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# CA INTER
# ADVANCED ACCOUNTING

# SOLUTION

**OF**

# MAY 2024 EXAM

**BY**

**CA P. S. Beniwal**

Faculty of CA Inter - Advance Accounting
Faculty of CA Final-Financial Reporting
Member of IND AS Implementation Committee of ICAI

**Contact Number: 9990301165, 9318445989**

**Telegram channel: "t.me/capsbeniwalclasses"**

**Website: capsbeniwal.com**

**Youtube: https://bit.ly/332doKz**

**SUGGESTED ANSWER VIDEO:** https://youtu.be/-Mu8ehuwFDo

**CA INTER ADVANCED ACCOUNTING (PART II) – MAY 24**

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2. The answers are prepared by CA P.S. Beniwal to assist students in their education. While due care is taken in the preparation of the answers, suggestions are welcome if any errors or omissions are noticed, and they will be considered if appropriate. We are not responsible for the correctness or otherwise of the answers published herein.

***Must Read*:** **It has been observed by us that in recent attempts, the accounts paper in the exams has been lengthy and conceptual. To overcome this difficulty, students require a lot of practice. This focus on practice is emphasized in CA P.S. Beniwal's classes. (In both regular courses and fast track courses).**

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1.

a. On 1st April, 2023, Green Limited started the construction of an Office Building (qualified asset). The land under the building is regarded as a separate asset and is not a part of qualifying asset.
For the purpose of construction of building, the company raised a specific loan of ₹14 lakhs from a Bank at an interest rate of 12% per annum. An interest income of ₹15,000 was earned on this loan while it was held in anticipation of payments.
The company's other outstanding loans on 1 April, 2023 were as follows:

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

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

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

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

(i) Calculate the amount of borrowing cost to be capitalized.
(ii) Pass initial journal entry to recognise the cost of building.
(iii) Depreciation on building for the year ending 31st March, 2024.
(iv) Carrying value of building on 31st March, 2024. **(7 MARKS)**

**Solution:**

(i) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

| **Date of incurrence of expenditure** | **Amount spent** | **Financed through** | **Calculation** | **₹** |
|---|---|---|---|---|
| 1st April, 2023 | 4,00,000 | Specific borrowing | 4,00,000 X 12% X 10/12 | 40,000 |
| 1st August, 2023 | 10,00,000 | Specific borrowing | 10,00,000 X 12% X 10/12 | 1,00,000 |
| 1st December, 2023 | 25,00,000 | General borrowing | 25,00,000 X 10.80% x 2/12 | 45,000 |
| 31st January, 2024 | 5,00,000 | General borrowing | 5,00,000 X 10.80% x 0/12 | 0 |
| Total | | | | 1,85,000 |
| Less: Interest income on specific borrowings | | | | (15,000) |
| Amount eligible for capitalization | | | | 1,70,000 |

(ii) **Journal Entry**

| **Date** | **Particulars** | | **Rs.** | **Rs.** |
|---|---|---|---|---|
| 31.01.2024 | Building account (WN 2) | Dr. | 45,70,000 | |
| | To Bank account | | | 44,00,000 |
| | To Interest payable (borrowing cost) | | | 1,70,000 |
| | (Being expenditure incurred on construction of building and borrowing cost thereon capitalized) | | | |

**Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:**

| Date | Particulars | | Rs. | Rs. |
|---|---|---|---|---|
| 31.01.2024 | Building account (WN 2) | Dr. | 45,70,000 | |
| | To Bank account | | | 45,70,000 |
| | (Being expenditure incurred on construction of building and borrowing cost thereon capitalized) | | | |

**(iii) Calculation of amount of depreciation on Building for the year ended 31/03/2024**

**Depreciation from 1st February 24 to 31st March 24**

= (45,70,000 / 20 Years) X 2/12

= Rs. 38,083

**(iv) Calculation of carrying amount of Building as on 31/03/2024**

| Particulars | Amount (Rs.) |
|---|---|
| Capitalised amount of building as on 31st Jan 24 | 45,70,000 |
| (-) Amount of depreciation | (38,083) |
| | 45,31,917 |

**Working Notes:**

**(1) Calculation of capitalization rate on borrowings other than specific borrowings**

| Amount of loan (₹) | Rate of interest | | Amount of interest (₹) |
|---|---|---|---|
| 20,00,000 | 15% | = | 3,00,000 |
| 30,00,000 | 8% | = | 2,40,000 |
| 50,00,000 | | | 5,40,000 |

Weighted average rate of interest (5,40,000/50,00,000) x 100 = 10.80%

**(2) Total expenses to be capitalized for building**

| | |
|---|---|
| Cost of building (4,00,000 + 10,00,000 + 25,00,000 + 5,00,000) | 44,00,000 |
| Add: Amount of interest to be capitalized | 1,70,000 |
| | 45,70,000 |

**Note: Alternative way of Calculation of Amount of Borrowing cost Capitalised**

(1) The costs incurred should first be allocated to the specific borrowings and then allocated to General Borrowing. Analysis of expenditure from general borrowings:

| Date | Expenditure | Amount allocated in general borrowings | Weighted for period outstanding |
|---|---|---|---|
| 1st April, 2023 | 4,00,000 | 0 | 0 |
| 1st August, 2023 | 10,00,000 | 0 | 0 |
| 1st December, 2023 | 25,00,000 | 25,00,000 | 25,00,000 X 2/12 = 4,16,667 |
| 31st January, 2024 | 5,00,000 | 5,00,000 | 5,00,000 × 0/12 = 0 |
| Total | | | 4,16,667 |

(2) Calculation of amount of borrowing cost to be capitalized:

| | | Amount (Rs.) |
|---|---|---|
| On specific borrowings (14,00,000 X 12% X 10/12) | 1,40,000 | |
| Less: interest income on specific borrowings | (15,000) | 1,25,000 |
| On General borrowing (4,16,667 × 10.80%) | | 45,000 |
| Total | | 1,70,000 |

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

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

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

On the basis of the above information, you are required to compute the value of closing inventory of Polyester and Nylon. **(7 MARKS)**

**Solution:** As per para 10 of AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials, by their nature, are immaterial. They are often measured at net realizable value and this value is deducted from the cost of the main product.

**1. Calculation of net realizable value of by-product, Fiber (F)**

| | Rs. |
|---|---|
| Selling price of by-product BP (3,200 units X Rs. 40 per unit) | 1,28,000 |
| Less: Separate processing charges of by-product Fiber (F) | (10,000) |
| Packing charges | (9,000) |
| Net realizable value of by-product BP | 1,09,000 |

**2. Calculation of cost of conversion for allocation between joint products Polyester (P) and Nylon (N)**

| | **Rs.** | **Rs.** |
|---|---|---|
| Raw material (30,000 Units) | | 3,50,000 |
| Wages | | 1,60,000 |
| Fixed overhead | | 1,20,000 |
| Variable overhead | | 60,000 |
| | | 6,90,000 |
| Less: NRV of by-product Fiber (F) ( See calculation 1) | (1,09,000) | |
| Sale value of scrap | (5,000) | (1,14,000) |
| Joint cost to be allocated between Polyester (P) and Nylon (N) | | 5,76,000 |

**3. Determination of basis for allocation and allocation of joint cost to Polyester (P) and Nylon (N)**

| | **Polyester (P)** | **Nylon (N)** |
|---|---|---|
| Output in units (a) | 12,500 units | 10,000 units |
| Sales price per unit (b) | Rs. 100 | Rs. 60 |
| Sales value (a x b) | Rs.12,50,000 | Rs.6,00,000 |
| Ratio of allocation | 125 | 60 |
| Joint cost of Rs. 5,76,000 allocated in the ratio of 125:60 (c) | Rs. 3,89,189 | Rs. 1,86,811 |
| Cost per unit [c/a] | Rs. 31.13512 | Rs. 18.6811 |

**4. Determination of value of closing inventory of Polyester (P) and Nylon (N)**

| | **Polyester (P)** | **Nylon (N)** |
|---|---|---|
| Closing inventory in units | 1,600 units | 400 units |
| Cost per unit | Rs. 31.13512 | Rs. 18.6811 |
| Value of closing inventory | Rs. 49,816 | Rs. 7,472 |

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

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

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

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

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

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

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

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

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

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

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

**You are required to:**

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

(2) Prepare Capital Reduction Account.

(3) Prepare Bank Account. **(14 MARKS)**

**Solution:** **Books of Z Ltd.**

**(a) Journal entries of the scheme**

| **Particulars** | **₹** | **₹** |
|---|---|---|
| Equity Share Capital A/c (60,0000 X ₹ 100) Dr.<br>To Equity Share Capital A/c (6,00,0000 X ₹ 10)<br>(Being 60,000 equity shares of ₹ 100 are subdivided into 6,00,000 equity shares of ₹ 10 each) | 60,00,000 | <br>60,00,000 |
| Equity Share Capital A/c (60,00,000 X 40%) Dr.<br>To Capital Reduction A/c<br>(Being 6,00,000 equity shares of ₹ 10 are reduced by 40%) | 24,00,000 | <br>24,00,000 |
| Capital Reduction A/c Dr.<br>To Bank A/c<br>(Being arrear of dividend on preference share capital is paid for 1 year) | 1,68,000 | <br>1,68,000 |
| Bank A/c (2,400 X ₹ 98) Dr.<br>To Own Debentures A/c (₹ 5,76,000 X 40%)<br>To Capital Reduction A/c<br>(Being 40% Own debentures sold) | 2,35,200 | <br>2,30,400<br>4,800 |

| | | |
|---|---|---|
| 10% Debentures A/c (At face value) Dr.<br>To Own Debentures A/c (₹ 5,76,000 X 60%)<br>To Capital Reduction A/c (B/F)<br>(Being 60% own debentures Cancelled) | 3,60,000 | <br>3,45,600<br>14,400 |
| 10% Debentures A/c Dr.<br>Capital Reduction A/c (B/F) Dr.<br>To Property, Plant and Equipment (Machinery) A/c<br>(Being debenture holders accepted machinery) | 6,00,000<br>3,00,000 | <br><br>9,00,000 |
| Capital Reduction A/c Dr.<br>To Property, Plant and Equipment A/c<br>[(72,00,000 – 9,00,0000) – 60,00,000]<br>To Trade Receivable A/c<br>(13,75,000 – 13,00,000)<br>To Inventories A/c<br>(9,80,000 – 9,44,000)<br>To Goodwill A/c<br>To Profit and loss A/c<br>(Being Sundry Assets are revalued and Goodwill & losses are written off) | 17,27,000 | <br>3,00,000<br><br>75,000<br><br>36,000<br><br>81,000<br>12,35,000 |
| Trade Payables A/c<br>To Capital Reduction A/c<br>(Being Trade Payable reassessed) | 1,80,000 | <br>1,80,000 |
| Capital Reduction A/c Dr.<br>To Bank A/c<br>(Being Penalty paid) | 60,000 | <br>60,000 |
| Capital Reduction A/c Dr.<br>To Capital Reserve A/c<br>(Being balance of capital reduction transferred into capital reserve) | 3,44,200 | <br>3,44,200 |

**Note 1:** Interest on the debenture is paid on the 31st of March each year, so there is no accrued interest as of April 1st, 2024, and therefore no adjustment is required.

**Note 2:** It is assumed that the reduction in equity share is only in the paid-up value

**(b)** **Capital Reduction Account**

| **Particulars** | **Rs.** | **Particulars** | **Rs.** |
|---|---|---|---|
| To Bank Account | 1,68,000 | By Equity Share Capital A/c | 24,00,000 |
| To Property, Plant and Equipment (Machinery) A/c | 3,00,000 | By Bank A/c | 4,800 |
| To Property, Plant and Equipment A/c | 3,00,000 | By 10% Debenture A/c | 14,400 |
| To Trade Receivable A/c | 75,000 | By Trade Payable A/c | 1,80,000 |
| To Inventories A/c | 36,000 | | |
| To Goodwill A/c | 81,000 | | |
| To Profit and Loss A/c | 12,35,000 | | |
| To Bank A/c | 60,000 | | |
| To Capital Reserve (B/F) | 3,44,200 | | |
| **Total** | **25,99,200** | **Total** | **25,99,200** |

**(c)** **Bank Account**

| **Particulars** | **Rs.** | **Particulars** | **Rs.** |
|---|---|---|---|
| To Balance b/d | 1,33,000 | By Capital Reduction A/c (Arrear of dividend) | 1,68,000 |
| To Own Debentures A/c | 2,30,400 | By Capital Reduction A/c | 60,000 |
| To Capital Reduction A/c | 4,800 | By Balance c/d | 1,40,200 |
| **Total** | **3,68,200** | **Total** | **3,68,200** |

**3.**

**a.** Constructions Limited is engaged in the business of constructing Flyovers and Railway over bridges. It obtained a contract from Railway Authorities to construct a railway over bridge for ₹ 400 crores. The construction of the railway over bridge is expected to be completed in 4 years.
At the outset of the contract, it was estimated that the total costs to be incurred will be ₹ 370 crores but by the end of year 1, this estimate stands revised to ₹ 375 crores.
During year 3, the Construction Limited has requested for a variation in the contract which is approved by Railway Authorities and accordingly the total contract value will increase by ₹ 10 crores and costs will increase by ₹ 7 crores.
The Constructions Limited decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs. Contract costs incurred at the end of each year is

Year 1 : ₹ 98.8 crores
Year 2 : ₹ 202.4 crores
Year 3 : ₹ 310 crores (including unused material of 3 crores)
Year 4 : ₹ 382 crores

**You are required to :**

(i) Calculate stage of completion of contract for each year.
(ii) Profit to be recognized for each year. **(7 MARKS)**

**Solution: Calculation of stage of completion and profit for the year**

| Particulars | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| (i) Calculation of % of completion / stage of completion<br>(Cost incurred up to date / total estimated cost) X 100 | (98.8 / 375) X 100<br>= 26.35% | (202.4 / 375) X 100<br>= 53.97% | [(310-3) / 382] X 100<br>= 80.37% | 382/382<br>= 100% |
| Contract revenue<br>= Contract price X % of completion | 400 X 26.35%<br>= 105.40 | 400 X 53.97%<br>= 215.88 | 410 X 80.37%<br>= 329.52 | 410 X 100%<br>= 410 |
| (ii) Calculation profit / (loss) on contract | | | | |
| Contract revenue upto date | 105.40 | 215.88 | 329.52 | 410.00 |
| (-) Cost incurred upto date | (98.80) | (202.40) | (307.00) | (382.00) |
| Profit / loss upto date | 6.60 | 13.48 | 22.52 | 28.00 |
| (-) Total profit / loss already recognised | (0.00) | (6.60) | (13.48) | (22.52) |
| Profit / loss for the year | 6.60 | 6.88 | 9.04 | 5.48 |

**b.** The following information is provided for Aarambh Limited:

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

Additional information:

(i) Income tax provided during the year ₹ 1,62,000.
(ii) New debentures have been issued at the end of current financial year.
(iii) New investments have been acquired at the end of the current financial year.

You are required to calculate net Cash Flow from Operating Activities. **(7 MARKS)**

**Solution: Cash flow from Operating Activity of A Ltd. for the year ended 31/03/2024**

| **Particulars** | **Rs.** |
|---|---|
| Increase / (Decrease) in Profit and Loss [37,800 – (-5,400)] | 43,200 |
| (+) Transfer into General Reserve (81,000 – 54,000) | 27,000 |
| **Profit after taxation** | **70,200** |
| (+) Provision for taxation | 1,62,000 |
| **Profit before taxation** | **2,32,200** |
| | |
| **(±)Adjustments for Non-operating income / expenses and Non cash income / expensive** | |
| (+) Depreciation (1,62,000 – 1,29,600) | 32,400 |
| (+) Provision for doubtful debts (54,000 -27,000) | 27,000 |
| (+) Debentures Interest (1,18,800 X 12%) | 14,256 |
| (-) Income from Investments (54,000 X 8%) | (4,320) |
| **Cash flow from operation before change in working capital** | **3,01,536** |
| | |
| **Adjustments for changes in working capital:** | |
| Increase in Trade receivables (2,61,360 – 81,000) | (1,80,360) |
| Decrease in Inventories (1,35,000 – 81,000) | 54,000 |
| Decrease in Trade payables (1,29,600 – 1,18,800) | (10,800) |
| **Cash generated from operations** | **1,64,376** |
| (-) Income tax paid | (2,48,400) |
| **Net Cash Flow from operating Activity** | **(84,024)** |

**Working Note 1:** **Provision for Taxation A/c**

| **Particulars** | **Rs.** | **Particulars** | **Rs.** |
|---|---|---|---|
| To Bank A/c (Tax paid) (B/F) | 2,48,400 | By Balance b/d | 2,21,400 |
| To Balance c/d | 1,35,000 | By Profit & Loss A/c ( Provision for the year) | 1,62,000 |
| Total | 3,83,400 | Total | 3,83,400 |

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

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

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

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

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

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

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

(3) The purchase consideration is to be discharged in the following manner:
   (i) Issue 22,000 Equity Shares of ₹ 100 each fully paid up in the proportion of the sum of their profitability in the preceding two financial years.
   (ii) Preference shareholders of both companies are issued equivalent number of 10% Preference Shares of ₹ 100 each of Genius Limited at a price of ₹ 125 per share.
   (iii) 12% debentures of ₹ 100 each in Genius Limited at par to provide an income equivalent to 10% return on the basis of net assets in their respective business as on 1st April, 2024 after revaluation of assets.

You are required to:
(i) Compute the amount of Shares & Debentures to be issued to Intelligent Limited and Diligent Limited.
(ii) Prepare a Balance Sheet of Genius Limited showing the position immediately after amalgamation.

**(14 MARKS)**

**Solution:**

**(i) Calculation of amount of Shares and 12% Debenture issued to Intelligent Ltd. and Diligent Ltd. and Amount of Purchase Consideration**

**(a) Calculation of equity shares to be issued to Intelligent Ltd. and Diligent Ltd.**

| **Profits of** | **Intelligent Ltd.** | **Diligent Ltd.** |
|---|---|---|
| I year (Opening Balance) | 4,50,000 | 2,50,000 |
| II year (Current Year) | 2,50,000 | 1,50,000 |
| Total | 7,00,000 | 4,00,000 |

The total profits of both the companies = ₹ 7,00,000 + ₹ 4,00,000 = ₹ 11,00,000

No. of shares to be issued = 22,000 equity shares in the proportion of the preceding 2 years' profits.

| | **Intelligent Ltd.** | **Diligent Ltd.** |
|---|---|---|
| 22,000 x 7/11 | 14,000 equity shares X ₹ 100 each | |
| 22,000 x 4/11 | | 8,000 equity shares X ₹ 100 each |
| **Amount** (₹) | 14,00,000 | 8,00,000 |

**(b) Calculation of 12% debentures to be issued to Intelligent Ltd. and Diligent Ltd.**

| | **Intelligent Ltd.** | **Diligent Ltd.** |
|---|---|---|
| Net assets (Refer working note) | 21,00,000 | 13,50,000 |
| 10% return on Net assets | 2,10,000 | 1,35,000 |
| 12% Debentures to be issued $\left[2,10,000 \times \frac{100}{12}\right] = 17,500 @ ₹ 100$ each | 17,50,000 | |
| $\left[1,35,000 \times \frac{100}{12}\right] = 11,250 @ ₹ 100$ each | | 11,25,000 |

**(c) Total Purchase Consideration amount**

| | Intelligent Ltd. | Diligent Ltd. |
|---|---|---|
| Equity shares @ of ₹100 each | 14,00,000 | 8,00,000 |
| 12% Debentures @ of ₹100 each | 17,50,000 | 11,25,000 |
| Amounts Payable to Equity Shareholders (A) | 31,50,000 | 19,25,000 |
| Amounts Payable to Preference Shareholders (B) | | |
| 10% Preference Share issued at ₹125 each | | |
| 3,000 X 125 | 3,75,000 | |
| 2,000 X 125 | | 2,50,000 |
| Total amount of Purchase Consideration (A + B) | 35,25,000 | 21,75,000 |

**(ii) Balance Sheet of Genius Ltd. as at 1st April 2024**

| Particular | Notes | Amounts (₹) |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **1. Shareholders' funds** | | |
| Share capital | 1 | 27,00,000 |
| Reserves and surplus | 2 | 1,25,000 |
| **2. Non-current liabilities** | | |
| 12% Debentures (17,50,000 + 11,25,000) | | 28,75,000 |
| Retirement Gratuity fund (3,00,000 + 2,00,000) | | 5,00,000 |
| **3. Current liabilities** | | |
| Trade Payables | | |
| (12,00,000 + 4,00,000 –1,00,000 contra) | | 15,00,000 |
| **Total** | | **77,00,000** |
| **ASSETS** | | |
| **1. Non-current assets** | | |
| Property, Plant and Equipment | 3 | 32,50,000 |
| Goodwill (W.N. 2) | | 22,50,000 |
| **2. Current assets** | | |
| Inventories (6,00,000 + 3,00,000) | | 9,00,000 |
| Trade receivables (6,00,000 + 3,00,000 – 1,00,000 contra) | | 8,00,000 |
| Cash & Cash Equivalent ( 4,00,000 + 1,00,000) | | 5,00,000 |
| **Total** | | **77,00,000** |

**Note 1 – Share Capital**

| Particulars | ₹ |
|---|---|
| **Authorized Capital** | |
| Equity share capital (30,000 Equity shares of ₹ 100 each) | 30,00,000 |
| 8% Preference share capital (10,000 Preference shares of ₹100 each) | 10,00,000 |
| | **40,00,000** |
| **Issued, Subscribed, called up and Paid-Up Capital** | |
| **Equity shares capital** | |
| 22,000 equity shares of Rs. 100 each fully paid-up<br>(22,000 Equity Shares were issued in consideration other than for cash) | 22,00,000 |
| **8% Preference shares capital** | |
| 5,000 (3,000 + 2,000) Preference Shares of Rs. 100 each fully paid-up<br>(5,000 Preference Shares were issued in consideration other than for cash) | 5,00,000 |
| **Total** | **27,00,000** |

**Note 2 – Reserve & Surplus**

| Particulars | ₹ |
|---|---|
| Securities Premium on 8% Preference Share issued (5,000 shares @ ₹ 25) | 1,25,000 |
| **Total** | **1,25,000** |

**Note 3 - Property, Plant and Equipment**

| Particulars | ₹ |
|---|---|
| Land and Building (11,00,000 + 8,50,000) | 19,50,000 |
| Plant and Machinery (9,00,000 + 4,00,000) | 13,00,000 |
| **Total** | **32,50,000** |

**Working Notes:**

**(1) Calculation of Net assets of Intelligent Ltd. and Diligent Ltd. as on 31.03.2024**

| | Intelligent Ltd. | Diligent Ltd. |
|---|---|---|
| Land and Building | 11,00,000 | 8,50,000 |
| Plant and machinery | 9,00,000 | 4,00,000 |
| Inventories | 6,00,000 | 3,00,000 |
| Trade Receivable | 6,00,000 | 3,00,000 |
| Cash & Bank | 4,00,000 | 1,00,000 |
| Less: Trade Payables | (12,00,000) | (4,00,000) |
| Less: Retirement Gratuity Fund | (3,00,000) | (2,00,000) |
| **Net Assets** | **21,00,000** | **13,50,000** |

**(2) Calculation of amount of Goodwill / Capital Reserve**

| Particulars | ₹ |
|---|---|
| Purchase Consideration (35,25,000 + 21,75,000) | 57,00,000 |
| Less: Net Assets of (21,00,000 + 13,50,000) | (34,50,000) |
| Goodwill | 22,50,000 |

**Note:** Since the income from the debenture shall be equal to the 10% return on net assets, the shares are computed in such way that 12% debenture on them shall be equal to 10% of the return on Net assets.

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

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

**Notes to Accounts:**

| | | Art Limited (₹) | Craft Limited (₹) |
|---|---|---|---|
| 1 | **Share capital** | | |
| | 6,500 shares of ₹ 100 each | 6,50,000 | - |
| | 4,000 shares of ₹ 100 each fully paid-up | - | 4,00,000 |
| | Total | 6,50,000 | 4,00,000 |

| | | | |
|---|---|---|---|
| 2 | **Reserves and Surplus** | | |
| | General Reserve | 1,20,000 | 40,000 |
| | Profit and Loss account | 1,92,000 | 2,08,000 |
| | Total | 3,12,000 | 2,48,000 |
| 3 | **Short term borrowings** | | |
| | Bank Overdraft | 70,000 | - |
| 4 | **Property Plant & Equipment** | | |
| | Land & Building | 1,90,000 | 1,35,000 |
| | Plant & Machinery | 2,31,000 | 2,25,000 |
| | Total | 4,21,000 | 3,60,000 |
| 5 | **Non-current investments** | | |
| | Investment in Craft Limited (Cost) | 4,32,000 | |
| 6 | **Cash & Cash equivalents** | | |
| | Cash | 24,500 | 6,700 |

**Additional information:**

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

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

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

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

You are required to prepare a consolidated Balance Sheet as on 31st March 2024. **(14 MARKS)**

**Solution:**

**Consolidated Balance Sheet of Art Ltd. and its subsidiary, Craft Ltd. as at 31st March, 2024**

| Particulars | Note No. | (Rs.) |
|---|---|---|
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 6,50,000 |
| (b) Reserves and Surplus | 2 | 3,73,460 |
| (2) Minority Interest (W.N 4) | | 1,26,740 |
| (3) Current Liabilities | | |
| (a) Trade Payables | 3 | 2,37,000 |
| (b) Short term borrowings (Bank Overdraft) | | 70,000 |
| Total | | 14,57,200 |
| II. Assets | | |
| (1) Non-current assets | | |
| Property, Plant and Equipment | 4 | 7,65,000 |
| (2) Current assets | | |
| (a) Inventories | 5 | 3,57,500 |
| (b) Trade receivables | 6 | 3,03,500 |
| (c) Cash & Cash equivalents (Cash) | 7 | 31,200 |
| Total | | 14,57,200 |

**Notes to Accounts**

| | | | Rs. | Rs. |
|---|---|---|---|---|
| 1. | Share Capital | | | |
| | 6,500 equity shares of Rs. 100 each | | | 6,50,000 |
| 2. | Reserves and Surplus | | | |
| | Capital Reserve (W.N. 5) | | 13,360 | |
| | General Reserve | | 1,20,000 | |
| | Profit & loss (W.N. 8) | | 2,40,100 | 3,73,460 |
| 3. | Trade Payables | | | |
| | A Ltd. | | 1,45,000 | |
| | C Ltd. | | 92,000 | 2,37,000 |
| 4. | Property, Plant and Equipment | | | |
| | Land and building | | | |
| | A Ltd. | | 1,90,000 | |
| | C Ltd. | | 1,35,000 | 3,25,000 |
| | Plant & Machinery | | | |
| | A Ltd. | | 2,31,000 | |
| | C Ltd. | | 2,25,000 | |
| | (-) Revaluation Loss | | (17,500) | |
| | (+) Saving in depreciation | | 1,500 | 4,40,000 |
| | | | | 7,65,000 |
| 5. | Inventories | | | |
| | A Ltd. | | 1,66,000 | |
| | C Ltd. | | 2,05,000 | |
| | (-) Stock Reserve (1,03,500 X 15/115) | | (13,500) | 3,57,500 |
| 6. | Trade Receivables | | | |
| | A Ltd. | | 1,33,500 | |
| | C Ltd. | 1,68,300 | | |
| | (+)Reversal of provision for doubtful debts (1,68,300/99%) X 1% | 1,700 | 1,70,000 | 3,03,500 |
| 7. | Cash & Cash equivalents | | | |
| | Cash | | | |
| | A Ltd. | | 24,500 | |
| | C Ltd. | | 6,700 | 31,200 |

**Working Notes:**

**(1) Share holding pattern**

Total Shares of Craft Ltd 4,000 shares
Shares held by Art Ltd 3,200 shares i.e. 80 %;
Minority Shareholding 800 shares i.e. 20 %

**(2) Capital profits of S Ltd.**

| | | Rs. | Rs. |
|---|---|---|---|
| Reserve on 1st October, 2023 (Assumed there is no movement in reserves during the year and hence balance as on 1st October, 2023 is same as on 1st April 2023 and as on 31st March 2024) | | | 40,000 |
| Profit & Loss Account Balance on 1st April, 2019 | | | 58,700 |
| Profit for year: | | | |
| Total Profit upto 31st March 2024 | 2,08,000 | | |
| Add: Reversal of provision for doubtful debts (1,68,300/99%) X 1% | 1,700 | | |

| | | | |
|---|---|---|---|
| | 2,09,700 | | |
| Less: opening balance | (58,700) | | |
| | 1,51,000 | | |
| Proportionate up to 1st October, 2023 on time basis (Rs. 1,51,000/2) | | | 75,500 |
| Reduction in value of Plant & Machinery (WN 6) | | | (17,500) |
| Total Capital Profit | | | 1,56,700 |
| Holding company's share (1,56,700 X 80%) | | | 1,25,360 |
| Minority Interest (1,56,700 X 20%) | | | 31,340 |

**(3) Revenue profits of S Ltd.**

| | | |
|---|---|---|
| Profit after 1st October, 2023 (1,51,000/2) | | 75,500 |
| Add: Saving in depreciation on Plant & Machinery | | 1,500 |
| Total Revenue Profit | | 77,000 |
| Holding company's share (77,000 X 80%) | | 61,600 |
| Minority Interest (77,000 X 20%) | | 15,400 |

**(4) Minority interest**

| | |
|---|---|
| Share Equity Share Capital of C Ltd. (4,00,000 X 20%) | 80,000 |
| Add: 20% of Capital Profits [WN 2] | 31,340 |
| 20% of Revenue Profits [WN 3] | 15,400 |
| | 1,26,740 |

**(5) Cost of Control**

| | | |
|---|---|---|
| Amount paid for 3,200 shares / Cost of Investment | | 4,32,000 |
| **Less:** | | |
| Par value of shares (4,00,000 X 80%) | 3,20,000 | |
| Capital Profits – share of H Ltd. [WN 2] | 1,25,360 | 4,45,360 |
| Capital Reserve | | 13,360 |

**(6) Calculation of revaluation Profit or Loss on Plant and Machinery of S Ltd. on 1st October, 2023**

| | Rs. |
|---|---|
| Value of plant and machinery as on 1st April, 2023 | 2,50,000 |
| Less: Depreciation for the six months (2,50,000 X 10% X 6/12) | (12,500) |
| Value of plant and machinery as on 1st October, 2023 | 2,37,500 |
| Less: Plant and machinery valued by H Ltd. on 1st October, 2023 | (2,20,000) |
| Revaluation Loss | 17,500 |

**(7) Calculation of saving in depreciation on Plant & Machinery**

| | |
|---|---|
| Depreciation to be charged from date of acquisition upto the date of consolidation on revalued amount (2,20,000 X 10% X 6/12) | 11,000 |
| Less: Depreciation already charged [(2,50,000 – 2,25,000) X 6/12] | (12,500) |
| Saving in depreciation | 1,500 |

**(8) Balance of Consolidated Profit & Loss Account**

| | |
|---|---|
| Balance of Profit & Loss Account of A Ltd. | 1,92,000 |
| (+) Share in revenue profits of C Ltd. (W.N. 3) | 61,600 |
| (-) Stock Reserve (1,03,500 X 15/115) | (13,500) |
| Total Profits | 2,40,100 |

6.

a. Colour Limited leased a Machine to Red Limited on 1st April, 2021 on the followings terms:

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

**Other information:**

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

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

You are required to analyse whether lease constitutes finance lease. Also calculate unearned finance income, if any. **(4 MARKS)**

**Solution:**

**(i) Determination of Nature of Lease:** It is assumed that the fair value of the leased Machine is equal to the present value of minimum lease payments.

Present value of residual value at the end of 3rd year = ₹ 2,00,000 x 0.7118 = ₹ 1,42,360

Present value of lease payments = ₹ 18,00,000 – ₹ 1,42,360 = ₹ 16,57,640

The percentage of present value of lease payments to fair value of the equipment is

= (₹ 16,57,640 / ₹ 18,00,000) x 100 = 92.09%.

Since, it substantially covers the major portion of the lease payments, the lease constitutes a finance lease.

**(ii) Calculation of Unearned Finance Income**

Annual lease payment = ₹ 16,57,640 / 2.4018 =₹ 6,90,166 (approx)

Gross investment in the lease = Total minimum lease payment + unguaranteed residual value

= (₹ 6,90,166 × 3) + ₹ 2,00,000

= ₹ 20,70,498 + ₹ 2,00,000

= ₹ 22,70,498

Unearned finance income = Gross investment - Present value of minimum lease payments and unguaranteed residual value

= ₹ 22,70,498 – ₹ 18,00,000 = ₹ 4,70,498

**OR**

a. On 1st April 2023, ABC Limited has given. following information:

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

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

You are required to compute Basic and Diluted EPS. **(4 MARKS)**

**Solution:**

**(i) Calculation of Basic Earnings per share (BEPS) :**

$$\frac{\text{Earning attributable for ESH}}{\text{Weighted average of Equity share}}$$

= 1,84,000 / 46,000

= Rs. 4 / share

**(ii) Calculation of Diluted Earnings per share (DEPS) :**

$$\frac{\text{Profit attributable to ESH after taking effect of Potential Equity Shares}}{\text{Weighted average of Equity share + Weighted average number of Potential Equity Shares}}$$

= 2,68,000 / [ 46,000 + (10,000 X 3)]

= 2,68,000 / 76,000

= 3.53 / share

**Working Notes:**

**(1) Calculation of earnings attributable for Equity shareholder:**

| **Particulars** | **Amount** |
|---|---|
| Profit after Tax (PAT) | 3,44,000 |
| (-) Preference dividend (20,00,000 X 8%) | (1,60,000) |
| Earning Attributable for ESH | 1,84,000 |

**(2) Calculation of weighted average of Equity share:**

| **Particulars** | **Numbers** |
|---|---|
| Opening Balance (50,000 X 80/100) X 12/12 | 40,000 |
| Add: Amount called and paid-up during the year [(50,000 -10,000) X 20/100] X 9/12 | 6,000 |
| Weighted Average of Equity Shares | 46,000 |

**(3) Profit attributable to ESH after taking effect of Potential Equity Shares**

| **Particulars** | **Amount** |
|---|---|
| Earning Attributable for ESH | 1,84,000 |
| Add: Debenture Interest (Net of Tax) [(10,00,000 X 12%) – 30%] | 84,000 |
| | 2,68,000 |

**b.** Following information are available in respect of Z Limited as on 31st March , 2024.

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

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

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

| **2022-23** | **2021-22** | **2020-21** | **2019-20** | **20218-19** |
|---|---|---|---|---|
| 12% | 14% | 10% | 10% | 7% |

As an accountant of the company, you are required to suggest whether the recommendation of the management is justified? If, you do not agree, then suggest the rate of dividend. **(4 MARKS)**

**Solution: Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 2014:**

**Condition I:** The rate of dividend declared should not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year.
Average Dividend rate of last 3 Financial years = (12% + 14% + 10%) / 3 = 12%

**Condition II:** Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves i.e. ₹ 60 lakhs [10% of (500 lakhs + 100 lakhs)]

**Condition III:** The balance of reserves after drawl shall not fall below 15 % of its paid up capital.

| | **Rs. in Lakhs** |
|---|---|
| Balance in General reserve | 100 |
| Less: 15% of paid-up capital to be maintained | (75) |
| Amount drawl | 25 |

**As per the limit maximum amount can be withdrawn Rs. 25 lakhs.**

The amount so drawn should first be utilised to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.

| **Particulars** | **Rs. in Lakhs** |
|---|---|
| Amount drawl | 25 |
| (-) Setoff of current year loss | (5) |
| Available amount for dividend | 20 |

The available amount for dividends will be 20 Lakhs.

The dividend rate is calculated as (20/500) X 100 = 4%.

So, the company cannot distribute a 10% dividend out of its free reserves; it can only distribute 4% dividend.

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

| | |
|---|---|
| **(i) Debit Balances (in USD)** | |
| Expenditure (excluding Depreciation) | 1,03,095 |
| Cash & bank balances | 2,175 |
| Debtors | 7,365 |
| Fixed Assets (Gross) | 34,200 |
| (Rate of Depreciation on Fixed Assets: 20%) | |
| Inventory - Stock 'P' | 5,520 |
| Inventory - Stock 'Q' | 1,035 |
| **(ii) Credit Balances (in USD)** | |
| Incomes | 1,32,000 |
| Creditors | 15,570 |
| HO Control a/c | 5,820 |

The following additional information is provided:

1. The average exchange rate during the above financial year was 1 USD= ₹ 56.
2. The fixed assets were purchased when the exchange rate was 1 USD = ₹ 55
3. The closing exchange rate on reporting date is 1 USD = ₹ 58
4. Stock item 'P' is valued at cost of USD 5,520, purchased when the exchange rate was ₹ 56.50. The present net realizable value of this item is ₹ 2,85,000.
5. Stock item 'Q' is carried at net realizable value of USD 1,035, but its cost in USD is 1,065. It was purchased when exchange rate was 1 USD=₹ 53
6. Branch Control Account as per HO books was ₹ 2,66,265.

You are required to show how it will be reflected in the books of Head Office in the form of Trial Balance, if the USA Branch Office is classified as an integral Foreign Operation. **(6 MARKS)**

**Solution: Trial Balance of Foreign Branch (converted into Indian Rupees)**

| **Particulars** | **$ (Dr.)** | **$ (Cr.)** | **Conversion rate** | **Conversion Basis** | **Rs. (Dr.)** | **Rs. (Cr.)** |
|---|---|---|---|---|---|---|
| **Debit balance (in USD)** | | | | | | |
| Expenditure (Excluding Depreciation) | 1,03,095 | | 56 | Average Rate | 57,73,320 | |
| Cash & Bank balance | 2,175 | | 58 | Closing rate | 1,26,150 | |
| Debtors | 7,365 | | 58 | Closing rate | 4,27,170 | |
| Fixed Assets (Net) (34,200 – 6,840) | 27,360 | | 55 | Transaction date rate | 15,04,800 | |
| Depreciation | 6,840 | | 55 | Transaction date rate | 3,76,200 | |
| Inventory | | | | | | |
| Stock 'P' | 5,520 | | | Note 1 | 2,85,000 | |
| Stock 'Q' | 1,035 | | | Note 1 | 56,445 | |
| **Credit balance (in USD)** | | | | | | |
| Incomes | | 1,32,000 | 56 | Average Rate | | 73,92,000 |
| Creditors | | 15,570 | 58 | Closing rate | | 9,03,060 |
| H.O. Control A/c | | 5,820 | Actual | Actual | | 2,66,265 |
| Exchange Difference (B/F) | | | | | 12,240 | |
| **Total** | 1,53,390 | 1,53,390 | | | 85,61,325 | 85,61,325 |

**Note 1**: As per AS -11, "the recoverable amount or realisable value of an asset is translated using the exchange rate that existed when the recoverable amount or net realisable value was determined. For example, when the net realisable value of an item of inventory is determined in a foreign currency, that value is translated using the exchange rate at the date as at which the net realisable value is determined. The rate used is therefore usually the closing rate."

**So stock shall be valued at lower of Cost price and NRV as follows:**

**Stock P:**

(a) Cost price: $ 5,520 X Rs. 56.50 = Rs. 3,11,880

**or**

(b) Net Realisable Value = Rs. 2,85,000

**Stock Q:**

(a) Cost price: $ 1,065 X Rs. 53 = Rs. 56,445

**or**

(b) Net Realisable Value = $ 1,035 X Rs. 58 = Rs. 60,030

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