (III-IV)		546
VI. Tax expenses @30%		163.80
VII. Profit for the period		382.20

Notes to Accounts

Particulars		**(Rs in '000)**
1. Share Capital		
Equity Share Capital		
Authorised		
80,000 shares of Rs 10 each		**800**
Issued, Subscribed and Called up		
50,000 shares of Rs 10 each	500	

(Out of the above 5,000 shares have been issued for consideration other than cash)		
Less: Calls in arrears	(5)	**495**
2. Reserves & Surplus		
Securities Premium		40
Revaluation Reserve (960-800)		160
General Reserve		150
Surplus i.e. Profit & Loss A/c balance		
Opening balance	75	
Add: profit for the period	382.20	**457.20** **807.20**
3. Long-Term Borrowings		
10% Debentures		**300**
4. Short-term provisions		
Provision for tax		**163.80**
5. Property, plant & equipment		
Land		
Opening balance	800	
Add: Revaluation adjustment	160	
Closing balance		960
Plant & Machinery		
Opening balance	824	
Less: Disposed off	(24)	
	800	
Less: Depreciation (150-20+80)	(210)	
Closing balance		590
Total		**1,550**
6. Trade Receivables		
Debts outstanding for a period exceeding six months	50	
Other debts	70	**120**
7. Cash & Cash Equivalents		
Cash at bank with scheduled banks	23	
With others (ABC bank Ltd)	5	
Cash in hand	2	**30**
8. Other Income		
Profit on sale of machine		
Sale value of machine	10	
Less: book value (24-20)	(4)	**6**
9. Finance Costs		
Debenture interest		**30**
10. Other expenses:		
Factory	80	
Selling	25	
Administrative	45	**150**

Q.3 From the following particulars furnished by Ambience Ltd., prepare the Balance Sheet as on 31st March 2023 as required by Division I of Schedule III of the Companies Act, 2013.

Particulars	Dr (Rs)	Cr (Rs)
Equity Share Capital (face value of Rs 100 each)		25,00,000
Calls in arrears	2,500	
Land & Building	13,75,000	
Plant & Machinery	13,12,500	
Furniture	1,25,000	
General Reserve		5,25,000
Loan from State financial Corporation		3,75,000
Inventories:		
Raw materials	1,25,000	
Finished goods	5,00,000	
Provision for taxation		3,20,000
Trade Receivables	5,00,000	
Advances	1,06,750	
Profit & Loss A/c		2,16,750
Cash in hand	75,000	
Cash at bank	6,17,500	
Unsecured Loan		3,02,500
Trade creditors		5,00,000
	47,39,250	**47,39,250**

The following additional information is also provided:

(i) 5,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of ₹ 1,30,000 are due for more than 6 months.

(iii) The cost of the Assets were: Building ₹ 15,00,000, Plant & Machinery ₹ 17,50,000 and Furniture ₹ 1,56,250

(iv) The balance of ₹ 3,75,000 in the Loan Account with State Finance Corporation is inclusive of 18,750 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 5,000 with Global Bank Ltd., which is not a Scheduled Bank.

(vi) Bills Receivable for 1,60,000 maturing on 15th June, 2023 has been discounted.

(vii) Provide to doubtful debts @ 5% on trade receivables.

(RTP Nov '23, Similar to RTP May 23 but different figures) (Nov 19)

Ans. **Ambience Ltd.**

Balance Sheet as on 31st March, 2023

Particulars	Note no	Rs
I. Equity and Liabilities		
1. Shareholder's funds		
a. Share Capital	1	24,97,500

b. Reserves & Surplus	2	7,16,750
2. Non-Current Liabilities		
Long-term borrowings	3	6,58,750
3. Current Liabilities		
a. Trade payables		5,00,000
b. Other Current liabilities	4	18,750
c. Short-term provisions	5	3,20,000
TOTAL		**47,11,750**
II. Assets		
1. Non-current assets		
a. Property, plant and equipment	6	28,12,500
2. Current assets		
a. Inventories	7	6,25,000
b. Trade Receivables	8	4,75,000
c. Cash and Cash equivalents	9	6,92,500
d. Short-term loans and advance		1,06,750
TOTAL		**47,11,750**

Notes to accounts

		Rs
1. Share capital		
Equity share capital		
Issued, subscribed, called up & paid up		
25,000 Equity shares of Rs 100 each		
(of the above 5,000 shares have been issued for consideration other than cash)	25,00,000	
Less: Calls in arrears	(2,500)	**24,97,500**
2. Reserves and Surplus		
General Reserve	5,25,000	
Surplus (Profit & Loss A/c)	2,16,750	
Less: Provision for debtors	(25,000)	**7,16,750**
3. Long-term borrowings		
Secured Term Loan	3,56,250	
State Financial Corporation Loan (3,75,000-18,750) (secured by hypothecation of Plant & Machinery)	3,02,500	**6,58,750**
4. Other Current Liabilities		
Interest accrued but not due on loans (SFC)		**18,750**
5. Short term provisions		
Provision for taxation		**3,20,000**
6. Property, plant & equipment		
Land and Building	15,00,000	
Less: Depreciation	(1,25,000)	13,75,000
Plant & Machinery	17,50,000	
Less: Depreciation	(4,37,500)	13,12,500
Furniture & Fittings	1,56,250	

Less: Depreciation	(31,250)	1,25,000
Total		**28,12,500**
7. Inventories		
Raw materials	1,25,000	
Finished goods	5,00,000	**6,25,000**
8. Trade Receivables		
Outstanding for a period exceeding six months	1,30,000	
Other amounts Less: Provision for doubtful debts	3,70,000 (25,000)	**4,75,000**
9. Cash & cash equivalents		
Cash at bank		
with Scheduled banks	6,12,500	
with others (Global Bank Ltd)	5,000	
Cash in hand	75,000	**6,92,500**

Q.4. A company sold 20% of the Goods on Cash Basis and the balance on Credit basis. Debtors are allowed 1.5 month's credit and their balance as on 31st March, 2021 is ₹ 1,50,000. Assume that sale is evenly spread throughout the year.

Purchases during the year ₹ 9,50,000 Closing stock is ₹ 10,000 less than the Opening Stock. Average stock maintained during the year ₹ 60,000. Direct Expenses amounted to ₹ 35,000 Calculate Credit sales, Total sales and Gross profit for the year ended 31st March, 2021. **(Dec '21)**

Ans. Calculation of Credit Sales, Total Sales and Gross Profit

Credit Sales for the year ended 31st March, 2021 = Debtors* 12months/1.5months =1,50,000* 12months/1.5months

=Rs. 12,00,000

Total Sales for the year ended 2020-21 = Credit Sales*100%/80%

=Rs. 12,00,000*100%/80%

=Rs. 15,00,000

Trading A/c for the year ended 31st March, 2021

Particulars	**Rs**	**Particulars**	**Rs**
To Opening stock	65,000	By Sales	15,00,000
To Direct expenses	35,000	By Closing Stock	55,000
To Purchases	9,50,000		
To Gross profit	5,05,000		
	15,55,000		**15,55,000**

Working Note:

Calculation of opening stock and closing stock

If closing stock is x then opening stock is x+10,000

Average stock ₹ 60,000

Average stock = Opening stock + Closing stock /2

Thus Opening stock is ₹ 65,000 and closing stock is ₹ 55,000.

Q.5.

Dr Balance	**Rs**	**Cr Balance**	**Rs**
Purchases	82,95,000	Sales	1,25,87,000
Wages & Salaries	12,72,000	Commission	72,500
Rent	2,20,000	Equity share capital	10,00,000
Rates & Taxes	50,000	General reserve	10,00,000
Selling & Distribution expenses	4,36,000	Surplus (P & L A/c) 01.04.2021	8,75,500
Director's fees	32,000	Securities premium	2,50,000
Bad debts	38,500	Term loan from public sector bank	1,02,00,000
Interest on Term loan	8,05,000	Trade payables	55,08,875
Land	24,00,000	Provision for depreciation:	
Factory Building	36,80,000	Plant & Machinery	9,37,500
Plant & Machinery	62,50,000	Furniture & fittings	82,500
Furniture & Fittings	8,25,000	Factory Building	1,84,000
Trade receivables	64,75,000	Provision for doubtful debts	25,000
Advance Income tax	37,500	Bills payable	1,25,000
Stock (1st April, 2021)	9,25,000		
Bank balance	9,75,000		
Cash on hand	1,31,875		
Total	**3,28,47,875**	**Total**	**3,28,47,875**

Following information is provided:

(1) The Authorized Share Capital of the Company is 2,00,000 Equity Shares of ₹ 10 each. The Company has issued 1,00,000 Equity Shares of ₹ 10 each.

(2) Rent of ₹ 20,000 and Wages of ₹ 1,56,500 are outstanding as on 31st March, 2022.

(3) Provide Depreciation @ 10% per annum on Plant and Machinery, 10% on Furniture and Fittings and 5% on Factory Building on written down value basis.

(4) Closing Stock as on 31st March, 2022 is ₹ 11,37,500.

(5) Make a provision for Doubtful Debt @ 5% on Debtors.

(6) Make a provision of 25% for Corporate Income Tax.

(7) Transfer ₹ 1,00,000 to General Reserve.

(8) Term Loan from Public Sector Bank is secured against Hypothecation of Plant and Machinery. Installment of Term Loan falling due within one year is ₹ 17,00,000.

(9) Trade Receivables of ₹ 85,600 are outstanding for more than six months.

(10) The Board declared a dividend @10% on Paid up Share Capital on 5th April, 2022.

You are required to prepare Balance Sheet as on 31st March 2022 and Statement of Profit and Loss with Note to Accounts for the year ending 31st March, 2022 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures.

(Nov '22)

Ans **Balance Sheet of Anmol Ltd. as at 31st March, 2022**

	Note no	**Rs**
I. Equity and Liabilities		
1. Shareholder's funds		
a. Share Capital	1	10,00,000
b. Reserves & Surplus	2	24,76,462
2. Non-current liabilities		
Long-term borrowings	3	85,00,000
3. Current liabilities		
a. Short term borrowings (installment of term loan falling due in one year)		17,00,000
b. Trade payables	4	56,33,875
c. Other current liabilities	5	1,76,500
d. Short term provisions (provision for tax)		1,16,988
Total		1,96,03,825
II. Assets		
1. Non-current assets		
a. PPE	6	1,11,70,700
2. Current assets		
a. Inventories		11,37,500
b. Trade receivables	7	61,51,250
c. Cash & cash equivalents	8	11,06,875
d. Short term loans & advances (Advance tax paid)		37,500
Total		1,96,03,825

Statement of Profit and Loss of Anmol Ltd. for the year ended 31st March, 2022

Particulars	Note no	Rs
I. Revenue from operations		1,25,87,000
II. Other Income (commission income)		72,500
III. Total Income (I+II)		1,26,59,500
IV. Expenses:		
Purchase of stock in trade		82,95,000

Changes in inventories of finished goods, work in progress and inventory in trade	9	(2,12,500)
Employee benefits expense	10	14,28,500
Finance costs (interest on term loan)		8,05,000
Depreciation		7,80,300
Other operating expenses	11	10,95,250
Total expenses		1,21,91,550
V. Profit/(Loss) for the period		4,67,950
Less: Tax @ 25%		(1,16,988)
VI. Profit after tax		**3,50,962**

Notes to accounts

		Rs
1. Share Capital		
Equity share capital		
Authorised		
2,00,000 equity shares of Rs 10 each		20,00,000
Issued & Subscribed		
1,00,000 equity shares of Rs 10 each		10,00,000
2. Reserves and Surplus		
General Reserve	10,00,000	
Add: current year transfer	1,00,000	
Profit & loss balance		
Opening balance: Surplus P & L A/c	8,75,500	
Profit for the year	3,50,962	
Less: Appropriations:		
Transfer to general reserve	(1,00,000)	
Securities premium	2,50,000	24,76,462
3. Long-term borrowings		
Term loan from public sector bank (secured by hypothecation)	1,02,00,000	
Less: Installment of term loan falling due within one year	(17,00,000)	85,00,000
4. Trade payables		
Trade payables	55,08,875	
Bills payables	1,25,000	56,33,875
5. Other current liabilities		
Rent outstanding	20,000	
Wages and salaries outstanding	1,56,500	1,76,500
6. PPE (Note 2)		
Land	24,00,000	
Factory Buildings	33,21,200	

Plant & Machinery	47,81,250	
Furniture & fittings	6,68,250	1,11,70,700
7. Trade receivables		
Debtors outstanding for period exceeding 6 months	85,600	
Other debts	63,89,400	
Less: provision for doubtful debts	(3,23,750)	61,51,250
8. Cash & Cash equivalents		
Bank balance	9,75,000	
Cash on hand	1,31,875	11,06,875
9. Changes in Inventories		
Opening Inventory	9,25,000	
Less: closing Inventory	(11,37,500)	(2,12,500)
10. Employee benefit expenses		
Wages and Salaries	12,72,500	
Add: wages and salaries outstanding	1,56,500	14,28,500
11. Other operating expenses		
Rent	2,20,000	
Add: outstanding	20,000	
Rates and Taxes	50,000	
Selling & Distribution expenses	4,36,000	
Bad debts	38,500	
Provision for Doubtful debts	2,98,750	
Director's fees	32,000	10,95,250

Note:

1. The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 2022. Such dividends will be disclosed in notes only.

2. **Calculation of depreciation:**

	Book value	Accumulated depreciation	WDV	Current year depreciation	Current year WDV
Land	24,00,000	-	24,00,000	-	24,00,000
Factory building	36,80,000	1,84,000	34,96,000	1,74,800	33,21,200
Plant & Machinery	62,50,000	9,37,500	53,12,500	5,31,250	47,81,250
Furniture & fittings	8,25,000	82,500	7,42,500	74,250	6,68,250
				7,80,300	**1,11,70,700**

Q.6. The following balances are extracted from the books of Travese Ltd as on 31st March, 2023:

Particulars	Dr (Rs)	Cr (Rs)
7% Debentures		48,45,000
Plant & Machinery (at cost)	37,43,400	
Trade receivables	35,70,000	
Land	97,37,000	
Debenture Interest	3,39,150	
Bank Interest	13,260	
Sales		47,22,600
Transfer fees		38,250
Discount received		66,300
Purchases	28,86,600	
Inventories 1.04.2022	4,97,250	
Factory expenses	2,58,060	
Rates, Taxes and Insurance	65,025	
Repairs	1,49,685	
Sundry expenses	1,27,500	
Selling expenses	26,520	
Director's fees	38,250	
Interest on Investment for the year 2022-23		55,000
Provision for depreciation		5,96,700
Miscellaneous receipts		1,42,800

Additional information:

(1) Closing inventory on 31.03.2023 is Rs 4,76,850,

(2) Miscellaneous receipts represent cash received from the sale of the Plant on 01.04.2022. The cost of the Plant was Rs 1,65,750 and the accumulated depreciation thereon is Rs 24,865.

(3) The Land is re-valued at Rs 1,08,63,000.

(4) Depreciation is to be provided on Plant & Machinery at 10% p.a. on cost.

(5) Make a provision for income tax @ 25%.

(6) The BOD declared a dividend of 10% on Equity shares on 4th April, 2023.

You are required to prepare a Statement of Profit & Loss as per Schedule III of the Companies Act, 2013 for the year ended 31.03.2023. **(May 23)**

Ans **Statement of Profit and Loss of Travese Ltd.**
for the year ended 31st March, 2023

Particulars	Note no	Rs
I. Revenue from operations	1	47,22,600
II. Other income	2	1,61,465

III. Total income (I+II)		**48,84,065**
IV. Expenses:		
Purchases of Inventory-in-Trade		28,86,600
Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade	3	20,400
Finance costs		
Depreciation & amortization expenses	4	3,52,410
Other expenses	5	3,57,765
Total expenses	6	6,65,040
V. Profit/(Loss) for the period (III-IV) before tax		**42,82,215**
VI. Provision for tax		6,01,850
VII. Profit for the period		
		(1,50,463)
		4,51,387

Notes to accounts

	Rs
1. Revenue from operations:	
Sales	**47,22,600**
2. Other Income:	
Transfer fees	38,250
Discount received	66,300
Interest on Investment	55,000
Profit on sale of plant	1,915
Total	**1,61,465**
3. Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade	
Opening Inventory 4,97,250	
Less: Closing Inventory (4,76,850)	**20,400**
4. Finance costs:	
Interest on Debentures	3,39,150
Bank Interest	13,260
Total	**3,52,410**
5. Depreciation & Amortization expenses	
Depreciation on Plant & Machinery	
(10%* 37,43,400 – 1,65,750)	**3,57,765**
6. Other expenses:	
Factory expenses	2,58,060
Rent, Taxes and Insurance	65,025
Repairs	1,49,685
Sundry expenses	1,27,500
Selling expenses	26,520
Director's fees	38,250
Total	**6,65,040**

Note: The final dividend will not be recognized as a liability at the balance sheet date as per accounting standards. Hence, it is not recognized in the financial statement for the year ending 31st March, 2023. Such dividend will be disclosed in notes only.

Q.7 The following is the Trial Balance of Falgun Ltd, as on 31st March,2023:

Particulars	Dr (Rs)	Cr (Rs)
Equity Share Capital (fully paid-up shares of Rs 100 each)		10,00,000
10% Preference Share Capital of Face value Rs 100 each		4,00,000
General Reserve		2,85,000
2,000, 10% Debentures of Rs 100 each		2,00,000
Securities premium Account		50,000
Land (at cost)	7,00,000	
Plant and Machinery	14,70,000	
Furniture	4,00,000	
Provision for Depreciation:		
Plant & Machinery		3,00,000
Furniture		1,90,000
Trade receivables	3,10,000	
Trade payables		72,000
Cash in hand	1,34,000	
Cash at Bank	3,05,000	
Bank Over Drafts from Nationalized bank (Long term) (Secured by hypothecation of stocks)		2,00,000
6% Secured Loan from State finance Corporation (repayable after 3 years) (Secured by hypothecation of Plant & Machinery)		4,50,000
Unclaimed Dividend		23,000
Loan from Director (short term)		1,00,000
Adjusted purchases	2,25,000	
Closing stock	1,12,000	
Sales		8,46,000
Carriage Inward	17,200	
Miscellaneous expenses	10,200	
Selling & Distribution expenses	46,600	
Depreciation	1,80,000	
Salaries	72,000	
Director's fees	40,000	
Travelling expenses (include Rs 50,000 for foreign tour)	1,30,000	
Profit and Loss A/c		40,000
Office expenses	28,000	
Rent received		24,000
	41,80,000	**41,80,000**

Additional Information:

(1) Authorized capital divided into:

    (a) 20,000 equity shares of Rs 100 each.

    (b) 10,000, 10% preference shares of Rs 100 each

(2) Equity shares include 2,500 equity shares issued for consideration other than cash.

(3) The company has had land professionally valued and decides to include it in the Balance sheet at its valuation of Rs 8,50,000.

(4) It is proposed to capitalize part of the undistributed profits by making bonus issue to the shareholder's by allocating one equity share of Rs 100 each for every 5 shares held.

(5) Trade receivables of Rs 46,000 are due for more than six months. There is no doubtful amount.

(6) Depreciation expenses include depreciation of Rs 1,10,000 on Plant & Machinery and that of Rs 70,000 on Furniture.

(7) Cash at bank include Rs 55,000 with Desire Bank Ltd, which is not a scheduled bank.

(8) Miscellaneous expenses include Rs 5,000 being audit fees paid to auditors.

(9) Bills Receivables for Rs 35,000 maturing on 31st July, 2023 has been discounted.

(10) Balance of secured loan from State finance Corporation is inclusive of Rs 36,000 for interest accrued but not due.

(11) Director's declared final dividend @ 8% on 6th April, 2023, transferring any amount that may be required from General Reserve.

(12) Interest on debenture for the year is outstanding as on 31st March, 2023.

You are required to prepare Balance Sheet as on 31st March, 2023 and Statement of Profit and loss with Notes to Accounts for the year ending 31st March, 2023 as per Schedule III of the Companies Act, 2013. **(Nov 23)**

Ans

Unit 2: Cash Flow Statement

Total Questions: 3

Q.1 The Balance Sheet of Max Ltd. for the year ending 31st March, 2022 and 31st March, 2021 were summarized as:

Particulars	**Note no**	**2022 (Rs)**	**2021 (Rs)**
Equity and Liabilities			
Shareholder's funds			
Equity Share Capital		1,20,000	1,00,000
Reserves & Surplus	1	9,000	8,000
Current liabilities:			
(1) Trade payables		8,000	5,000
(2) Short term provisions	2	7,000	4,000
Total		**1,44,000**	**1,17,000**
Non-Current Assets:			
(1) PPE (at WDV)	3	78,000	58,000
(2) Long term Investments		32,000	28,000
Current Assets:			
(1) Inventory		14,000	8,000
(2) Trade receivables		8,000	6,000
(3) Cash & Bank		12,000	17,000
Total		**1,44,000**	**1,17,000**

Notes to Accounts:

	2022	2021
1. Reserves & Surplus		
Profit & Loss A/c	9,000	8,000
2. Short term provision		
Provision for Income tax	7,000	4,000
3. PPE		
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
	78,000	**58,000**

The Profit and Loss statement for the year ended 31st March, 2022 disclosed:

Profit before tax	8,000
Income tax	(7,000)
Profit after tax	1,000

Further Information is available:

1. Depreciation on Building for the year ` 1,000
2. Depreciation on Furniture & Fixtures for the year ` 2,000
3. Depreciation on Cars for the year ` 5,000. One car was disposed during the year for ` 3,400 whose written down value was ` 2,000.

4. Purchase investments for ` 6,000.

5. Sold investments for ` 10,000, these investments cost ` 2,000.

Prepare Cash Flow Statement for the year ended 31st March, 2022 as per AS-3 (revised) using indirect method. **(RTP Nov'22)**

Ans. Max Ltd. Cash Flow Statement for the year ended 31st March, 2022

	Rs	**Rs**
Cash flows from Operating activities		
Net profit before taxation	8,000	
Adjustments for:		
Depreciation (1,000+2,000+5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of Car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in Inventories	(6,000)	
Increase in Trade Payables	3,000	
Cash generated from operations	1,600	
Income tax paid	(4,000)	
Net cash generated from operating activities (A)		(2,400)
Cash flows from Investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & Fixtures	(14,000)	
Net cash used in Investing activities (B)		(22,600)
Cash flows from Financing activities		
Issue of shares for cash	20,000	
Net cash from financing activities (C)		20,000
Net decrease in cash and cash equivalents (A+B+C)		(5,000)
Cash and Cash equivalents at beginning of period		17,000
Cash and Cash equivalents at end of period		12,000

Working Notes:

1. Calculation of Income tax paid

	Rs
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	4,000
Less: Income tax liability at the end of the year	
Income tax paid	(7,000)
	4,000

2. Calculation of Fixed Assets acquisitions

	Furniture & Fixtures (Rs)	Car (Rs)
W.D.V at 31.03.2022	34,000	25,000
Add: Depreciation for the year	2,000	5,000
Disposals	-	2,000
	36,000	32,000
Less: W.D.V at 31.03.2021	(22,000)	(16,000)
Acquisitions during 2021-2022	**14,000**	**16,000**

Q.2 Following is the Balance Sheet of Fox Ltd. You are required to prepare cash flow statement using Indirect Method.

Particulars	**Note no**	**31stMarch,2021 (Rs)**	**31stMarch,2022 (Rs)**
I. Equity and Liabilities			
1. Shareholder's funds			
(a) Share capital	1	5,60,000	3,00,000
(b) Reserves and Surplus	2	35,000	25,000
2. Current Liabilities			
(a) Trade payables		1,50,000	60,000
(b) Short-term provisions (provision for taxation)		8,000	5,000
Total		7,53,000	3,90,000
II. Assets			
1. Non-current assets			
(a) Property, Plant and Equipment		3,50,000	1,80,000
2. Current assets			
(a) Inventories		1,20,000	50,000
(b) Trade receivables		1,00,000	25,000
(c) Cash and cash equivalents		1,05,000	90,000
(d) Other current assets		78,000	45,000
Total		7,53,000	3,90,000

Notes to Accounts

Particulars	**31st March, 2021 (Rs)**	**31st March, 2020 (Rs)**
1. Share Capital		

(a) Equity share capital	4,10,000	2,00,000
(b) Preference share capital	1,50,000	1,00,000
	5,60,000	**3,00,000**
2. Reserves and Surplus		
Surplus in statement of profit & loss at the beginning of the year	25,000	
Add: Profit of the year	20,000	
Less: Dividend	(10,000)	
Surplus in statement of profit & loss at the end of the year	35,000	25,000

Additional information:

1. Dividend paid during the year ₹ 10,000
2. Depreciation charges during the year ₹ 40,000. **(RTP May 23)**

Ans **Fox Ltd.**

Cash Flow Statement for the year ended 31st March 2021

	Rs	**Rs**
Cash flows from Operating activities		
Net profit (35,000-25,000)	10,000	
Add: Dividend	10,000	
Provision for tax	8,000	
Net profit before tax and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in Inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in Trade payables	90,000	(88,000)
Cash used in Operating activities		(20,000)
Less: Tax paid*		(5,000)
Net cash used in Operating activities		(25,000)
Cash flows from Investing activities		
Purchase of PPE	(2,10,000)	
Net cash used in Investing activities		(2,10,000)
Cash flows from Financing activities		
Issue of equity shares for cash	2,10,000	
Issue of preference shares for cash	50,000	
Dividends paid	(10,000)	
Net cash generated from financing activities		2,50,000
Net increase in cash and cash equivalents		15,000
Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

*Provision for tax of last year considered to be paid in the current year.

Working Note: Property, plant and equipment acquisitions

	Rs
W.D.V. at 31.3.2021 Add back: Depreciation for the year Less: W.D.V. at 31.12.2020 Acquisitions during 2020-2021	3,50,000 40,000 (1,80,000) 2,10,000

Q.3 The summarized Balance Sheet of Flora Ltd for the year ended 31st March,2022 and 31st March,2023 are as below:

Assets	31/03/2023 (Rs)	31/03/2022 (Rs)
Goodwill	15,000	28,000
Land	5,75,000	6,00,000
Furniture & fixtures	48,000	44,000
Vehicles	22,000	28,000
Office equipment	21,000	-
Long-term Investments	60,000	1,10,000
Stock-in-hand	96,000	88,000
Bills receivables	18,150	14,500
Trade receivables	46,000	52,000
Cash and Bank balance	1,29,850	34,500
Total	**10,31,000**	**9,99,000**

Liabilities	31/03/2023 (Rs)	31/03/2022 (Rs)
Equity share capital	6,80,000	5,00,000
General reserves	90,000	60,000
Profit & Loss A/c	93,000	52,000
Capital reserve	75,000	-
8% Debentures of Rs 100 each	-	3,00,000
Loan from Mr. Andrew	-	15,000
Bills payables	11,000	13,000
Trade payables	49,000	45,000
Creditors for equipment	10,500	-
Outstanding expenses	4,500	3,000
Provision for tax	18,000	11,000
Total	**10,31,000**	**9,99,000**

Additional information:

(1) On 1st April, 2022 one of the vehicles was sold for Rs 3,000. No new purchases were made during the year.

(2) A part of the total land was sold for Rs 1,25,000 (Cost Rs 1,00,000) and the balance land was revalued. Capital reserve consists of profit on revaluation of balance land. No new purchases were made during the year.

(3) Depreciation provided during the year :-
- Furniture and fixtures Rs 5,000
- Vehicles Rs 2,200

(4) Interim dividend of Rs 5,000 was paid during the year.

(5) Provision for tax for the year 2022-23 was Rs 16,000.

(6) 8% Debentures were redeemed at par after half year interest payment on 30th September, 2022.

(7) Part of the long-term investments were sold at a profit of Rs 8,000.

(8) Interest income received during the year on long-term investment was Rs 6,500.

You are required to prepare Cash Flow Statement from Operating Activities for the year ended 31st March, 2023 using Indirect method. **(May 23)**

Ans **Cash Flow Statement of Flora Ltd from Operating Activities**
For the year ended 31st March,2023

	Rs	Rs
Net profit before tax (W.N.1)		92,000
Adjustment: Depreciation on Furniture & fixtures	5,000	
Depreciation on Vehicles	2,200	
Profit on sale of land (Rs 1,25,000- Rs 1,00,000) Loss on sale of Vehicles	(25,000) 800	
Profit on sale of long-term investments	(8,000)	
Interest received	(6,500)	
Interest on debentures	12,000	
Goodwill written off	13,000	(6,500)
Operating profit before working capital changes		**85,500**
Increase in Stock in hand	(8,000)	
Increase in Bills receivables	(3,650)	
Decrease in Trade receivables	6,000	
Decrease in Bills payable	(2,000)	
Increase in Trade payables	4,000	
Increase in outstanding expenses	1,500	**(2,150)**
Cash generated from Operations		83,350
Less: Income tax paid		9,000
Cash flow from Operating activities		**74,350**

Working Notes:

1. Net profit before tax

Increase in profit and loss A/c (93,000-52,000)	41,000

Increase in General reserve (90,000-60,000)	30,000
Interim dividend paid	5,000
Transfer- provision for tax	16,000
Increase in retained earnings (Net profit before tax)	**92,000**

2. Provision for Taxation A/c

	Rs		Rs
To Bank (balancing fig)	9,000	By Balance b/d	11,000
To Balance c/d	18,000	By Profit and loss A/c	16,000
	27,000		**27,000**

3. Vehicles A/c

Opening balance	28,000
Less: Depreciation	(2,200)
Less: Closing balance	(22,000)
Book value of vehicles sold	3,800
Less: Sale value	(3,000)
Loss on sale of vehicles	800

●●●

CHAPTER – 12

BUY BACK OF SECURITIES

Total Questions: 5

Q.1 Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ` 10 each at ` 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of ` 10 each at par, the entire amount being payable with applications. The company uses ` 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions. **(RTP Nov'22)**

Ans **Journal Entries in the books of Umesh Ltd**

	Particulars	**Dr (Rs)**	**Cr (Rs)**
1.	Bank A/c Dr To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	10,00,000	 10,00,000
2.	11% Preference share application & allotment A/c Dr To 11% Preference share capital A/c (Being allotment of 1 lakh preference shares)	10,00,000	 10,00,000
3.	General reserve A/c Dr To Capital redemption reserve A/c (Being creation of capital redemption reserve for buy back of shares)	30,00,000	 30,00,000
4.	Equity share capital A/c Dr Premium payable on buyback A/c Dr To Equity shareholders/Equity shares buy back A/c (Being amount payable to equity shareholder on buy back)	40,00,000 48,00,000	 88,00,000
5.	Equity shareholders/ Equity shares buy back A/c Dr To Bank A/c (Being payment made for buy back of shares)	88,00,000	 88,00,000
6.	Securities Premium A/c Dr General reserve A/c Dr To Premium payable on buyback A/c (Being premium on buyback charged from securities premium and general reserve)	16,00,000 32,00,000	 48,00,000

Working Notes:

1. Calculation of amount used from General Reserve A/c:

	Rs
Amount paid for buy back of shares (4,00,000 shares x ` 22)	88,00,000
Less:Proceeds from issue of Preference Shares (1,00,000 shares x`10)	(10,00,000)
Less: Utilization of Securities Premium Account	
Balance used from General Reserve Account	(16,00,000)
* Used under Section 68 for buy back 32,00,000	
Used under Section 69 for transfer to CRR (W.N 2) 30,00,000	62,00,000

2. Amount to be transferred to Capital Redemption Reserve account

	Rs
Nominal value of shares bought back (4,00,000 shares x `10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x `10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

Q.2 The following information from Balance Sheet of Z Ltd. as on 31st March ,2023:

	Rs in Lakhs
Share Capital:	
Equity shares of ₹ 10 each Fully Paid Up	16,000
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up Reserves & Surplus	5,000
Capital Redemption Reserve	2,000
Securities Premium	1,600
General Reserve	12,000
Profit & Loss Account	600
Secured Loans:	
9% Debentures	10,000
Current Liabilities:	
Trade payables	4,600
Sundry Provisions	2,000
Fixed Assets	28,000
Investments	4,700
Cash at Bank	4,600
Other Current Assets	16,500

On 1st April, 2023 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 5,000 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares. **(RTP Nov '23 & Similar to Exam Nov 22 but different figures)**

Ans **Journal Entries in the books of Z Ltd.**

(Rs in lakhs)

	Particulars	Dr	Cr
1.	Bank A/c Dr	5,000	
	To Investments A/c		4,700
	To Profit & Loss A/c		300
	(Being investment sold on profit for the purpose of buy-back)		
2.	10% Redeemable Preference share capital A/c Dr	5,000	
	Premium on redemption of preference shares A/c Dr	500	
	To Preference Shareholders A/c		5,500
	(Being redemption of preference share capital at premium of 10%)		
	Profit & Loss A/c Dr	500	
3.	To Premium on redemption of preference shares A/c		500
	(Being premium on redemption of preference shares adjusted through securities premium)	1,600	
	Equity Share Capital A/c Dr	1,600	
4.	Premium on buyback A/c Dr		3,200
	To Equity buy-back A/c		
	(Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	1,600	
	Securities Premium A/c Dr		1,600
	To Premium on Buyback A/c		
5.	(Being premium on buyback provided out of securities premium)	5,500	
	Preference Shareholders A/c Dr	3,200	
	Equity buy-back A/c Dr		8,700
6.	To Bank A/c		
	(Being payment made to preference shareholders and equity shareholders)	6,600	
	General Reserve A/c Dr		6,600
	To Capital Redemption Reserve Account		
7.	(Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)		

Balance Sheet of C Ltd (after Redemption & Buy back)

	Note no	Rs
EQUITY AND LIABILITIES		
(1) Shareholder's funds		
(a) Share Capital	1	14,400
(b) Reserves & Surplus	2	14,400
(2) Non-current Liabilities		
Long-term borrowings	3	10,000
(3) Current Liabilities		

(a) Trade payables		4,600
(b) Short term provisions		2,000
TOTAL		**45,400**
ASSETS		
(1) Non-current assets		
Property, plant and equipment		28,000
(2) Current assets		
(a) Cash and Cash equivalents (W.N.)		900
(b) Other Current assets		16,500
TOTAL		**45,400**

Notes to Accounts

		(Rs in lakhs)
1. Share Capital		
1,440 lakh Equity Shares of ₹ 10 each Fully Paid up (160 lakh Equity Shares bought back)		**14,400**
2. Reserves and Surplus		
General Reserve	12,000	
Less: Transfer to CRR	(6,600)	
Capital Redemption Reserve	2,000	
Add: Transfer due to buy-back of shares from Gen. res.	6,000	
Securities premium	1,600	
Less: Adjustment for premium paid on buy back	(1,600)	
Profit & Loss A/c	600	
Add: Profit on sale of investment	300	
Less: Adjustment for premium paid on redemption of preference shares	(500)	**14,400**
3. Long-term borrowings		
Secured		
9 % Debentures		**10,000**

Working Note:

Bank A/c

Particulars	(Rs in lakhs)	Particulars	(Rs in lakhs)
To balance b/d	4,600	By Preference shareholders A/c	5,500
To Investment A/c (sale proceeds)	5,000	By Equity buy back A/c	
		By balance c/d (bal. fig)	3,200
			900
	9,600		**9,600**

Q.3. Mohan Ltd. furnishes the following summarised Balance Sheet on 31stMarch2021.

(Rs in Lakhs)

	Amount
Equity and Liabilities:	

Shareholders' fund- Share Capital	
Equity Shares of ` 10 each fully paid up	780
6% Redeemable Preference shares of ` 50 each fully Paid up	240
Reserves and Surplus-	
Capital Reserves	58
General Reserve	625
Securities Premium	52
Profit & Loss	148
Revaluation Reserve	34
Infrastructure Development Reserve	16
Non-current liabilities-	
7% Debentures	268
Unsecured Loans	36
Current Liabilities	395
	2,652
Assets:	
Non-current Assets	
Plant and Equipment less depreciation	725
Investment at cost	720
Current Assets	1,207
	2,652

Other Information:

(1) The company redeemed preference shares at a premium of 10% on 1st April,2021.

(2) It also offered to buy back the maximum permissible number of equity shares of ` 10 each at ` 30 per share on 2nd April 2021.

(3) The payment for the above was made out of available bank balance, which appeared as a part of the current assets.

(4) The company had investment in own debentures costing ` 60 lakhs (face value ` 75 lakhs). These debentures were cancelled on 2nd April 2021.

(5) On 4th April 2021 company issued one fully paid-up equity share of ` 10 each by way of bonus for every five equity shares held by the shareholders.

You are required to:

(a) Calculate maximum possible number of equity shares that can be bought back as per the Companies Act, 2013 and

(b) Record the Journal Entries for the above-mentioned information.

(Dec'21)

Ans (a) Statement determining the maximum number of shares to be bought back
Number of shares (in lakhs)

Particulars	When loan fund is Rs 304 lakhs
Shares Outstanding Test (W.N.1) Resources Test (W.N.2) Debt Equity Ratio Test (W.N.3) Maximum number of shares that can be bought back [least of the above]	19.5 11.175 29.725 **11.175**

Thus, the company can buy 11,17,500 Equity shares at ` 30 each.

Working Notes:

1. Shares Outstanding Test

Particulars	**(shares in lakh)**
No of shares outstanding	78
25% of the shares outstanding	19.50

2. Resources Test

Particulars	**(shares in lakh)**
Paid up capital (` in lakh)	780
Free reserves (` in lakh) (625+52+148-24-240*)	561
Shareholders' funds (` in lakh)	1,341
25% of Shareholders fund (` in lakh)	335.25
Buy-back price per share	30
Number of shares that can be bought back	11.175
*Amount transferred to CRR is excluded from free reserves. Premium on redemption also reduced.	

3. Debt Equity Ratio Test

Loans cannot be in excess of twice the Equity Funds post Buy-Back

Particulars	(shares in lakh)
(a) Loan funds (Rs)	304
(b) Minimum equity to be maintained after buyback in the ratio of 2:1 (Rs) (a/2)	152
(c) Present equity shareholders fund (Rs)	1,341
(d) Future equity shareholders fund (Rs) (see W.N.4)	1,043.75 (1,341-297.25)
(e) Maximum permitted buy-back of Equity (Rs) [(d) – (b)]	891.75
(f) Maximum number of shares that can be bought back @ ` 30 per share	29.725
As per the provisions of the Companies Act, 2013, company	Qualifies

4. Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' then:

Equation 1: (Present Equity- Transfer to CRR) - Minimum Equity to be maintained = Maximum Permitted Buy-Back

= (1341 – x) – 152 = y

= 1189 – x =y (1)

Equation 2: Maximum Permitted Buy-Back x Nominal Value Per Share/Offer Price Per Share y/30 x 10 = x or 3x = y (2) by solving the above two equations we get x = ` 297.25 and y = ` 891.75

Alternatively, when current liabilities are considered as part of loan funds, in that case

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back

= (1341 – x) – 349.5 = y

=991.5 – x =y (1)

Equation 2: Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share y/30 x 10 = x or 3x = y (2)

by solving the above two equations we get x = 247.875 and y = 743.625

(b) **Journal Entries for Buy back**

(Rs in lakhs)

Date	**Particulars**	**Dr**	**Cr**
2021 1st April	6% Redeemable preference share capital A/c Dr Premium on redemption of preference shares A/c To Preference shareholders A/c (Being preference share capital transferred to shareholders account)	240 24	 264
	Preference shareholders A/c Dr To Bank A/c (Being payment made to shareholders)	264	 264
	General Reserve or P&L A/c* Dr To Premium on redemption of preference shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	24	 24
2nd April	Equity shares buy-back A/c Dr To Bank A/c (Being 11.175 lakhs equity shares of ` 10 each bought back @ ` 30 per share)	335.25	335.25

		111.75	
	Equity share capital A/c Dr	52	
	Securities Premium A/c Dr	171.50	
	General Reserve or P&L A/c Dr		335.25
	To Equity Shares buy-back A/c		
	(Being cancellation of shares bought back)		
		351.75	
	General reserve A/c Dr		351.75
	To Capital redemption reserve A/c		
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law i.e. 240+ 111.75 lakhs)		
2nd		75	
April	7% Debentures A/c Dr		60
	To Investment (own debentures) A/c		15
	To Profit on cancellation of own debentures A/c		
	(Being cancellation of own debentures costing ` lakhs, face value being ` 75 lakhs and the balance being profit on cancellation of debentures)		
4th		133.65	
April	Capital Redemption Reserve A/c Dr		133.65
	To Bonus Shares A/c		
	(Being issue of one bonus equity share for every five equity shares held)		
		133.65	
	Bonus shares A/c Dr		133.65
	To Equity share capital A/c		
	(Being bonus shares issued)		

Working Note: Bonus Share to be issued =66.825 (78 - 11.175) lakh shares divided by 5 = 13.365 lakh shares.

Note: *Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and complies with the Accounting Standards prescribed for them. Alternative entry considering otherwise is also possible by utilizing securities premium amount.

Q.4 Quick Ltd. has the following capital structure as on 31st March,2021:

(Rs in crores)

1.	Share Capital: (Equity Shares of ₹ 10 each, fully paid)		462
2.	Reserves and Surplus: General Reserve	336	

	Securities Premium Account Profit and Loss Account Statutory Reserve Capital Redemption Reserve Plant Revaluation Reserve	126 126 180 87 33	888
3.	Loan Funds: Secured Unsecured	2,200 320	2,520

On the recommendations of the Board of Directors, on 16th September, 2021, the shareholders of the company have approved a proposal to buy-back of equity shares. The prevailing market value of the company's share is ₹ 20 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 50% over market value. The company had sufficient balance in its bank account for the buy-back of shares.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,680 Crores or ₹ 2,100 Crores.

Assuming that the entire buy-back is completed by 31st December,2021, Pass the necessary accounting entries (narrations not required) in the books of the company in each situation **(May 22 & Similar to May 23 but different figures)**

Ans Statement determining the maximum number of shares to be bought back number of shares **Loan fund is (Rs in crores)**

Particulars	**2,520**	**1,680**	**2,100**
Share Outstanding Test (W.N.1)	11.55	11.55	11.55
Resources Test (W.N.2)	8.75	8.75	8.75
Debt Equity Ratio Test (W.N.3)	Nil	5.25	Nil
Maximum no of shares that can be bought back (least of the above)	Nil	5.25	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is ₹ 1,680 crores)

(Rs in crores)

	Particulars	**Dr**	**Cr**
(a)	Equity share buy-back account Dr To Bank account	157.5	 157.5
(b)	Equity share capital account (5.25 x ₹ 10) Dr Securities premium account (5.25 x ₹ 20) Dr To Equity share buy-back account	52.5 105	 157.5
(c)	General reserve account Dr To Capital redemption reserve account	52.5	 52.5

Working Notes:

1. Share Outstanding Test

Particulars	(Shares in crores)
No of shares outstanding	46.2
25% of the shares outstanding	11.55

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	462
Free reserves (₹ in crores) (336+126+126)	588
Shareholders' funds (₹ in crores)	1,050
25% of Shareholders fund (₹ in crores)	262
Buy-back price per share	30
Number of shares that can be bought back (shares in crores)	8.75 crore shares

3. Debt Equity Ratio Test

(Loan fund is Rs in crores)

	Particulars	2,520	1,680	2,100
(a)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs in crores)	1,260	840	1,050
(b)	Present equity shareholders fund (₹ in crores)	1,050	1,050	1,050
(c)	Future equity shareholder fund (₹ in crores) (See Note 2)	N.A.	997.5 (1,050-52.5)	N.A.
(d)	Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	Nil	157.5 (by simultaneous equation)	Nil
(e)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	Nil	5.25 (by simultaneous equation)	Nil

Note:

1. Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.
2. As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after

such buy-back. Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then Equation 1: (Present equity – Nominal value of buy-back transfer to Minimum equity to be maintained= Maximum permissible buy-back of equity
(1,050 –x)-840 = y
Since, 210 – x = y
Equation 2= (Maximum buy back/offer price for buy back x Nominal value)
= Nominal value of the shares bought back to be transferred to CRR
= y/30*10
Or 3x = y (2)
by solving the above two equations we get
x = ₹ 52.5 crores y = ₹ 157.5 crores

3. Statutory reserves, capital redemption reserve and plant revaluation reserves are not free reserves.
4. For calculation of debt -equity ratio both secured and unsecured loans have been considered.

Q.5. The following is the extract of Balance Sheet of Yellow Ltd as on 31.03.2023:

Particulars	**Rs**
4,00,000 Equity shares of Rs 10 each	40,00,000
General Reserve	48,00,000
Profit & Loss A/c	10,00,000
Securities Premium	18,00,000
Secured Loans	60,00,000
Unsecured Loans	32,00,000
Current Liabilities	28,00,000
	2,36,00,000
Property, Plant and Equipment	90,00,000
Investments	18,00,000
Current Assets	1,28,00,000
	2,36,00,000

The company intends to buy-back 80,000 equity shares of Rs 10 each at a premium of 150%.
You are required to state whether the company can buy back equity shares.

(Nov 23)

Ans

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CHAPTER – 13
AMALGAMATION OF COMPANIES

Total Questions: 10

Q.1. P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd. The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd (Rs)	Q Ltd (Rs)	Assets	P Ltd (Rs)	Q Ltd (Rs)
Equity & Liabilities:			Assets:		
Shareholder's fund			Non-current assets		
a. Share Capital	6,00,000	8,40,000	Property, Plant & Equipment (excluding goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	Current Assets		
Current Liabilities			a.Inventories	3,60,000	6,60,000
Bank overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	c. Cash at bank	3,00,000	-
	18,60,000	**25,20,000**		**18,60,000**	**25,20,000**

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively. The profit had been: 2014-15 Rs. 3,00,000; 2015-16 Rs. 5,25,000 and 2016-17 Rs. 6,30,000. The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies. In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of Rs. 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to :

(i) Calculate the number of shares issued to P Ltd. and Q Ltd; and
(ii) Prepare required journal entries in the books of PQ Ltd.; and
(iii) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries. **(RTP May 18, Nov 21)**

Ans (i) Calculation of number of shares issued to P Ltd. and Q Ltd:

Amount of share capital as per balance sheet	Rs
P Ltd	6,00,000
Q Ltd	8,40,000
	14,40,000

Share of P Ltd. = Rs. 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)] = Rs. 8,64,000 or 86,400 shares
Securities premium = Rs. 21,60,000 – Rs. 8,64,000 = Rs. 12,96,000
Premium per share = Rs. 12,96,000 / Rs. 86,400 = Rs. 15
Issued 86,400 shares @ Rs. 10 each at a premium of Rs.15 per share
Share of Q Ltd. = Rs. 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]
= Rs. 5,76,000 or 57,600 shares
Securities premium = Rs. 14,40,000 – Rs. 5,76,000 = Rs. 8,64,000
Premium per share = Rs. 8,64,000 / Rs. 57,600 = Rs. 15
Issued 57,600 shares @ Rs. 10 each at a premium of Rs. 15 per share

(ii) Journal Entries in the books of PQ Ltd

Particulars		**Dr (Rs)**	**Cr (Rs)**
Business purchase account	Dr	36,00,000	
To Liquidator of P Ltd account			21,60,000
To Liquidator of Q Ltd account			14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd & Q Ltd for assets taken over)			
Goodwill account	Dr	5,40,000	
Property, Plant & Equipment account	Dr	7,20,000	
Inventory account	Dr	3,60,000	
Trade receivables account	Dr	4,80,000	
Cash at bank account	Dr	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			

Property, Plant & Equipment account Dr	10,80,000	
Inventory account Dr	6,60,000	
Trade receivables account Dr	7,80,000	
To bank overdraft account		5,40,000
To Trade payables account		5,40,000
To Business purchase account		14,40,000
(Being assets and liabilities of Q Ltd. taken over)		
Liquidator of P Ltd. account Dr	21,60,000	
To Equity share capital account (86,400 x Rs.10)		8,64,000
To Securities premium account (86,400 x Rs. 15)		12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)		
Liquidator of Q Ltd. account Dr	14,40,000	
To Equity share capital account (57,600 x Rs. 10)		5,76,000
To Securities premium (57,600 x Rs. 15)		8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)		
Bank account Dr	18,00,000	
To Equity share capital account		7,20,000
To Securities premium account		10,80,000
(Being Equity shares issued to raise working capital)		

(iii) Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation

Particulars	Note no	Rs
Equity and Liabilities		
1. Shareholder's funds		
(a) share capital	1	21,60,000
(b) Reserves and Surplus	2	32,40,000
2. Current Liabilities		
Trade payables (2,40,000+5,40,000)		7,80,000
Total		**61,80,000**
Assets		
1. Non-current assets		
Fixed assets		
Tangible assets (7,20,000+10,80,000)		18,00,000
Intangibles assets (goodwill)		5,40,000
2. Current assets		
(a) Inventories (3,60,000+6,60,000)		10,20,000
(b) Trade receivables (4,80,000+7,80,000)		12,60,000
(c) Cash and cash equivalents (Cash at bank)		15,60,000
Total		**61,80,000**

Notes to Accounts

	Rs
1 Share Capital Issued, subscribed and paid up share capital 2,16,000 Equity shares of Rs. 10 each (Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)	21,60,000
2 Reserves and Surplus Securities premium (@ Rs. 15 for 2,16,000 shares)	32,40,000

Working Notes:

1. Calculation of goodwill of P Ltd

Particulars	**Amount (Rs)**	**weight**	**Weighted amount (Rs)**
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	6,30,000	3	18,90,000
Total (a+b+c)	**14,55,000**	**6**	**32,40,000**
Weighted average: (Total weighted amount/Total of weight) (Rs 32,40,000/6)			
Goodwill			**5,40,000**

2. Calculation of Net assets

	P Ltd (Rs)	Q Ltd (Rs)
Assets		
Goodwill	5,40,000	
Property, plant & equipment	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivables	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft	(5,40,000)	
Trade payables	(2,40,000)	(5,40,000)
Net assets or Purchase consideration	**21,60,000**	**14,40,000**
New authorized capital = Rs 14,40,000+Rs 12,00,000+Rs 26,40,000 Cash and cash equivalents Rs P Ltd balance 3,00,000 Cash received from fresh issue 18,00,000 (72,000* Rs 25) **21,60,000** Less: Bank overdraft (5,40,000) **5,60,000***		

*The balance of cash and equivalents has been shown after setting off overdraft amount.

Q.2 The following information is being provided by VT Ltd. and MG Ltd. as on 31st March, 2022:

Particulars	**VT Ltd (Rs)**	**MG Ltd (Rs)**
Equity Shares of ` 10 each	12,00,000	6,00,000
10% Pref. Shares of ` 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000

Details of Trade receivables and trade payables are as under:

	VT Ltd (Rs)	**MG Ltd (Rs)**
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	**4,20,000**
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	**3,00,000**

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

(i) VT Ltd. will issue 16 Equity Shares of ` 10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ` 100 each, at par, in VT. Ltd.

(iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.

(iv) ` 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes ` 20,000 due from VT Ltd.

You are required to prepare :

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd. **(RTP May '23)**

Ans (1) Journal Entries in the books of VT Ltd

Particulars	Dr (Rs)	Cr (Rs)
Fixed assets A/c Dr	2,10,000	
To Revaluation Reserve A/c		2,10,000
(Being revaluation of fixed assets at 15% above book value)		
Reserves & Surplus A/c Dr	1,20,000	
To Equity dividend A/c		1,20,000
(Being declaration of equity dividend @ 10%)		
Equity dividend A/c Dr	1,20,000	
To Bank A/c		1,20,000
(Being payment of equity dividend)		
Business purchase A/c Dr	9,80,000	
To Liquidator of MG Ltd		9,80,000
(Being consideration payable for the business taken over from MG Ltd)		
Fixed assets A/c Dr	5,75,000	
(115% of Rs 5,00,000)		
Inventory A/c Dr	6,08,000	
(95% of Rs 6,40,000)		
Debtors A/c Dr	3,80,000	
Bills receivables A/c Dr	40,000	
Investment A/c Dr	1,60,000	
Cash at bank A/c Dr	20,000	
(80,000-60,000 dividend paid)		
To provision for bad debts A/c		18,000
(5% of Rs 3,60,000)		
To Sundry creditors A/c		2,50,000
To 12% debentures in MG Ltd		3,24,000
To Bills payable A/c		50,000
To Business purchase A/c		9,80,000
To Capital reserve A/c (bal fig)		1,61,000
(Being incorporation of various assets & liabilities taken over from MG Ltd at agreed values and difference of net assets and purchase consideration being credited to capital reserve)		
Liquidator of MG Ltd Dr	9,80,000	
To Equity share capital A/c		8,00,000
To 10% Preference share capital A/c		1,80,000

(Being discharge of consideration for MG Ltd 's business)		
12% debentures A/c Dr (Rs 3,00,000* 108%) Discount on issue of debentures A/c Dr To 12% debentures A/c (Being allotment of 12% debentures to debenture holders of MG Ltd at a discount of 10%)	3,24,000 36,000	 3,60,000
Sundry creditors A/c Dr To Sundry debtors A/c (Being cancellation of mutual owing)	20,000	 20,000
Goodwill A/c Dr To Bank A/c (Being liquidation expenses reimbursed to MG Ltd)	60,000	 60,000
Capital reserve/ P & L A/c Dr To Goodwill A/c (Being goodwill set off)	60,000	 60,000

(2) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method)

Shares to be allotted 60,000/12 X 16 = 80,000 shares of VT Ltd.

Issued 80,000 shares of ` 10 each i.e. Rs 8,00,000 (i)

For 10% preference shares, to be paid at 10% discount

Rs 2,00,000x 90/100 Rs 1,80,000 (ii)

Consideration amount [(i) + (ii)] Rs 9,80,000

Q.3 The following information from Balance Sheet of X Ltd. as at 31st March, 2023:

	Rs
4,000 Equity shares of ₹ 100 each 4,00,000	4,00,000
10% Debentures	2,00,000
Loans	80,000
Trade payables	1,60,000
General Reserve	40,000
Building	1,70,000
Machinery	3,20,000
Inventory	1,10,000
Trade receivables	1,30,000
Bank	68,000
Patent	65,000
Share issue Expenses	17,000

Y Ltd. agreed to absorb X Ltd. on the following terms and conditions:

(1) Y Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) Y Ltd. is to take over trade payables at book value.

(3) The purchase consideration is to be paid in cash to the extent of ₹ 3,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 62,200. The liquidation expenses amounted to ₹ 8,000. Y Ltd. sold prior to 31st March, 2023 goods costing ₹ 60,000 to X Ltd. for ₹ 80,000. ₹ 50,000 worth of goods are still in Inventory of X Ltd. on 31st March, 2023. Trade payables of X Ltd. include ₹ 20,000 still due to Y Ltd.

Show the necessary Ledger Accounts to close the books of X Ltd. and prepare the Balance Sheet of Y Ltd. as at 1st April, 2023 after the takeover.

(RTP Nov '23)

Ans **Books of X Ltd Realization A/c**

	Rs		Rs
To Building To Machinery To Inventory To Trade receivables To Patent To Bank (exp)	1,70,000 3,20,000 1,10,000 1,30,000 65,000 8,000 **8,03,000**	By Trade payables By Y Ltd By Equity shareholders (loss)	1,60,000 6,05,000 38,000 **8,03,000**

Bank A/c

	Rs		Rs
To Balance b/d To Y Ltd	68,000 3,00,000 **3,68,000**	By Realisation (exp) By 10% Debentures By loan By Equity shareholders	8,000 2,00,000 80,000 80,000 **3,68,000**

10% Debentures A/c

	Rs		Rs
To Bank	2,00,000 **2,00,000**	By Balance b/d	2,00,000 **2,00,000**

Loan A/c

	Rs		Rs
To Bank	80,000 **80,000**	By Balance b/d	80,000 **80,000**

Share Issue Expenses A/c

	Rs		Rs

To balance b/d	17,000 **17,000**	By Equity shareholders	17,000 **17,000**

General Reserve A/c

	Rs		**Rs**
To Equity shareholders	40,000 **40,000**	By balance b/d	40,000 **40,000**

Y Ltd A/c

	Rs		Rs
To Realisation A/c	6,05,000	By Bank By Equity share in Y Ltd (2,440 shares at Rs 125 each)	3,00,000 3,05,000
	6,05,000		**6,05,000**

Equity shares in Y Ltd A/c

	Rs		Rs
To Y Ltd	3,05,000 **3,05,000**	By Equity shareholders	3,05,000 **3,05,000**

Equity shareholder's A/c

	Rs		Rs
To Realisation To share issue expenses To Equity shares in B Ltd To Bank	38,000 17,000 3,05,000 80,000	By Equity share capital By General reserve	4,00,000 40,000
	4,40,000		**4,40,000**

Y Ltd Balance Sheet as on 1st April, 2023

Particulars	Notes	Rs
Equity and Liabilities		
1. Shareholder's funds		
(a) Share capital	1	2,44,000
(b) Reserves and Surplus	2	53,500
2. Current Liabilities		
(a) Trade payables	3	1,40,000
(b) Bank overdraft		3,00,000
Total		**7,37,500**
Assets		
1. Non-current assets		
(a) Property, plant and equipment	4	4,41,000
Intangible assets (goodwill)		1,08,000
2. Current assets		

(a) Inventories	5	91,500
(b) Trade receivables	6	97,000
Total		**7,37,500**

Notes to Accounts

	Rs	Rs
1 Share Capital Equity share capital 2,440 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)		2,44,000
2 Reserves and Surplus (an extract) Securities Premium Profit and loss account Less: Unrealised profit	(7,500)	61,000 (7,500) **53,500**
3 Trade payables Opening balance Less: Inter-company transaction cancelled upon amalgamation	1,60,000 (20,000)	**1,40,000**
4 Property, Plant and Equipment's Buildings Machinery		1,53,000 2,88,000 **4,41,000**
5 Inventories Opening balance Less: Cancellation of profit upon amalgamation	99,000 (7,500)	**91,500**
6 Trade receivables Opening balance Less: Intercompany transaction cancelled upon amalgamation	1,17,000 (20,000)	**97,000**

Working notes:

	Rs
1. Valuation of Goodwill	
Average profit	62,200
Less: 8% of ₹ 4,40,000	(35,200)
Super profit	27,000
Value of Goodwill = 27,000 x 4	1,08,000
2. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	1,08,000
Building	1,53,000
Machinery	2,88,000

Inventory	99,000
Trade receivables (1,30,000-13,000)	1,17,000
Total Assets	7,65,000
Less: Trade payables	(1,60,000)
Net Assets	6,05,000
Out of this ₹ 3,00,000 is to be paid in cash and remaining i.e., (6,05,000 – 3,00,000) ₹ 3,05,000 in shares of ₹ 125. Thus, the number of shares to be allotted 3,05,000/125 = 2,440 shares.	
3. Unrealised Profit on Inventory ₹ The Inventory of X Ltd. includes goods worth ₹ 50,000 which was sold by Y Ltd. on profit. Unrealized profit on this Inventory will be [20,000/80,000 x 50,000]	12,500
As Y Ltd purchased assets of X Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 50,000.	(5,000)
Amount of unrealized profit	**7,500**

Q.4 The balance sheets of Truth Limited and Myth Limited as at 31.03.2021 is given below. Myth Limited is to be amalgamated with Truth Limited from 1.04.2021. The amalgamation is to be carried out in the nature of purchase

Particulars	Note no	Truth Ltd (Rs)	Myth Ltd (Rs)
Equity and Liabilities			
(1) Shareholder's funds			
(a) Share capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	11,35,000	4,13,000
(2) Non- current liabilities	3	-	1,50,000
(3) Current liabilities	4	1,40,000	1,82,000
Total		**22,75,000**	**11,45,000**
Assets			
(1) Non-current assets			
(a) Property, Plant & Equipment		15,75,000	6,80,000
(b) Investments		1,87,500	1,00,000
(2) Current assets	5	5,12,500	3,65,000
		22,75,000	**11,45,000**

Notes to Accounts

Particulars	**Truth Ltd (Rs)**	**Myth Ltd (Rs)**
1. Share capital		
Equity shares of Rs 10 each	10,00,000	4,00,000
2. Reserves & Surplus		
General reserve	5,05,000	2,30,000
Profit & loss A/c	4,45,000	1,58,000
Export profit reserve	1,85,000	25,000

3. Non-current Liabilities		
14% Debentures		1,50,000
4. Current Liabilities		
Trade payables	90,000	1,42,000
Other Current liabilities	50,000	40,000
5. Current assets		
Inventory	2,15,000	85,000
Trade receivables	2,02,500	1,75,000
Cash & cash equivalents	95,000	1,05,000

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill. Profit before tax of both the companies during the last 3 years were as follows:

	Truth Ltd (Rs)	**Myth Ltd (Rs)**
2018-19	8,20,000	2,55,000
2019-20	7,45,000	2,15,000
2020-21	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation. **(RTP Nov'22)**

Ans. Balance Sheet of Truth Ltd (after amalgamated with Myth Ltd) as at 1.04.2021

Particulars	Note no	Rs
I. Equity and liabilities		
(1) Shareholder's funds		
(a) Share capital	1	13,13,750
(b) Reserves and surplus	2	20,76,250
(2) Non-current liabilities		
12% Debentures	3	1,75,000
(3) Current liabilities		
(a) Trade payables	4	2,32,000
(b) Other current liabilities	5	90,000
Total		**38,87,000**
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	6	22,55,000
(b) Intangible assets (Goodwill) [WN 1]		4,67,000

(c) Non-current investments	7	2,87,500
(2) Current assets		
(a) Inventories (2,15,000 + 85,000)		3,00,000
(b) Trade receivables (2,02,500 + 1,75,000)		3,77,500
(c) Cash & cash equivalents (95,000 + 1,05,000)		2,00,000
Total		**38,87,000**

Notes to Accounts

	Rs	Rs
1. Share capital		
1,31,375 equity shares of Rs 10 each (1,00,000+31,375)		13,13,750
(of the above shares, 31,375 shares were issued to the vendors otherwise than for cash)		
2. Reserves and surplus		
General Reserve	5,05,000	
Profit and Loss A/c	4,45,000	
Securities Premium [31,375 x 30]	9,41,250	
Export profit reserve 1,85,000		
Add: Balance of Myth Ltd. 25,000	2,10,000	
Amalgamation Adjustment Reserve	(25,000)	20,76,250
3. Long Term Borrowings		
12% Debentures issued to Myth Ltd.		1,75,000
4. Trade payables		
Trade payables	90,000	
Add: Taken over	1,42,000	2,32,000
5. Other Current Liabilities		
Truth Ltd.	50,000	
Myth Ltd.	40,000	90,000
6. Property, Plant & Equipment		
Truth Ltd.	15,75,000	
Myth Ltd.	6,80,000	22,55,000
7. Investment		
Truth Ltd.	1,87,500	
Myth Ltd.	1,00,000	2,87,500

Working Notes:

(1) Valuation of Goodwill

(i) Capital Employed

	Truth Ltd (Rs)	Myth Ltd (Rs)
Assets as per Balance Sheet	22,75,000	11,45,000
Less: Non-trade Investment	(1,50,000)	(80,000)
Less: Liabilities:		
14% Debentures		(1,50,000)
Trade payables	(90,000)	(1,42,000)
Other current liabilities	(50,000)	(40,000)
Capital Employed	**19,85,000**	**7,33,000**

(ii) Average Profit before Tax

	Truth Ltd (Rs)	Myth Ltd (Rs)
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020- 2021	6,04,000	2,14,000
Total profit of 3 years (a)	**21,69,000**	**6,84,000**
Simple Average [(a)/3]	7,23,000	2,28,000
Less: Non-trading income*	(30,000)	(12,000)
(iii) Goodwill	6,93,000	2,16,000
Capitalised value of average profit	38,50,000 [(6,93,000/18)*100]	12,00,000 [(2,16,000/18)*100]
Less: Capital Employed [From (i) above]	(19,85,000)	(7,33,000)
Goodwill	**18,65,000**	**4,67,000**

* For Truth Ltd. = 1,87,500 x 80% x 20% = 30,000; and

Myth Ltd. = 1,00,000 x 80% x 15% = 12,000

(2) Intrinsic value per share

		Truth Ltd (Rs)		Myth Ltd (Rs)
Goodwill	18,65,000		4,67,000	
Other assets	22,75,000	41,40,000	11,45,000	16,12,000
Less: 12% Debentures	-		(1,75,000)**	
Trade payables	(90,000)		(1,42,000)	
Provision for tax	(50,000)	(1,40,000)	(40,000)	(3,57,000)
Net assets		40,00,000		12,55,000
Intrinsic value per share (Net assets/no of shares)		40,00,000/ 1,00,000 = 40		12,55,000/ 40,000 = 31.375

** 1,50,000* 14%/12%= 1,75,000

(3) Purchase consideration & manner of its discharge

Intrinsic Value of Myth Ltd. [a]	Rs 31.375 per share
No. of shares [b]	40,000

Purchase Consideration c= [a x b]	Rs 12,55,000
Intrinsic Value of Truth Ltd. [d]	Rs 40 per share
No. of shares to be issued [c / d]	31,375 shares

Q.5 Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarized Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows:

	Galaxy Ltd (Rs)	**Glory Ltd (Rs)**
(I) Equity & Liabilities		
(1) Shareholders' fund		
Share Capital	8,40,000	4,55,000
Equity shares of ` 10 each		
Reserves & Surplus		
General Reserve	4,48,000	40,000
Profit & Loss A/c	1,12,000	72,000
(2) Non-current Liabilities		
Secured Loan		
6% Debentures	-	3,30,000
(3) Current Liabilities		
Trade Payables	4,20,000	1,83,000
Total	**18,20,000**	**10,80,000**
(II) Assets		
(1) Non-current assets		
Property, Plant & Equipment		
Freehold property, at cost	5,88,000	3,36,000
Plant & Machinery, at cost less depreciation	1,40,000	84,000
Motor vehicles, at cost less depreciation	56,000	-
(2) Current Assets		
Inventories	3,36,000	4,38,000
Trade Receivables	4,62,000	1,18,000
Cash at Bank	2,38,000	1,04,000
Total	**18,20,000**	**10,80,000**

Assets and Liabilities are to be taken at book value, with the following exceptions:

(i) The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.

(ii) Plant and Machinery of Galaxy Ltd. are to be valued at ` 2,52,000.

(iii) Goodwill is to be valued at : Galaxy Ltd. ` 4,48,000 Glory Ltd. ` 1,68,000

(iv) Liquidator of Glory Ltd. is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected ` 1,10,000 from debtors and paid ` 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to :

(1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is ` 10.

(2) Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013.

(Jan 21)

Ans. (i) Calculation of Purchase consideration (or basis for issue of shares of Glorious Ltd).

	Galaxy Ltd (Rs)	Glorious Ltd (Rs)
Goodwill	4,48,000	1,68,000
Freehold property	5,88,000	3,36,000
Plant and Machinery	2,52,000	84,000
Motor vehicles	56,000	-
Inventory	3,36,000	4,38,000
Trade receivables	4,62,000	-
Cash at Bank	2,38,000	24,000
	23,80,000	**10,50,000**
Less: Liabilities:		
6% Debentures (3,00,000 x 110%)	-	(3,30,000)
Trade payables	(4,20,000)	-
Net Assets taken over	**19,60,000**	**7,20,000**
To be satisfied by issue of shares of Glorious. Ltd. @ ` 10 each	1,96,000	72,000

(ii) Balance Sheet of Glorious Ltd. as at 1st April, 2020

Particulars	**Note no**	**Rs**
EQUITY AND LIABILITIES		
1. Shareholders' funds		
(a) Share capital	1	26,80,000
(b) Reserves and surplus	2	30,000
2. Non-current liabilities		
Long-term borrowings	3	3,00,000
3. Current liabilities		
Trade payables		4,20,000
Total		**34,30,000**
ASSETS		
1. Non-current assets		
(a) Property, plant and equipment	4	13,16,000
(b) Intangible assets	5	6,16,000
2. Current assets		
(a) Inventories	6	7,74,000

(b) Trade receivables		4,62,000
(c) Cash and cash equivalents	7	2,62,000
Total		**34,30,000**

Notes to Accounts

		Rs
1. Share Capital		
Equity share capital		
2,68,000 shares of ` 10 each		26,80,000
(All the above shares are issued for consideration other than cash)		
2. Reserves and surplus		
Securities Premium		30,000
(10% premium on debentures of `3,00,000)		
3. Long-term borrowings		
Secured		
8% 3,000 Debentures of `100 each		3,00,000
4. Property Plant and Equipment		
Freehold property		
Galaxy Ltd.	5,88,000	
Glory Ltd.	3,36,000	9,24,000
Plant and Machinery		
Galaxy Ltd.	2,52,000	
Glory Ltd.	84,000	3,36,000
Motor vehicles - Galaxy Ltd.		56,000
		13,16,000
5. Intangible assets		
Goodwill	4,48,000	
Galaxy Ltd.	1,68,000	**6,16,000**
Glory Ltd.		
6. Inventories	3,36,000	
Galaxy Ltd.	4,38,000	**7,74,000**
Glory Ltd.		
7. Cash and cash equivalents		
Galaxy Ltd.	2,38,000	
Glory Ltd.(As per working note)	24,000	**2,62,000**

Q.6 The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

Particulars	**Note no**	**Black Ltd (Rs in '000)**	**White Ltd (Rs in '000)**
EQUITY AND LIABILITIES			
1. Shareholder's funds			
(a) Share capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660

2. Current Liabilities			
Trade payables		600	360
Total		**7,680**	**4,620**
ASSETS			
1. Non-Current assets			
Property, plant and equipment		3,600	2,400
2. Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash equivalents		1,440	420
Total		**7,680**	**4,620**

Notes to Accounts

Particulars	Black Ltd (Rs in '000)	White Ltd (Rs in '000)
1. Share Capital		
Equity Shares of ` 100 each	6,000	3,600
2. Reserves and Surplus		
General Reserve	360	180
Profit and Loss Account	720	480
Total	**1,080**	**660**

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of ` 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment, during April-June, 2020.

Estimated profit of Black Limited during these 3 months was ` 4,80,000 after charging proportionate deprecation @ 10% p.a. on Property Plant and Equipment

Both the companies have declared and paid 10% dividend within this 3 months' period.
Goodwill of White Limited is valued at ` 2,40,000 and Property Plant and Equipment are valued at ` 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par. Ignore income tax. You are required to:

(i) Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.

(ii) Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

(iii) Give balance of Profit or Loss of Black Limited as on 1st July, 2020

(iv) Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover. **(July 21)**

Ans. (i) No of shares issued by Black Ltd to White Ltd against purchase consideration

	Rs	Rs
Goodwill		2,40,000
Property, plant and equipment	24,00,000	
Less: Depreciation	(60,000)	
[24,00,000 · 10 % · 3/12]		
Add: Appreciation	1,20,000	24,60,000
Inventory		7,20,000
Trade receivables		10,80,000
Cash and Bank balances	4,20,000	
Add: Profit after depreciation 2,40,000 Add: Depreciation (non-cash) 60,000	3,00,000	
Less: Dividend [36,00,000 · 10%]	(3,60,000)	3,60,000
		48,60,000
Less: Trade payables		(3,60,000)
Purchase Consideration		**45,00,000**
Number of shares to be issued by Black Ltd. @ ` 100 each		45,000 shares

(ii) Calculation of Net Current Assets as on 01.07.2020

		Black Ltd (Rs)		**White Ltd (Rs)**
Current assets:				
Inventory		9,60,000		7,20,000
Trade receivables		16,80,000		10,80,000
Cash and bank	14,40,000		4,20,000	
Less: Dividend	(6,00,000)		(3,60,000)	
Add: Profit after depreciation	4,80,000		2,40,000	
Add: Depreciation being non-cash	90,000	14,10,000	60,000	3,60,000
Less: Trade payables		**40,50,000**		**21,60,000**
		(6,00,000)		(3,60,000)
		34,50,000		**18,00,000**

(iii) Profit and Loss Account balance of Black Ltd. as on 1.07.2020

	Rs
P & L A/c balance as on 31.03.2020	7,20,000
Less: Dividend paid	(6,00,000)
Add: Estimated profit for 3 months after charging depreciation	4,80,000
	6,00,000

(iv) Property, plant and equipment as on 01.07.2020

	Rs	Rs
Property, plant and equipment of Black Ltd. as on 31.03.2020		36,00,000
Less: Depreciation for 3 months [36,00,000 x 10% x 3/12]		(90,000)
Property, plant and equipment of White Ltd. Taken over as on 31.03.2020	24,00,000	
Less: Proportionate depreciation for 3 months on fixed assets	(60,000)	
Add: Appreciation above the estimated book value	1,20,000	24,60,000
Total Property, plant and equipment as on 1.7.2020		**59,70,000**

Q.7 Dark Ltd. and Fair Ltd. were amalgamated on and from 1st April, 2021. A new company Bright Ltd. was formed to take over the business of the existing companies. The balance Sheets of Dark Ltd. and Fair Ltd. as at 31st March, 2021 are given below:

(Rs in Lakhs)

Particulars	Note no	Dark Ltd	Fair Ltd
I Equity and Liabilities			
(1) Shareholders' Funds			
(a) Share Capital	1	1,650	1,425
(b) Reserves and Surplus	2	630	495
(2) Non-Current Liabilities			
Long Term Borrowings:			
10% Debentures of 100 `each		90	45
(3) Current Liabilities			
Trade Payables		630	285
Total		**3,000**	**2,250**
II Assets			
(1) Non Current Assets			
(a) Property, Plant and Equipment		1,350	975
(b) Non Current Investments			
(2) Current Assets		225	75
(a) Inventories			
(b) Trade Receivables		525	375
(c) Cash and Cash Equivalents		450	525
Total		450	300
		3,000	**2,250**

Notes to Accounts

	Dark Ltd (Rs in lakh)	**Fair Ltd (Rs in lakh)**
1. Share capital		
Equity shares of Rs 100 each	1,200	1,125

14% Preference shares of Rs 100 each	450 **1,650**	300 **1,425**
2. Reserves and Surplus		
Revaluation Reserve	225	150
General Reserve	255	225
Investment Allowance Reserve	75	75
Profit & Loss A/c	75	45
	630	**495**

Additional Information:

(i) Bright Limited will issue 5 equity shares for each equity share of Dark Limited and 4 equity shares for each equity share of Fair Limited. The shares are to be issued @ ` 35 each having a face value of ` 10 per share.

(ii) Preference shareholders of the two companies are issued equivalent number of 16% preference shares of Bright Limited at a price of ` 160 per share (face value ` 100).

(iii) 10% Debenture holders of Dark Limited and Fair Limited are discharged by Bright Limited, issuing such number of its 16% Debentures of ` 100 each so as to maintain the same amount of interest.

(iv) Investment allowance reserve is to be maintained for 4 more years.

(v) Liquidation expenses are for Dark Limited ` 6,00,000 and for Fair Limited ` 3,00,000. It is decided that these expenses would be borne by Bright Limited.

(vi) All the assets and liabilities of Dark Limited and Fair Limited are taken over at book value.

(vii) Authorized equity share capital of Bright Limited is ` 15,00,00,000 divided into equity share of ` 10 each. After issuing required number of shares to the liquidators of Dark Limited and Fair Limited, Bright Limited issued balance shares to public. The issue was fully subscribed.

You are required to prepare Balance Sheet of Bright Limited as at 1st April, 2021 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase **(Dec'21)**

Ans. **Balance Sheet of Bright Ltd. as at 1st April, 2021**

Particulars	Note no	(Rs in Lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,250
(b) Reserves and Surplus	2	4,200
(2) Non-Current Liabilities		
Long-term borrowings	3	84.375
(3) Current Liabilities		
Trade payables	4	915
Total		**7,449.375**
II. Assets		

(1) Non-current assets		
(a) i. Property, plant and equipment	5	2,325
ii. Intangible assets	6	
(b) Non-current investments	7	633.375
(2) Current assets		300
(a) Inventories	8	900
(b) Trade receivables	9	975
(c) Cash and cash equivalents	10	2,316
Total		**7,449.375**

Notes to Accounts

	(Rs in lakhs)	**(Rs in lakhs)**
1. Share Capital		
Authorized Share Capital		
1,50,00,000 Equity shares of `10 each 7,50,000 16%	1,500	
Preference Share of 100 each	750	
Issued: 1,50,00,000 Equity shares of ` 10 each (Out of which 1,05,00,000 Shares were Issued for consideration other than cash)	1,500	
7,50,000 16% Preference Shares of 100 each (Issued for consideration other than cash)	750	2,250
2. Reserves and surplus		
Securities Premium Account (1,50,00,000 shares ×` 25) 3750		
(7,50,000 shares × ` 60) 450	4,200	
Investment Allowance Reserve	150	
Amalgamation Adjustment Reserve	(150)	4,200
3. Long-term borrowings		
16% Debentures (56,25,000+28,12,500) (W.N. 3)		84.375
4. Trade payables		
Dark Ltd.	630	
Fair Ltd.	285	915
5. Property, plant & equipment		
Land and Building	1,350	
Plant and Machinery	975	2,325
6. Intangible assets		
Goodwill [W.N. 2] 624.375		
Add: liquidation exp. (6+3) 9.00		633.375
7. Non-current Investments		

Investments (225+75)		300
8. Inventories		
Dark Ltd.	525	
Fair Ltd.	375	900
9 Trade receivables		
Dark Ltd.	450	
Fair Ltd.	525	975
10 Cash & cash equivalents		
Dark Ltd.	450	
Fair Ltd.	300	
Liquidation Expenses (6+3)	(9)	
Shares issued for cash (45 lakh shares x `35)	1,575	2,316

Working Notes: **(Rs in lakhs)**

	Dark Ltd			**Fair Ltd**
(1) Computation of Purchase consideration				
(a) Preference shareholders: (4,50,00,000/100)				
i.e. 4,50,000 shares × ` 160 each	720			
3,00,00,000/100				
i.e. 3,00,000 shares × ` 160 each				480
(b) Equity shareholders:				
(12,00,00,000*5 / 100)	2,100			
i.e. 60,00,000 shares x ` 35 each				
(11,25,00,000*4 / 100)				
i.e. 45,00,000 shares × ` 35 each				1,575
Amount of Purchase consideration	**2,820**			**2,055**
(2) Net Assets Taken Over				
Assets taken over:				
Property Plant & Equipment	1,350			975
Non-Current Investments	225			75
Inventory	525			375
Trade receivables	450			525
Cash and bank	450			300
Less: Liabilities taken over:				
10% Debentures 56.25				
Trade payables 630	(686.25)		28.125	(313.125)
Net assets taken over	**2,313.75**		285	**1,936.87**
Purchase consideration	2,820			2,055
Goodwill	506.25			118.125

Total goodwill				**624.375**

(3) Issue of Debentures

Debentures Interest @ 10%	Rs 90,00,000 Rs 9,00,000 (9,00,000*100 /16) = 56,25,000	Rs 45,00,000 Rs 4,50,000 (4,50,000*100 /16) = 28,12,500

NOTE: In the above solution ` 35 has been considered as the issue price of Equity shares for public issue also. Alternative considering this as ` 10 also possible. In that case, the balance of cash and cash equivalents will be ` 1,191 lakhs and securities premium will be ` 3,075 lakhs in place of the balances given in the balance sheet in the above solution.

Q.8 The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March,2022 are as under:

	A Ltd (Rs)	**B Ltd (Rs)**
Equity shares of Rs 10 each, fully paid up	30,00,000	24,00,000
Securities premium	4,00,000	-
General Reserve	6,20,000	5,00,000
Profit & loss A/c	3,60,000	3,20,000
Retirement gratuity fund A/c	1,00,000	-
10% Debentures	20,00,000	-
Unsecured loan (including loan from A Ltd)	6,00,000	8,20,000
Trade payables	1,00,000	3,40,000
	71,80,000	**43,80,000**
Land & Buildings	28,00,000	21,00,000
Plant & Machinery	20,00,000	7,60,000
Long term advance to B Ltd	2,20,000	7,00,000
Inventories	10,40,000	5,20,000
Trade receivables	8,20,000	3,00,000
Cash and Bank	3,00,000	-
	71,80,000	**43,80,000**

B Ltd. is to declare and pay ₹ 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

(a) The authorized share capital of Z Ltd. is ₹ 60 lakhs divided into ₹ 6 lakhs equity shares of ₹ 10 each.

(b) As per Registered Valuer the value of equity shares of A Ltd. is ₹ 18 per share and of B Ltd. is ₹ 12 per share respectively and agreed by respective shareholders of the companies.

(c) 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.

(d) A contingent liability of A Ltd. of ₹ 2,00,000 is to be treated as actual liability.

(e) Liquidation expenses including Registered Valuer fees of A Ltd.₹ 50,000 and B Ltd.₹ 30,000 respectively to be borne by Z Ltd.

(f) The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid up equity shares of ₹ 10 each at a premium of ₹ 10 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies. **(May'22)**

Ans **Journal Entries in the books of Z Ltd.**

		Dr (Rs)	Cr (Rs)
Business Purchase A/c	Dr	54,00,000	
To Liquidator of A Ltd. A/c			54,00,000
Land & Building A/c	Dr	28,00,000	
Plant & Machinery A/c	Dr	20,00,000	
Long term advance to B Ltd. A/c	Dr	2,20,000	
Inventories A/c	Dr	10,40,000	
Trade Receivables A/c	Dr	8,20,000	
Cash and Bank A/c	Dr	3,00,000	
Goodwill A/c	Dr	12,20,000	
To Retirement Gratuity Fund A/c			1,00,000
To 10% Debentures A/c			20,00,000
To Unsecured Loan A/c			6,00,000
To Trade Payables A/c			1,00,000
To Other liabilities A/c			2,00,000
To Business Purchase A/c			54,00,000
10% Debentures A/c	Dr	20,00,000	
To 12% Debentures A/c			20,00,000
Liquidator of A Ltd. A/c	Dr	54,00,000	
To Equity Share Capital A/c			27,00,000
To Securities Premium A/c			27,00,000
Business Purchase A/c	Dr	28,80,000	
To Liquidator of B Ltd. A/c			28,80,000
Land and Building A/c	Dr	21,00,000	
Plant & Machinery A/c	Dr	7,60,000	
Inventories A/c	Dr	7,00,000	
Trade Receivables A/c	Dr	5,20,000	
Cash and Bank (less dividend) A/c	Dr	60,000	
To Unsecured Loan A/c			8,20,000

To Trade Payables A/c		3,40,000
To Business Purchase A/c		28,80,000
To Capital Reserve A/c		1,00,000
Liquidators of B Ltd. A/c Dr	28,80,000	
To Equity Share Capital A/c		14,40,000
To Securities Premium A/c		14,40,000
Unsecured Loans A/c Dr	2,20,000	
To Long term Advance to B Ltd. A/c		2,20,000
*Capital Reserve A/c Dr	1,00,000	
To Cash and Bank A/c (Liquidation expenses)		80,000
To Goodwill A/c		20,000

Note:

1. The journal entries for A Ltd. and B Ltd. have been given separately in the above solution. Alternatively, the entries may be given as combined for both companies.
2. *Alternatively, following set of entries may be given in place of the last entry given in the above solution:

Goodwill A/c Dr 50,000

To Cash & Bank A/c (Liquidation expenses of A Ltd.) 50,000

Capital Reserve A/c Dr 30,000

To Cash and Bank A/c (Liquidation expenses of B Ltd.) 30,000

Capital Reserve A/c Dr 70,000

To Goodwill A/c 70,000

Balance Sheet of Z Ltd. As at 31st March, 2022

Particulars	Note no	Rs
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	41,40,000
(b) Reserves and Surplus	2	41,40,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	20,00,000
(b) Long term provisions	4	1,00,000
(3) Current Liabilities		
(a) Short-term borrowings*	5	12,00,000
(b) Trade payables	6	4,40,000
(c) Other current liability		2,00,000
Total		**1,22,20,000**
II. Assets		
(1) Non-current assets		

(a) i. Property, plant and equipment	7	76,60,000
ii. Intangible assets		12,00,000
(Goodwill 12,20,000-20,000)		
(2) Current assets		
(a) Inventories	8	17,40,000
(b) Trade receivables	9	13,40,000
(c) Cash and cash equivalents	10	2,80,000
Total		**1,22,20,000**

* Unsecured loans have been considered as short-term borrowings. Alternatively, it may be considered as long-term borrowings and presented accordingly

Notes to Accounts

	Rs	Rs
1. Share Capital 60,00,000		
Authorized Share Capital		
6,00,000 Equity shares of ₹ 10 each		60,00,000
Issued: 4,14,000 Equity shares of ₹ 10 each		41,40,000
(all these shares were Issued for consideration other than cash)		
2. Reserves and surplus		
Securities Premium Account		41,40,000
(4,14,000 shares × ₹ 10)		
3. Long-term borrowings		
12% Debentures		20,00,000
4 Long term Provisions		
Retirement gratuity fund		1,00,000
5. Short-term borrowings		
Unsecured loans		
A Ltd. 6,00,000		
B Ltd. 8,20,000	14,20,000	
Less: Mutual	(2,20,000)	12,00,000
6. Trade payables		
A Ltd.	1,00,000	
B Ltd.	3,40,000	4,40,000
7. Property, plant & equipment		
Land and Building		
A Ltd.	28,00,000	
B Ltd.	21,00,000	49,00,000
Plant and Machinery		
A Ltd.	20,00,000	

B Ltd.	7,60,000	27,60,000
8. Inventories		
A Ltd.	10,40,000	
B Ltd.	7,00,000	17,40,000
9 Trade receivables		
A Ltd.	8,20,000	
B Ltd.	5,20,000	13,40,000
10 Cash & cash equivalents		
A Ltd.	3,00,000	
B Ltd. [3,00,000-2,40,000(dividend)]	60,000	
Less: Liquidation Expenses	(80,000)	2,80,000

Working Note:

Calculation of amount of purchase consideration:

	A Ltd	B Ltd
Existing shares	3,00,000	2,40,000
Agreed value per share	Rs 18	Rs 12
Purchase consideration	54,00,000	28,80,000
No of shares to be issued of Rs 20 each (including Rs 10 premium)	2,70,000	1,44,000
Face value of shares at Rs 10	27,00,000	14,40,000
Premium of shares at Rs 10	27,00,000	14,40,000

Q.9. X Ltd and Y Ltd had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd with an authorized share capital of Rs 40,00,000 divided into Rs 8,00,000 equity shares of Rs 5 each. On 31st March, 2023 the respective information of X Ltd and Y Ltd were as follows:

	X Ltd (Rs)	Y Ltd (Rs)
Share capital	34,25,000	36,10,000
Trade payables	59,70,000	18,02,500
Property, plant and equipment	58,25,000	37,40,000
Current assets	31,45,000	15,99,500

Additional Information:

The following revalued figures of non-current and current assets are:

	X Ltd (Rs)	Y Ltd (Rs)
Property, Plant and Equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500

The debtors and creditors include Rs 1,37,250 owed by X Ltd to Y Ltd.

The purchase consideration is satisfied by issue of the following shares and debentures.

6,20,000 equity shares of XY Ltd to X Ltd and Y Ltd in the proportion of the profitability of their respective business based on the average net profit during the last 4 years which were as follows:

	X Ltd (Rs)	Y Ltd (Rs)
2020 Profit	42,50,000	26,50,000
2021 Profit	44,45,760	27,60,000
2022 (Loss) / Profit	(75,000)	34,00,000
2023 Profit	37,79,240	35,90,000

7.5% debentures in XY Ltd at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st March, 2023 after revaluation of assets. You are required to:

(1) Compute the amount of debentures and shares to be issued to 'X' Ltd and 'Y' Ltd.

(2) A Balance Sheet of XY Ltd showing the position immediately after amalgamation. **(May 23)**

Ans. (1) Computation of amount of Debentures and Shares to be issued:

(a) Average Net Profit	X Ltd	Y Ltd
Rs (42,50,000+44,45,760-75,000+37,79,240)/4	31,00,000	
Rs (26,50,000+27,60,000+34,00,000+35,90,000)/4		31,00,000

(b) Equity shares issued

- Ratio of distribution

X Ltd	:	Y Ltd
1		1

- No of shares

X Ltd: 3,10,000
Y Ltd: 3,10,000
6,20,000

- Amount of shares

3,10,000 shares of Rs 5 each= Rs 15,50,000
3,10,000 shares of Rs 5 each= Rs 15,50,000

(c) Capital Employed (after revaluation of assets)	X Ltd (Rs)	Y Ltd (Rs)
Property, plant and equipment	71,00,000	39,00,000
Current assets	29,95,000	15,77,500
Less: Current liabilities	(59,70,000)	(18,02,500)

		X Ltd (Rs)	Y Ltd (Rs)
		41,25,000	**36,75,000**
(d)	Debentures Issued	X Ltd (Rs)	Y Ltd (Rs)
	4% Return on Capital employed	1,65,000	1,47,000
	7.5% Debentures to be issued to	**22,00,000**	**19,60,000**

Provide equivalent income: (1,65,000*100/7.5)
1,47,000*100/7.5)

(2)Balance Sheet of XY Ltd as at 31st March, 2023 (after amalgamation)

Particulars	Note no	Rs
I. Equity and Liabilities		
(1) Shareholder's funds		
(a) Share capital	1	31,00,000
(b) Reserves and Surplus	2	5,40,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	41,60,000
(3) Current Liabilities		
(a) Trade payables	4	76,35,250
Total		**1,54,35,250**
II. Assets		
(1) Non-current assets		
(a) PPE	5	1,10,00,000
(2) Current assets		
(a) Other Current assets	6	44,35,250
Total		**1,54,35,250**

Notes to Accounts

		Rs
1. Share capital		
Authorized		
8,00,000 equity shares of Rs 5 each		40,00,000
Issued and Subscribed		
6,20,000 equity shares of Rs 5 each		31,00,000
(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)		
2. Reserves and Surplus		
Capital Reserve		5,40,000
3. Long-term borrowings		
Secured loans		
7.5% Debentures		
X Ltd	22,00,000	
Y Ltd	19,60,000	41,60,000
4. Current Liabilities		

Trade payables		
X Ltd	59,70,000	
Y Ltd	18,02,500	
Less: Mutual Owings	(1,37,250)	76,35,250
5. Property, plant and equipment		
X Ltd	71,00,000	
Y Ltd	39,00,000	1,10,00,000
6. Other Current assets		
X Ltd	29,95,000	
Y Ltd	15,77,500	
Less: Mutual Owings	(1,37,250)	44,35,250

Working Notes:

	X Ltd (Rs)	Y Ltd (Rs)	Total (Rs)
(1) Purchase consideration			
Equity shares issued	15,50,000	15,50,000	1,10,00,000
7.5% Debentures issued	22,00,000	19,60,000	44,35,250
	37,50,000	**35,10,000**	**1,54,35,250**
(2) Capital Reserve			
(a) Net assets taken over			
Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
Current Assets	29,95,000	14,40,250*	44,35,250
Less: Current liabilities	(58,32,750)**	(18,02,500)	(76,35,250)
(b) Purchase consideration	**42,62,250**	**35,37,750**	**78,00,000**
(c) Capital Reserve (a-b)	37,50,000	35,10,000	72,60,000
	5,12,250	**27,750**	**5,40,000**

*15,77,500-1,37,250= 14,40,250

**59,70,000-1,37,250= 58,32,750

Q.10. Raman Ltd and Naman Ltd decided to amalgamate and form a new company Rana Ltd as on 31st March, 2023 and provided you the following information:

	As on 31st March, 2023		Revalued figures for Amalgamation	
Particulars	Raman Ltd (Rs)	Naman Ltd (Rs)	Raman Ltd (Rs)	Naman Ltd (Rs)
Equity shares of Rs 10 each	6,72,000	2,52,000		
10% preference shares of Rs 100 each	3,36,000	1,68,000		
Reserves and Surplus	5,44,240	2,65,480		
Trade payables	84,000	1,76,000	80,640	1,68,960
Property, plant and equipment	7,69,000	4,36,400	10,58,100	5,20,100

Goodwill	1,62,000	-	1,62,000	-
Inventories	1,89,000	1,17,600	2,78,620	2,06,780
Trade receivables	2,81,000	1,47,000	2,47,140	1,38,180
Cash and Cash equivalents	2,35,240	1,60,480		

The purchase consideration is to be satisfied as follows:

(1) By issue of 4 preference shares of Rs 100 each in Rana Ltd @ Rs 85 paid up and at a premium of Rs 30 per share for every 3 preference shares held in both the companies.

(2) By issue of 5 equity shares of Rs 10 each in Rana Ltd @ Rs 7 paid up and at a premium of Rs 5 per share for every 3 equity shares held in both the companies.

(3) In addition, necessary cash should be paid to equity shareholders of both the companies as required to adjust the rights of shareholders of both the companies in accordance with the intrinsic value of the shares of both the companies.

You are required to compute the purchase consideration for both the companies. **(Nov 23)**

Ans

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CHAPTER – 14

ACCOUNTING FOR RECONSTRUCTION OF COMPANIES

Total Questions: 5

Q.1 The following information is being provided by Fortunate Ltd. as on 31st March, 2022.

	Rs
Authorized and Issued share capital	
(a) 15,000 8% preference of Rs 50 each	7,50,000
(b) 18,750 equity shares of Rs 50 each	9,37,500
Profit and Loss A/c (Dr balance)	5,63,750
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their ` 50 shares should be reduced to ` 5 by cancellation of ` 45.00 per share. They have also agreed to subscribe for three new equity shares of ` 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ` 50 preference share, 4 new 6% preference shares of ` 10 each, plus 3 new equity shares of ` 5.00 each, all credited as fully paid.

(iii) Lenders to the company for ` 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ` 10 each and 7,500 new equity shares of ` 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ` 5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, ` 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied:

(a) To write off the debit balance in the Profit and Loss A/c, and

(b) To write off ` 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to ` 8,12,500 for preference share capital and ` 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction.

(RTP May '23)

Ans **In the books of Fortunate Ltd.**

Journal Entries

Particulars	Dr (Rs)	Cr (Rs)
1. Equity share capital A/c (` 50) Dr	9,37,500	
To Equity share capital A/c (` 5)		93,750
To Capital reduction A/c		8,43,750
(Being equity capital reduced to nominal value of ` 5 each)		
2. Bank A/c Dr	2,81,250	
To Equity share capital		2,81,250
(Being 3 right shares against each share was issued and subscribed)		
3. 8% Preference share capital A/c (` 50) Dr	7,50,000	
Capital reduction A/c Dr	75,000	
To 6% Preference share capital (` 10)		6,00,000
To equity share capital (` 50)		2,25,000
(Being 8% preference shares of ` 50 each converted to 6% preference shares of ` 10 each and also given to them 3 equity shares for every share held)		
4. Loan A/c Dr	1,87,500	
To 6% Preference share capital A/c (15,000 x ` 10)		1,50,000
To Equity share capital A/c (7,500 x ` 5)		37,500
(Being loan to the extent of ` 1,50,000 converted into share capital)		
5. Bank A/c (25,000 x `5) Dr	1,25,000	
To Equity share application A/c		1,25,000

(Being shares subscribed by the directors)		
6. Equity share application A/c Dr	1,25,000	
To Equity share capital A/c		1,25,000
(Being application money transferred to capital A/c)		
7. Loan A/c Dr	2,50,000	
To Bank A/c		2,50,000
(Being loan repaid)		
8. Capital reduction A/c Dr	7,68,750	
To Profit and loss A/c		5,63,750
To Plant A/c		43,750
To Trademarks and Goodwill A/c (Bal. fig.)		1,61,250
(Being losses and assets written off to the extent required)		

Balance sheet of Fortunate Ltd. (and reduced)
as on 31.3.2022

Particulars	**Note no**	**Rs**
Equity and Liabilities		
1. Shareholders' funds		
Share capital	1	15,12,500
2. Non-current liabilities		
Long-term borrowings		2,78,750
(7,16,250 – 1,87,500 – 2,50,000)		
3. Current liabilities		
(a) Trade Payables		2,58,750
(b) Other current liabilities		43,750
Total		**20,93,750**
Assets		
1. Non-current assets		
(a) Property, Plant and Equipment	2	7,91,250
(b) Intangible assets	3	2,36,250
2. Current assets		
(a) Inventories		5,00,000
(b) Trade receivables		4,10,000
(c) Cash and cash equivalents	4	1,56,250
Total		**20,93,750**

Notes to Accounts

		Rs
1. Share Capital		
Authorized capital:		
81,250 Preference shares of ` 10 each	8,12,500	
1,87,500 Equity shares of ` 5 each	9,37,500	17,50,000
Issued, subscribed and paid up:		

1,52,500 equity shares of ` 5 each 75,000, 6% Preference shares of ` 10 each	7,62,500 7,50,000	 15,12,500
2. Property, Plant and Equipment Building at cost less depreciation Plant at cost less depreciation	 5,00,000 2,91,250	 7,91,250
3. Intangible assets Trademarks and goodwill		 2,36,250
4. Cash and cash equivalents Bank (2,81,250+1,25,000-2,50,000)		1,56,250

Q.2. Following information from Balance Sheet of Ruby Limited as on 31st March, 2023.

	Rs
Authorised and Issued share capital:	
60,000 shares of ₹ 100 each fully paid	60,00,000
40,000 7% cumulative preference shares of ₹ 100 each fully paid	40,00,000
General Reserve	12,00,000
Loan from Director	8,80,000
Trade Payables	49,20,000
Outstanding expenses	6,40,000
Bank loan	6,00,000
Patent	8,00,000
Plant & machinery	60,00,000
Building	11,00,000
Trade receivables	47,00,000
Inventory	32,60,000
Cash	2,40,000
Bank Balance	4,60,000
Profit and Loss account	16,80,000

Note: The arrears of preference dividend amount to ₹ 5,60,000.

The company had suffered losses since last 3 years due to bad market conditions and hope for a better position in the future.

The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

(1) Equity shares to be converted into 6,00,000 shares of ₹ 10 each.

(2) Equity shareholders to surrender to the company 80 percent of their holdings.

(3) Preference shareholders agree to forgo their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 8% preference shares.

(4) Trade payables agree to reduce their claim by one fourth in consideration of their getting shares of ₹ 10,00,000 out of the surrendered equity shares.
(5) Directors agree to forego the amounts due on account of loan.
(6) Surrendered shares not otherwise utilized to be cancelled.
(7) Assets to be reduced as under:

	Rs
Patent	Nil
Plant & Machinery	8,00,000
Inventory	6,80,000

(8) Trade receivables to the extent of ₹ 34,00,000 are considered good.
(9) Revalued figures for building is accepted at ₹ 14,00,000.
(10) Bank loan is paid.
(11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.
(12) Expenses of reconstruction amounted to ₹ 1,20,000.
(13) Further 80,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the Company.

(RTP Nov 23)

Ans **Books of Ruby Ltd.**

Journal Entries

Particulars	Dr (Rs)	Cr (Rs)
Equity Share Capital (₹ 100 each) A/c Dr	60,00,000	
To Equity share capital (₹ 10 each) A/c		60,00,000
(Sub division of equity share into ₹ 10 each)		
Equity Share Capital (₹ 10) A/c Dr	48,00,000	
To Share surrendered A/c		48,00,000
(Surrender of 80% of share holding by equity share holders)		
7% Cumulative preference share capital A/c Dr	40,00,000	
To 8% cumulative preference share capital A/c		40,00,000
(Conversion of 7% Cumulative Preference share capital into 8% Cumulative Preference share capital. They also forgo their right to arrears of dividends)		
Shares Surrendered A/c Dr	10,00,000	
To Equity share capital A/c		10,00,000
(Surrendered share issued against trade payables under reconstruction scheme)		

Bank loan A/c Dr Expenses of reconstruction A/c Dr To Bank A/c (Bank loan and reconstruction expenses paid)	6,00,000 1,20,000	 7,20,000
Share surrendered A/c Dr To Capital Reduction A/c (Cancellation of unissued surrendered shares) (48,00,000-10,00,000)	38,00,000	 38,00,000
Loan from Director A/c Dr Trade Payables A/c Dr Building A/c Dr To Capital reduction A/c (Amount sacrificed by directors and trade payables and appreciation in value of building)	8,80,000 12,30,000 3,00,000	 24,10,000
Capital reduction A/c Dr To Patent A/c To Trade receivables A/c To Inventory A/c To Profit and Loss A/c To Expenses on Reconstruction A/c To Plant A/c (bal. fig) (8,00,000+8,30,000) (Various assets and expenses written off)	62,10,000	 8,00,000 13,00,000 6,80,000 16,80,000 1,20,000 16,30,000
Bank A/c Dr To Share application money A/c (Application money received on full and final payment)	8,00,000	 8,00,000
Share application money A/c Dr To Share capital A/c (Being 80,000 equity shares of ₹ 10 each issued and fully paid up)	8,00,000	 8,00,000

Note: Cancellation of preference dividend need not be journalised. On cancellation, it ceases to be contingent liability and hence no further disclosure required.

Balance Sheet of Ruby Ltd. (and Reduced) as at 31st March, 2023

Particulars	**Note no**	**Rs**
I. EQUITY AND LIABILITIES		
1. Shareholder's funds		
a. Share capital	1	70,00,000
b. Reserves and Surplus (General reserve)		12,00,000
2. Current Liabilities		
a. Trade payables (49,20,000-12,30,000)		36,90,000

b. Other current liabilities (outstanding expenses)		6,40,000
Total		**1,25,30,000**
II. ASSETS		
1. Non-current assets		
a. Property, plant and equipment's	2	57,70,000
b. Intangible assets	3	-
2. Current assets		
a. Inventories (32,60,000-6,80,000)		25,80,000
b. Trade receivables (47,00,000-13,00,000)		34,00,000
c. Cash and cash equivalents	4	7,80,000
Total		**1,25,30,000**

Notes to Accounts

	Rs
1. Share capital	
a. Authorised	
6,00,000 equity shares of ₹ 10 each	60,00,000
40,000 8% cumulative preference shares of ₹ 100 each	40,00,000
b. Issued, subscribed and fully paid up	
3,00,000 equity shares of ₹ 10 each (of the above, 1,00,000 shares were issued as fully paid up for consideration other than cash under the scheme of reconstruction)	30,00,000
40,000 8% cumulative preference shares of ₹ 100 each	40,00,000
	70,00,000
2. Property, plant and equipment	
Plant (60,00,000-16,30,000)	43,70,000
Building (11,00,000+3,00,000)	14,00,000
	57,70,000
3. Intangible assets	
Patent (8,00,000-8,00,000)	**-**
4. Cash and cash equivalents	
Bank (4,60,000-6,00,000-1,20,000+8,00,000)	5,40,000
Cash in hand	2,40,000
	7,80,000

Q.3. Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.

(i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of ₹ 10 each, the following:

- New fully paid ₹ 10 Equity Shares equal to 3/5th of their holding.

- Fully paid ₹ 10, 6% Preference Shares to the extent of 2/5th of the above new equity shares.
- 7% Debentures of ₹ 250,000.

(ii) Goodwill which stood at ₹ 2,70,000 is to be completely written off.

(iii) Plant & Machinery to be reduced by ₹ 1,00,000, Furniture to be reduced by ₹ 88,000 and Building to be appreciated by ₹ 1,50,000.

(iv) Investment of Rs 6,00,000 to be brought down to its existing market price of Rs 1,80,000.

(v) Write off Profit & Loss Account debit balance of ₹ 2,25,000.

In case of any shortfall, the balance of General Reserve of ₹ 42,000 can be utilized to write off the losses under reconstruction scheme.

You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses.

(July 21)

Ans **Journal Entries**

Particulars	Dr (Rs)	Cr (Rs)
Equity Share Capital (old) A/c Dr	75,00,000	
To Equity Share Capital (₹ 10) A/c		45,00,000
To 6% Preference Share Capital (₹ 10) A/c		18,00,000
To 7% Debentures A/c		2,50,000
To Capital Reduction A/c		9,50,000
(Being new equity shares, 6% Preference Shares, 7% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)		
Building A/c Dr	1,50,000	
Capital Reduction A/c Dr	9,53,000	
To Goodwill Account		2,70,000
To Plant and Machinery Account		1,00,000
To Furniture Account		88,000
To Investment A/c		4,20,000
To Profit & Loss A/c		2,25,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery, furniture, investment and Profit & Loss as per the scheme)		
General reserve A/c Dr	3,000	
To Capital Reduction A/c		3,000

(Being general reserve utilized to write off the balance in Capital reduction A/c)		

Q.4 The following is the Balance Sheet of Purple Limited as at 31st March, 2022:

Particulars	Note no	Rs
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	15,00,000
(b) Reserves & Surplus	2	(3,00,000)
(2) Current Liabilities		
(a) Trade Payables		2,20,000
(b) Short Term Borrowings – Bank Overdraft		2,00,000
Total		**16,20,000**
II. Assets		
(1) Non-Current Assets		
(a) Property, Plant and Equipment	3	10,20,000
(b) Intangible Assets	4	1,20,600
(2) Current Assets		
(a) Inventories		1,70,000
(b) Trade Receivables		3,01,800
(c) Cash and cash equivalents		7,600
Total		**16,20,000**

Notes to Accounts

	Rs	Rs
(1) Share Capital		
90,000 Equity Shares of ₹ 10 each fully paid	9,00,000	
6% Preference Share Capital	6,00,000	15,00,000
(2) Reserves & Surplus		
Profit & Loss account		(3,00,000)
(3) Property, Plant and Equipment		
Land and Building	5,40,000	
Plant and Machinery	4,80,000	10,20,000
(4) Intangible Assets		
Goodwill	84,600	
Patents	36,000	1,20,600

Dividends on preference shares are in arrears for 3 years.

On the above date, the company adopted the following scheme of reconstruction:

(i) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.

(ii) The value of equity shares is brought down to ₹ 8 per share.

(iii) The arrears of dividend on preference shares are cancelled.

(iv) The debit balance of Goodwill account is written off entirely.

(v) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.

(vi) Book debts amounting to ₹ 14,400 are to be treated as bad and hence to be written off.

(vii) The company expects to earn a profit at the rate of ₹ 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.

(viii) The balance of total capital reduction is to be utilized in writing down Patents.

(ix) A secured loan of ₹ 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet. **(Nov '22)**

Ans **Journal Entries**

Particulars	Dr (Rs)	Cr (Rs)
1. 6% Preference share capital A/c Dr	6,00,000	
To 8% Preference share capital A/c		4,50,000
To Capital reduction A/c		1,50,000
(Being 6% preference shares converted to 8% preference shares so that return to pref. shareholders remains unaffected)		
2. Equity share capital A/c (₹ 10) Dr	9,00,000	
To Equity share capital A/c (₹ 8)		7,20,000
To Capital reduction A/c		1,80,000
(Being equity capital reduced to nominal value of ₹ 8 each)		
3. Capital Reduction A/c Dr	3,30,000	
To Goodwill A/c		84,600
To Land and Building A/c		81,000
To Plant and Machinery A/c		96,000
To Trade Receivables A/c (Book debts)		14,400
To Patents A/c (Bal. fig.)		24,000
To Profit and loss A/c		30,000
(Being losses and assets written off to the extent required)		

4. Bank A/c	Dr	4,80,000	
To Bank Loan A/c			4,80,000
(Being Loan taken)			
5. Bank overdraft A/c	Dr	2,00,000	
To Bank A/c			2,00,000
(Being Bank overdraft repaid)			

Capital Reduction A/c

Particulars	Rs	Particulars	Rs
To Goodwill A/c	84,600	By Equity share capital A/c	1,80,000
To Land & Building A/c	81,000		
To Plant and Machinery A/c	96,000	By 6% Preference share capital A/c	1,50,000
To Trade receivables (Book debts) A/c	14,400		
To Profit & Loss A/c			
To Patents A/c (Bal. fig)	30,000		
	24,000		
	3,30,000		**3,30,000**

Balance Sheet of Purple Ltd. (and reduced) as at 31.3.2022

Particulars	Note no	Rs
Equity and Liabilities		
1. Shareholders' funds		
a. Share capital	1	11,70,000
b. Reserves and surplus	2	(2,70,000)
2. Current liabilities		
a. Short term borrowings (Secured Bank Loan)		4,80,000
b. Trade Payables		2,20,000
Total		**16,00,000**
Assets		
1. Non-current assets		
a. Property, plant and equipment	3	8,43,000
b. Intangible assets	4	12,000
2. Current Assets		
a. Inventory		1,70,000
b. Trade receivables	5	2,87,400
c. Cash and cash equivalents (7,600+4,80,000- 2,00,000)		2,87,600
Total		**16,00,000**

Notes to Accounts

	Rs	Rs
1. Share Capital		
Authorized Issued, subscribed and paid up: 90,000		
equity shares of ₹ 8 each fully paid	7,20,000	
8% Preference share capital*	4,50,000	11,70,000
2. Reserves and Surplus		
Profit and Loss Account (Dr balance)		(2,70,000)
3. Property plant and equipment		
Land and Building	4,59,000	
Plant and Machinery	3,84,000	8,43,000
4. Intangible assets		
Patent ₹ (36,000 - 24,000)		12,000
5. Trade Receivables		
Sundry Debtors	3,01,800	
Less: Bad debts	(14,400)	2,87,400

Note: *Face value of preference share is not given in the question (pre and post reconstruction) and hence any suitable value of preference share may be assumed.

Working Notes:

1. Calculation of new Preference Shares

   Rate of return : 6% on Preference Shares

   Dividend: (6/100) * Rs 6,00,000 = Rs 36,000

   Rate of return : 8% on Preference shares

   Dividend: (8/100) * X = Rs 36,000

   X = (36,000/8) * 100 = Rs 4,50,000

   New preference share capital = Rs 4,50,000

   Old preference share capital = Rs 6,00,000

Amount taken to Capital Reduction A/c = Rs 1,50,000 (6,00,000-4,50,000)

2. Since the company expects to earn a profit of ₹ 90,000 p.a. consecutively for three years and it shall be used to write-off debit balance of P & L account, hence ₹ 2,70,000 being loss shall be shown in the Balance Sheet under Reserve & Surplus head and ₹ 30,000 shall be written-off from Capital Reduction A/c.

3. Calculation of Amount written off on Land & Building and Plant & Machinery

   Land & Building = (85/100) x 5,40,000 = Rs 4,59,000

   Plant & Machinery = (80/100) x 4,80,000 = Rs 3,84,000

Reduced by:

Land & Building = (5,40,000 - 4,59,000) = Rs 81,000

Plant & Machinery = (4,80,000 - 3,84,000) = Rs 96,000

Q.5 Following is the Balance Sheet of Tourma Ltd as at 31st March, 2023:

Particulars	**Notes**	**Rs in Lakhs**
EQUITY AND LIABILITIES		
1. Shareholder's funds		
A. Share capital	1	24.00
B. Reserves and Surplus	2	(9.10)
2. Non-current liabilities		
A. Long-term borrowing	3	3.20
3. Current liabilities		
A. Trade payables		1.15
B. Short Term Borrowings- Bank overdraft		1.40
C. Other current liabilities	4	0.32
D. Short term provisions	5	0.42
Total		
ASSETS		**21.39**
1. Non-current assets		
A. Property, plant and equipment	6	7.80
B. Intangible assets	7	1.70
C. Non-current Investments	8	1.80
2. Current assets		
A. Inventory		5.12
B. Trade receivables		4.32
C. Cash and cash equivalents		0.65
Total		**21.39**

Notes to Accounts:

	Rs in Lakhs
1. Share capital	
16,000 equity shares of Rs 100 each	16.00
8,000 6% preference shares of Rs 100 each	8.00
	24.00
2. Reserves and Surplus	
Debit balance of Profit and loss A/c	(9.10)
3. Long-term borrowings	
3,200 10% Debentures	3.20
4. Other current liabilities	
Interest payable on debenture	0.32
5. Short term provisions	

Provision for taxation	0.42
6. Property, plant and equipment	
Plant & Machinery	5.00
Furniture & Fixture	2.80
	7.80
7. Intangible assets	
Patents & Copyrights	1.70
8. Non-current Investments	
Investments (Market value Rs 1,10,000)	1.80

As on 1st April, 2023 the following scheme of reconstruction was finalized for which necessary resolution was passed and approvals were obtained from appropriate authorities. Accordingly, it was decided that:

(1) Each equity share is to be sub-divided into ten fully paid-up equity shares of Rs 10 each. After sub-division, each shareholder shall surrender to the company 40% of his holding, for the purpose of re-issue to trade payables as necessary.

(2) Preference shareholders would give up their 30% of their capital and 12% Debentures (face value Rs 100 each) shall be issued to them for balance holdings.

(3) The company would issue additional 12% Debentures (face value Rs 100 each) for Rs 4,00,000 for meeting its working capital requirement and final settlement of Bank Overdraft at 90% of the amount.

(4) Existing debenture holders would accept Furniture & fixture in full settlement of their dues.

(5) Trade payables claim shall be reduced to 70%, it is to be settled by the issue of equity shares of Rs 10 each out of shares surrendered.

(6) The shares surrendered and not re-issued shall be cancelled.

(7) The taxation liability is to be settled at Rs 50,000.

(8) Investments value to be reduced to market price.

(9) Balance of Profit and Loss account is to be written off.

(10) The value of inventories is to be increased by Rs 32,000 and Provision for doubtful debts is to be created at 5% of Trade receivables.

You are required to:

(1) Pass necessary journal entries in the books of account of Tourma Ltd.

(2) Prepare Reconstruction Account, and

(3) Prepare Balance Sheet of the company after internal reconstruction.

(Nov 23)

Ans

●●●

CHAPTER – 15
ACCOUNTING FOR BRANCHES
INCLUDING FOREIGN BRANCHES
Total Questions: 5

Q.1 PQR has a branch at Houston (USA). Business of the Branch is carried out substantially independent by way of accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. The trial balance of the Branch as at 31st March, 2022 is as follows:

Particulars	Dr (US$)	Cr (US$)
Office equipment (Cost)	56,400	
Opening Accumulated Depreciation (Office equipment)		5,400
Furniture and Fixtures (Cost)	36,000	
Opening Accumulated Depreciation (Furniture and Fixtures)		6,840
Opening Stock as on 1st April, 2021	24,500	
Purchases	96,500	
Sales		1,76,250
Salaries	4,250	
Carriage inward	256	
Rent, Rates & Taxes	956	
Trade receivables	12,560	
Trade payables		8,650
Cash at bank	2,540	
Cash in hand	500	
Head office Account		37,322
Total	**2,34,462**	**2,34,462**

Following further information are given:

(i) Salaries outstanding as on 31st March, 2022 is US$ 600.

(ii) Depreciate office equipment and furniture & fixtures @ 10% at written down value.

(iii) Closing stock as on 31st March, 2022 is US $, 24,650.

(iv) You are informed that the Head office is showing receivable from the Branch as ₹ 23,75,614 as on 31st March, 2022. No transaction in respect of the Branch is pending in Head office.

(v) Office equipment (cost) includes one office equipment of US $ 2,400 purchased on 1/04/2021.

(vi) One furniture of carrying value of US $ 450 as on 01/04/2021 (cost: US $ 500 and Accumulated depreciation: US $ 50) has been sold for US $ 405 on 31/03/2022 to Mr. M at no profit no loss. Mr. M has not paid the amount till the finalization of branch account. No entry has been passed for this sale of furniture in the above trial balance.

(vii) The rate of exchange on different dates are:

Date	1 US$ is equivalent to
1st April, 2021	Rs 64
31st December, 2021	Rs 70
31st March,2022	Rs 75
Average for the year	Rs 72

You are required to prepare the trial Balance after incorporating adjustments given and converting US $ into rupees.

(RTP May 23) (Similar to Exam May 23 but different figures and few concepts)

Ans **In the books of PQR**

Trial Balance (in Rupees) of Houston (USA) Branch – Non-Integral foreign operation as on 31st March, 2022

	Dr (US$)	**Cr (US$)**	**Conversion rate**	**Dr (Rs)**	**Cr (Rs)**
Office equipment	56,400		75	42,30,000	
Depreciation on Office equipment (Accumulated) (5,400+5,100)		10,500	75		7,87,500
Depreciation	8,016		75	6,01,200	
Furniture & fixtures (36,000-500)	35,500		75	26,62,500	
Depreciation on Furniture & fixtures (Accumulated) (6,840-50-45+2,916)		9,661	75		7,24,575
Stock (1st April, 2021)	24,500		64	15,68,000	
Purchases	96,500		72	69,48,000	

Sales		1,76,250	72		126,90,000
Carriage Inward	256		72	18,432	
Salaries (4,250+600)	4,850		72	3,49,200	
Rent, rates & taxes	956		72	68,832	
Salaries payable		600	75		
Head office A/c		37,322			45,000
					23,75,614
Trade receivables	12,560		75	9,42,000	(given)
Trade payables		8,650	75		
Cash at bank	2,540		75	1,90,500	6,48,750
Cash in hand	500		75	37,500	
Mr . M (receivable for sale of furniture)	405		75	30,375	
Exchange gain (bal. fig)	**2,42,983**	**2,42,983**		**176,46,539**	**3,75,100**
					176,46,539

Closing stock= 24,650 US$* Rs 75 = Rs 18, 48,750

Q.2 Treadmill invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding ₹ 20,000 necessary for meeting immediate requirements of cash. On 31st March, 2022 the assets at the branch were as follows:

	Rs in '000
Cash in hand	20
Trade debtors	768
Stock, at Invoice price	2,160
Furniture & fittings	1,000

During the accounting year ended 31st March, 2023 the invoice price of goods dispatched by the head office to the branch amounted to ₹ 2 crore 64 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at ₹ 1,44,000. Other transactions at the branch during the year were as follows:

	Rs in '000
Cash Sales	19,400
Credit Sales	6,280
Cash collected by Branch from Credit Customers	5,684
Cash Discount allowed to Debtors	116
Returns by Customers direct to Head office (at invoice price) Bad	204
Debts written off	74
Expenses paid by Branch	1,684

On 1st January, 2023 the branch purchased new furniture for ₹ 2 lakh for which payment was made by head office through a cheque.

On 31st March, 2023 branch expenses amounting to ₹ 12,000 were outstanding and cash in hand was again ₹ 20,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method.

Prepare Branch Account in the books of head office for the year ended 31st March, 2023.

(RTP Nov '23)

Ans

In the Head Office Books
Branch Account
for the year ended 31st March, 2023

	Rs in '000		Rs in '000
To Balance b/d		By Balance b/d	360
Cash in hand	20	Stock reserve (Rs 2,160*1/6)	
Trade debtors	768	By Goods sent to branch A/c	
Stock	2,160	(Returns to H.O.) {144 + [204 -	314
Furniture and fittings	1,000	34 (loading]}	
To Goods sent to branch A/c	26,400	By Goods sent to branch A/c	
To Bank A/c (Payment for		(Loading 4,376 on net goods	4,376
furniture)	200	sent to branch – (26,256 x 1/6)	
To Balance c/d		By Bank A/c (Remittance	
Stock reserve	456	from branch to H.O.)	23,400
(2,736 x 1/6)		By Balance c/d	
To Outstanding expenses	12	Cash in hand	
To Profit and loss A/c (Net	2,192	Trade debtors	20
Profit)		Stock	970
		Furniture and fittings	2,736
			1,032
	33,208		**33,208**

Working Notes:

1. Invoice price and cost
   - Let cost be 100
   - So, invoice price 120
   - Loading 20
   - Loading: Invoice price = 20 : 120 = 1 : 6
2. Invoice price of closing stock in branch

Branch Stock Account

	Rs in '000		Rs in '000
To balance b/d	2,160	By goods sent to branch	144
To goods sent to branch	26,400	By branch cash	19,400
		By branch debtors	6,280
		By balance c/d (bal. fig)	2,736
	28,560		**28,560**

Note: adjustment regarding returns by Customers direct to Head office has not been made in branch stock account.

3. Closing balance of branch debtors

Branch Debtors Account

	Rs in '000		Rs in '000
To balance b/d	768	By branch cash	5,684
To branch stock	6,280	By branch expenses (discount)	116
		By goods sent to branch (returns)	204
		By branch expenses (bad debts)	74
		By balance c/d (bal. fig)	970
	7,048		**7,048**

4. Closing balance of furniture and fittings

Branch Furniture and Fittings Account

	Rs in '000		Rs in '000
To balance b/d	1,000	By Depreciation (160+8)	168
To bank	200	By balance c/d	1,032
	1,200		**1,200**

Note: Since the new furniture was purchased on 1st Jan 2023 depreciation will be for 3 months.

5. Remittance by branch to head office

Branch Cash Account

	Rs in '000		Rs in '000
To balance b/d	20	By branch expenses	1,684
To branch stock	19,400	By Remittances to H.0.	23,400
To branch debtors	5,684	By balance c/d	20
	25,104		**25,104**

Q.3 Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2020.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal to 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch from head office. The following details for the year ended 31st March, 2020 are given as follows:

	Rs		Rs
Opening stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing stock (selling price)	1,23,328
Sales	3,61,280		
	2,400		

Manager's commission paid on account			

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2020. **(RTP May 21 & May 18)**

Ans **In the books of Alpha Ltd.**

Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

	Rs		Rs
To Opening stock Rs(74,736+1/3 of 74,736) To Goods sent to branch A/c Rs(2,89,680+1/3 of 2,89,680)	99,648 3,86,240	By Sales By Closing stock By Deficiency (at sale price) (bal. fig)	3,61,280 1,23,328 1,280
	4,85,888		**4,85,888**

Step 2: Calculation of Net Profit before Commission

Branch account

	Rs		Rs
To Opening stock Rs(74,736+1/3 of 74,736) To Goods sent to branch A/c Rs(2,89,680+1/3 of 2,89,680) To Expenses To Stock reserve (Rs 1,23,328*25/100) To Net profit- subject to manager's commission	99,648 3,86,240 49,120 30,832 40,240	By Sales By Closing stock By Stock reserve By Goods sent to branch A/c	3,61,280 1,23,328 24,912 96,560
	6,06,080		**6,06,080**

Step 3: Calculation of Commission still due to manager

	Rs
A. Calculation at 10% profit before charging his commission [Rs. 40,240 x 10/100]	4,024
B. Less: 25% of cost of deficiency in stock [25% of (75% of Rs. 1,280)]	(240)
C. Commission for the year [A-B]	**3,784**
D. Less: Paid on account (2,400)	(2,400)
E. Balance due (C-D)	**1,384**

Q.4 Give Journal Entries in the books of Branch to rectify or adjust the following:

(1) Branch paid ₹ 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.

(2) Asset Purchased by branch for ₹ 25,000, but the Asset account was retained in H.O Books.

(3) A remittance of ₹8,000 sent by the branch has not been received by H.O.

(4) H.O collected ₹ 25,000 directly from the customer of Branch but fails to give the intimation to branch.

(5) Remittance of funds by H.O to branch ₹5,000 not entered in branch books.

(Jan 21)

Ans **Journal Entries in Books of Branch**

	Particulars	Dr (Rs)	Cr (Rs)
(1)	Head office account Dr	5,000	
	To Salaries account		5,000
	(Being the rectification of salary paid on behalf of H.O.)		
(2)	Head office account Dr	25,000	
	To Bank / Liability account		25,000
	(Being Asset purchased by branch but Asset account retained at head office books)		
(3)	No Entry in Branch Books		
(4)	Head office account Dr	25,000	
	To Debtors account		25,000
	(Being the amount of branch debtors collected by H.O.)		
(5)	Bank A/c Dr	5,000	
	To Head Office account		5,000
	(Being Remittance of Funds by H.O. to Branch)		

Q.5 Modern Stores of Delhi operates a branch at Nagpur. The Head office affects all purchases and the branch is charged at cost plus 60%. All the cash received by Nagpur Branch is remitted to Delhi. The Branch expenses are met by the Branch out of an Imprest Account which is reimbursed by the Delhi Head Office every month. The Branch maintains a Sales Ledger and certain essential subsidiary records, but otherwise all branch transactions are recorded at Delhi.

The following branch transactions took place during the year ended 31st March, 2022:

	Rs
Goods received from Delhi at Selling Price	1,50,000
Cash Sales	69,000
Goods returned to Delhi at Selling Price	3,000
Credit Sales (Net of returns)	63,000
Authorized Reduction in Selling Price of Goods Sold	1,500
Cash Received from Debtors	48,000
Debtors written off as irrecoverable	2,000
Cash Discount allowed to Debtors	1,500

- On 1st April, 2021 the Stock in trade at the Branch at Selling Price amounted to ₹ 60,000 and the Debtors were ₹ 40,000.
- A consignment of goods sent to the Branch on 27th March,2022 with a Selling Price of ₹ 1,800 was not received until 5th April,2022 and had not been accounted for in stock.
- The Closing Stock at Selling Price was ₹ 72,900.
- The expenses relating to the Branch for the year ended 31st March,2022 amounted to ₹ 18,000.

You are required to prepare the Branch Stock Account, Branch Debtors Account, Branch Adjustment Account and Branch Profit and Loss Account maintained at Delhi under Stock and Debtors method. Any stock unaccounted for is to be regarded as normal wastage. **(Nov '22)**

Ans **Books of Modern Store Delhi Nagpur**

Branch Stock A/c

Particulars	Rs	Particulars	Rs
To Opening stock	60,000	By Bank A/c (Cash Sales)	69,000
To Goods sent to branch A/c	1,50,000	By Branch Debtors A/c (Credit sales)	63,000
To Goods sent to branch A/c	1,800	By Goods sent to branch A/c (Return)	3,000
		By Branch adjustment A/c (Reduction in selling price)	1,500
		By Branch adjustment A/c (Normal Loss)	600
		By Closing stock (including stock in transit of ₹ 1,800)	74,700
	2,11,800		**2,11,800**

Branch Debtors A/c

Particulars	Rs	Particulars	Rs
To balance b/d	40,000	By Cash/Bank A/c	48,000
To Branch stock (sales)	63,000	By Branch P & L A/c (bad debts)	2,000

		By Branch P & L A/c (discount)	1,500
		By balance c/d	51,500
	1,03,000		**1,03,000**

Branch Adjustment A/c

Particulars	Rs	Particulars	Rs
To Branch Stock Account (Reduction in selling price)	1,500	By Stock reserve A/c (60,000 X 60/160)	22,500
To Branch Stock Account (Normal loss*)	600	By Goods sent to branch A/c (Loading) (1,51,800 X 60/160)	56,925
To Goods sent to branch A/c (loading on returns) (3,000 X 60/160)	1,125		
To Branch P&L A/c	48,187		
To Stock reserve A/c (74,700 X 60/160)	28,013**		
	79,425		**79,425**

Note: * Alternatively, the loading of ₹ 225 on normal loss may be charged to Branch Adjustment A/c and cost ₹375 thereof may be charged to Branch P&L A/c.
** rounded off. Alternatively may be rounded off as ₹ 28,012.

Branch P & L A/c

Particulars	Rs	Particulars	Rs
To Branch expenses A/c	18,000	By Branch Adjustment A/c	48,187
To Bad debts A/c	2,000		
To Discount A/c	1,500		
To Net Profit	26,687		
	48,187		**48,187**

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