

**CA INTER**  
**ADVANCED ACCOUNTING**

**MASTER QUESTIONS FOR EXAM**

**Total Questions - 151**

**(Master Quest are Taken from all Topics except AS 4, 5, 18 & 29,  
Students are advised to refer Maximum Questions of these Topics)**

**Compiled by CA. Jai Chawla**

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## AS 22 "ACCOUNTING FOR TAXES ON INCOME"

### Question 1)

Prepare Profit and Loss account of X td.



Sale	5,00,000
Sundry expenses	2,00,000
Cost of goods sold	1,00,000
Included in Sundry Expenses are:	
Bonus not yet paid	Rs. 40,000
Provision for bad debts	Rs. 10,000
Donations	Rs. 5,000

(Against which deduction under 80G is allowed Rs. 1,000.)

X Ltd. had purchased one machine for research purpose Rs. 30,000 on which depreciation have not been claimed.

Assume life is 3 years.

As per Income Tax 100% Depreciation is allowed in year of Purchase.

Rate of Tax is 30% + Surcharge 1%

Application of AS 22 is required.

### SOLUTION:

WN 1 -

#### Identify Timing Diff. & Tax Effect

Particulars	Amt.	Nature	DTA/DTL Amt.
Bonus not yet paid (Disallowed in cy)	40000	DTA	12120
Provision For B.D. (Disallowed in CY)	10000	DTA	3030
Donations Paid (4000/- Permanently Disallowed)	-	Permanent. Diff.	-
Exp. As Research (Excess deductions by I.T. in cy)	20000	DTL	6060
		<b>Net DTA =</b>	<b>9090</b>

#### Statement of P&L

PARTICULARS	AMOUNT
Revenue from Operation (Sales)	500000
(-) Cost of Goods Sold	(100000)
(-) Sundry Exp.	(200000)
(-) Depreciations	(10000)
<b>Profit before Tax (Accounting Incomes)</b>	<b>190000</b>
<b>(-) Tax Exp.:</b>	<b>(58782)</b>
Current Tax - 67872 (WN. - 2)	
Deferred Tax – (9090) (WN. 1)	
<b>Net Profit After Tax</b>	<b>131218</b>

WN 2 - Calculate of Taxable Income & Tax Thereon: -

Accounting Income	1,90,000
(+) Disallowed expenses	
Provision	10,000

Bonus	40,000
Donation	5,000
Depreciation Recognised	10,000
(-) Exp. Allowed	
Depreciation Allowed	(30,000)
<b>Gross Incomes</b>	<b>2,25,000</b>
(-) 80 G Deduction	(1,000)
<b>Taxable Income</b>	<b>2,24,000</b>
<b>Current Tax @30.3%</b>	<b>67,872</b>

**Question 2)**

The following particulars are stated in the Balance Sheet of Deep Limited as on 31st March, 2020:



	(Rs. In Lakhs)
Deferred Tax Liability (Cr.)	28.00
Deferred Tax Assets (Dr.)	14.00

The following transactions were reported during the year 2020 -2021:

- Depreciation as per books was Rs. 70 Lakhs whereas Depreciation for Tax purposes was Rs. 42 Lakhs. There were no additions to Fixed Assets during the year.
- Expenses disallowed in 2019-20 and allowed for tax purposes in 2020-21 were Rs. 14 Lakhs.
- Share issue expenses allowed under section 35(D) of the Income Tax Act, 1961 for the year 2020-21 (1/10th of Rs. 70.00 lakhs incurred in 2019-20).
- Repairs to Plant and Machinery were made during the year for Rs. 140.00 Lakhs and was spread over the period 2020-21 and 2021-22 equally in the books. However, the entire expenditure was allowed for income-tax purposes in the year 2020-21.

Tax Rate to be taken at 40%.

You are required to show the impact of above items on Deferred Tax Assets and Deferred Tax Liability as on 31st March, 2021.

**SOLUTION****Impact of various items in terms of deferred tax liability/deferred tax asset on 31.3.21**

Transactions	Analysis	Nature of difference	Effect	Amount (Rs.)
Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing difference	Reversal of DTL	28 lakhs $\times$ 40% = Rs. 11.20 lakhs
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Responding timing difference	Reversal of DTA	14 lakhs $\times$ 40% = 5.6 lakhs
Share issue expenses	Due to disallowance of full expenditure under IT Act, tax payable in the earlier years was higher.	Responding timing difference	Reversal of DTA	7 lakhs $\times$ 40% = Rs. 2.8 lakhs
Repairs to plant and machinery	Due to allowance of full expenditure under IT Act, tax payable of the current year will be less.	Originating timing difference	Increase in DTL	70 lakhs $\times$ 40% = 28 lakhs



**Question 3)**

From the following details of Aditya Limited for accounting year ended on 31st March, 2020:



Particular	Rs.
Accounting profit	15,00,000
Book profit as per MAT	7,50,000
Profit as per Income tax Act	2,50,000
Tax Rate	20%
MAT Rate	7.5%

Calculate the deferred tax asset/liability as per AS 22 and amount of tax to be debited to the profit and loss account for the year.

**SOLUTION:**

Tax as per accounting profit	$15,00,000 \times 20\% = \text{Rs. } 3,00,000$
Tax as per Income-tax Profit	$2,50,000 \times 20\% = \text{Rs. } 50,000$
Tax as per MAT	$7,50,000 \times 7.5\% = \text{Rs. } 56,250$

Tax expense = Current Tax + Deferred Tax

Rs. 3,00,000 = Rs. 50,000 + Deferred tax

Therefore, Deferred Tax liability as on 31-03-2020

= Rs. 3,00,000 – Rs. 50,000 = Rs. 2,50,000

Amount of tax to be debited in Profit and Loss account for the year 31-03-2020

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= Rs. 50,000 + Rs. 2,50,000 + Rs. 6,250 (56,250 – 50,000) = Rs. 3,06,250

**Question 4)**

Beta Ltd. is a full tax-free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in tax liability in year 1 and 2 is Rs. 1,000 lakhs and Rs. 2,000 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by Rs. 50 lakhs. Assuming tax rate of 40%, you are required to compute the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.

**SOLUTION**

As per para 13 of Accounting Standard (AS) 22, Accounting for Taxes on Income, deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognized to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income-tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognized in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence. For this purpose, the timing differences which originate first should be considered to reverse first.

Out of Rs. 1,000 lakhs depreciation, timing difference amounting Rs. 400 lakhs (Rs. 50 lakhs x 8 years) will reverse in the tax holiday period and therefore, should not be recognized. However, for Rs. 600 lakhs (Rs. 1,000 lakhs – Rs. 400 lakhs), deferred tax liability will be recognized for Rs. 240 lakhs (40% of Rs. 600 lakhs) in first year. In the second year, the entire amount of timing difference of Rs. 2,000 lakhs will reverse only after-tax holiday period and hence will be recognized in full. Deferred tax liability amounting Rs. 800 lakhs (40% of Rs. 2,000 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be Rs. 1,040 lakhs (240 lakhs + 800 lakhs).

**Question 5)**

ABC Company limited had an investment in Venture Capital amounting ₹10Crores. Venture capital in turn had invested in the below portfolio companies (New Start-ups) on behalf of ABC Limited:



Portfolio Companies	Amount of investment (₹ in Crores)
Oscar Limited	2
Zee Limited	3
Star Limited	4
Sony Limited	1
<b>Total</b>	<b>10</b>

During the FY 2019-2020, Venture Capital had sold their investment in Star Limited and realised an amount of ₹8 Crores on sale of shares of star Limited and entire proceeds of ₹8 Crores have been transferred by Venture Capital to ABC Company Limited.

The accounts manager has received the following additional information from venture capital on 31.03.2020:

- (1) 8 Crores has been deducted from the cost of investment and carrying amount of investment as at year end is 2 Crores.
- (2) Company had to pay a capital gain tax @20% on the net sale consideration of ₹ 4 Crores.
- (3) Due to COVID-19, the remaining start-ups (i.e. Oscar Limited, Zee Limited, and Sony Limited) are not performing well and will soon wind up their operations. Venture capital is monitoring the situation and if required they will provide an impairment loss in June 2020 Quarter.

You need to suggest the accounts manager what should be the correct accounting treatment as per AS 22 “Accounting for Taxes on Income”.

**SOLUTION**

As company had to pay capital gain tax @20% on the net sale consideration as per income tax laws, the company has to recognise a current tax liability of 0.8 Crores computed as under:

Particulars	Amount (₹ in Crores)
Sales Consideration	8
Cost of Investment	4
Net gain on Sale	4
<b>Tax@20%</b>	<b>0.8</b>

As per AS 22, Timing differences are those differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.

Particulars	Amount(₹ in Crores)	Rationale
Taxable Income	4	As per income tax laws
Accounting Income	Nil	As the same is deducted from the cost of investment
Timing Difference	4	

As per AS 22, deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Since in current scenario, due to Covid 19 the portfolio companies are not performing well, thus the company may not have sufficient future taxable income which will reverse deferred tax assets. Therefore, the company should not recognise DTA of ₹ 0.8 Crores and company should recognise only current tax liability of ₹ 0.8 Crores.

## AS 19 - LEASES

**Question 6)**

Fair Value of Asset given = 15,00,000, Lease Rent p.a. = 5,50,000, Term = 3 years, GRV = 1,00,000, UGRV = 50,000, IRI = 10%, Book Value of Inventory Which is Leased = 13,80,000. This is Finance Lease. Show Accounting as per AS 19.

**Solution:****1) Net Investment in Lease:**

Years	Amounts	PV @10%
1	5,50,000	14,80,465/-
2	5,50,000	
3	5,50,000 + 1,50,000	

**2) PV of MLP: -**

Years	Amounts	PV @10%
1	5,50,000	14,42,900/-
2	5,50,000	
3	5,50,000 + 1,00,000	

**3) Lease Receivable to be recognised at NIL i.e., 14,80,465/-**

**4) Sales shall be recognised at Lower of**

(a) FV or (b) PV of MLP i.e., Sales = 14,42,900

**5) Journal Entry: -**

Lease Receivable A/c	Dr.	14,80,465	
COGS A/c	Dr.	13,42,435	
To Sales A/c			14,42,900
To Investment A/c			13,80,000
Trading A/c	Dr.	13,42,435	
To COGS A/c			13,42,435
Sales A/c	Dr.	14,42,900	
To Trading A/c			14,42,900

**Trading A/c**

COGS	13,42,435	Sales	14,42,900
Profit on Outright Sale	1,00,465		

**Question 7)**

Journalise in each of the following cases assuming transaction is of sale and operating lease back:

Cases	Fair Value	Book Value	Sale Price
1	100000	100000	100000
2	100000	80000	100000
3	100000	120000	100000
4	100000	100000	120000
5	100000	80000	120000
6	100000	120000	120000

7	100000	100000	90000
8	100000	90000	80000
9	100000	70000	80000
10	100000	110000	80000

**Answer:**

- 1) No Profit/Loss
- 2) Gain 20000 => P & L immediately
- 3) Loss 20000  
General Rule – Immediately transfer to P&L  
Exception – If loss is compensated with future lease payments then Deferred & Amortised.
- 4) Gain = 20000 D&A
- 5) Gain = 40000                    20K P & L  
    20K D&A
- 6) Rule-3 => Imp. Loss = 20000 P & L  
Rule-2 => Profit = 20000 D&A
- 7) Loss = 10000                    Generally P & L  
    If compensated with rent then D&A
- 8) Loss = 10000 (same as 7)
- 9) Gain = 10000 P & L            (Rule 2)
- 10) Rule – 3 => Imp. Loss 10000 P & L  
Rule – 1 =>      Loss = 20000

**Question 8)**

Aksat International Limited has given a machinery on lease for 36 months, and its useful life is 60 months. Cost & fair market value of the machinery is Rs. 5,00,000. The amount will be paid in 3 equal annual installments and the lessee will return the machinery to lessor at termination of lease. The unguaranteed residual value at the end of 3 years is Rs. 50,000. IRR of investment is 10% and present value of annuity factor of Rs 1 due at the end of 3 years at 10% IRR is 2.4868 and present value of Rs. 1 due at the end of 3rd year at 10% IRR is 0.7513. You are required to comment with reason whether the lease constitute finance lease or operating lease. If it is finance lease, calculate unearned finance income.

**SOLUTION****Determination of Nature of Lease**

Present value of unguaranteed residual value at the end of 3rd year

$$= \text{Rs. } 50,000 \times 0.7513$$

$$= \text{Rs. } 37,565$$

Present value of lease payments = Rs. 5,00,000 – Rs. 37,565

$$= \text{Rs. } 4,62,435$$

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

$$(\text{Rs. } 4,62,435 / \text{Rs. } 5,00,000) \times 100 = 92.487\%$$

Since, lease payments substantially covers the major portion of the fair value; the lease constitutes a finance lease.

**Calculation of Unearned Finance Income**

Annual lease payment = Rs. 4,62,435 / 2.4868 = Rs. 1,85,956 (approx.)

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

$$= (\text{Rs. } 1,85,956 \times 3) + \text{Rs. } 50,000$$

$$= \text{Rs. } 5,57,868 + \text{Rs. } 50,000 = \text{Rs. } 6,07,868$$

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

$$= \text{Rs. } 6,07,868 - \text{Rs. } 5,00,000 = \text{Rs. } 1,07,868$$

**Question 9)**

S. Square Private Limited has taken machinery on finance lease from S.K. Ltd. The information is as under:

Lease term = 4 years

Fair value at inception of lease = Rs.20,00,000

Lease rent = Rs.6,25,000 p.a. at the end of year

Guaranteed residual value = Rs.1,25,000

Expected residual value = Rs.3,75,000 (estimated by lessor)

Implicit interest rate = 15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Calculate the value of the lease liability as per AS-19.

**SOLUTION**

According to para 11 of AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the lower of the fair value of the leased asset at the inception of the finance lease & the present value of the minimum lease payments from the standpoint of the lessee.

In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	MLP	Internal Rate of Return	Present Value
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	6,25,000 + 1,25,000 GRV	0.5718	4,28,850
<b>Total</b>	<b>26,25,000</b>		<b>18,55,850</b>

Present value of minimum lease payments Rs.18,55,850 is less than fair value at the inception of lease i.e. Rs.20,00,000, therefore, the lease liability should be recognised at Rs.18,55,850 as per AS19.

**Question 10)**

A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost Rs. 1,50,000. Economic life of the machine is 5 years and output from the machine are estimated as 40,000 units, 50,000 units, 60,000 units, 80,000 units and 70,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate.

Compute the following:

- Annual Lease Rent
- Lease Rent income to be recognized in each operating year and
- Depreciation for 3 years of lease.

**SOLUTION:****(i) Annual lease rent**

Total lease rent

$$= 130\% \text{ of Rs. } 1,50,000 \times \frac{\text{output during lease period}}{\text{total output}}$$

$$\begin{aligned} &= 130\% \text{ of Rs. } 1,50,000 \times (40,000+50,000+60,000) / (40,000+50,000+ 60,000+80,000+70,000) \\ &= 1,95,000 \times 1,50,000 \text{ units} / 3,00,000 \text{ units} = \text{Rs. } 97,500 \\ \text{Annual lease rent} &= \text{Rs. } 97,500 / 3 = \text{Rs. } 32,500 \end{aligned}$$

**(ii) Lease rent Income to be recognized in each operating year**

Total lease rent should be recognised as income in proportion of output during lease period, i.e. in the proportion of 40:50:60.

Hence income recognised in years 1,2 and 3 will be as:

Year 1 Rs. 26,000,  
Year 2 Rs. 32,500 and  
Year 3 Rs. 39,000.

**(iii) Depreciation for three years of lease**

Since depreciation in proportion of output is considered appropriate, the depreciable amount Rs. 1,50,000 should be allocated over useful life 5 years in proportion of output, i.e. in proportion of 40:50:60:80:70

Depreciation for year 1 is Rs. 20,000, year 2 = 25,000 and year 3 = 30,000.

## AS 20 – “EARNINGS PER SHARE”

**Question 11)**

EBIT = 49,80,000 (Current Year = 23-24)

Current Tax = 12,45,000

DTL = 2,15,000

85% Debenture issued on 1/7/23, ₹75 lacs

9% Non-Cumulative Preference Shares Capital are Outstanding ₹ 40 lacs From Beginning

10% Preference Shares Capital are issued on 1/3/24, ₹ 80 lacs

Preference Dividend not yet Declared

Calculate EAESH

**SOLUTION:**

Earnings Before Interest & Tax	49,80,000
(-) Interest	(4,78,125)
Earning Before Tax	45,01,875
(-) Tax Expenses	(14,60,000)
Earnings After Tax	30,41,875
(-) Preference Dividend on Cumulative Shares only (since dividend is not declared hence Dividend on Non-Cumulative Pref. Share is ignore)	(66,667)
Earnings Available for Equity Share Holder	29,75,208

**Question 12)**

As on 1/4/23	Opening Outstanding Equity Shares 50,000 of 10/- each, 6/- Paid-up.
On 1/9/23	Public Issue of 30,000 shares made at 10/- each, 7/- Paid up
On 1/10/23	Amount Called @4/- on Opening but Shareholders holding 48,000 Shares have paid.
On 1/12/23	Amount Called @3/- on public issue, all Share Holders have paid.

Note: Partly paid shares are also entitled for Dividend

Calculate Weighted Average Outstanding Equity Shares.

**Solution:**

Calculation of Weighted Average Outstanding Share Capital (in ₹)

Date	Particulars	Working	Weighted Avg. Amount
1/4/23	Opening Balance	50,000 x 6 x 12/12	3,00,000
1/9/23	Public issue	30,000 x 7 x 6/12	1,22,500
1/10/23	Called @4/-	4,80,000 x 4 x 6/12	96,000
1/12/23	Called @3/-	30,000 x 3 x 4/12	30,000
Weighted Average Outstanding Share Capital			5,48,500
<b>Weighted Avg Outstanding No. of Shares (5,48,500/10)</b>			<b>54,850 No.</b>

**Question 13)**

EBIT = 9,00,000 (Current Year 23-24)

Tax Rate = 30%

1/4/23 = Outstanding 8% Convertible Debenture of ₹ 15,00,000, Face Value is ₹ 100

(Convertible in next year into 50,000 no of equity shares)

1/4/23 = Outstanding equity shares 1,00,000 no.

Calculate BEPS & DEPS

### SOLUTION

EBIT	9,00,000
(-) Interest	1,20,000
EBT	7,80,000
(-) Tax 30%	2,34,000
<b>EAESH</b>	<b>5,46,000</b>

$$\begin{aligned} \text{Basic EPS} &= 5,46,000/1,00,000 \\ &= 5.46/- \end{aligned}$$

$$\begin{aligned} \text{DEPS} &= \text{EAESH} + (\text{Saving in Interest net of Tax}) / \text{Weighted Avg no. of Equity} + \text{Weighted Avg Potential No. of Equity} \\ &= [5,46,000 + (1,20,000 - 30\%)] / [(1,00,000 \times 12/12) + (50,000 \times 12/12)] = 4.20/- \end{aligned}$$

### Question 14)

Same as Example 19 But instead of Debenture there are Convertible Preference Shares

### SOLUTION

1) BEPS

EBIT	9,00,000
(-) Interest	0
EBT	9,00,000
(-) Tax @ 30%	2,70,000
EAT	6,30,000
(-) Preference Dividend	(1,20,000)
<b>EAESH</b>	<b>5,10,000</b>

$$\text{BEPS} = 5,10,000/1,00,000 = 5.10/-$$

$$\begin{aligned} \text{DEPS} &= 5,10,000 + \text{Savings in Dividend} / \text{Weighted Avg No. of Equity} + \text{Weighted Avg No. of Potential Equity} \\ &= 5,10,000 + 1,20,000/1,50,000 = 4.20/- \end{aligned}$$

### Question 15)

On 1<sup>st</sup> April, 20X1 a company had 6,00,000 equity shares of Rs. 10 each (Rs. 5 paid up by all shareholders). On 1<sup>st</sup> September, 20X1 the remaining Rs. 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31<sup>st</sup> March, 20X2 was Rs. 21,96,000 after considering dividend on preference shares of Rs. 3,40,000.

You are required to compute Basic EPS for the year ended 31<sup>st</sup> March, 20X2 as per Accounting Standard 20 "Earnings Per Share".

### SOLUTION:

Basic earnings per share (EPS) =

$$\begin{aligned} & \frac{\text{net profit attributable to equity shareholders}}{\text{weighted average number of equity shares outstanding during the year}} \\ &= \frac{21,96,000}{4,57,500 \text{ shares}} = \text{Rs. 4.80 per share} \end{aligned}$$

**Working note:**

#### Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming





that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	Rs.	Rs.	Rs.
1.4.20X1	6,00,000	5	$6,00,000 \times 5/10 \times 5/12 = 1,25,000$
1.9.20X1	5,40,000	10	$5,40,000 \times 7/12 = 3,15,000$
1.9.20X1	60,000	5	$60,000 \times 5/10 \times 7/12 = 17,500$
Total weighted average equity shares			4,57,500

**Question 16)**

X Ltd. supplied the following information. You are required to compute the basic earnings per share:



**(Accounting year 1.1.20X1 – 31.12.20X1)**

Net Profit : Year 20X1: Rs. 20,00,000  
 : Year 20X2: Rs. 30,00,000

No. of shares outstanding prior to right issue : 10,00,000 shares

Right issue: one new share for every four outstanding i.e., 2,50,000 shares

Right issue price – Rs. 20

Last date of exercise rights – 31.3.20X2

Fair rate of one Equity share immediately Prior to exercise of rights on 31.3.20X2: Rs. 25

**SOLUTION:**

**Computation of Basic Earnings Per Share**

(as per paragraphs 10 and 26 of AS 20 on Earnings Per Share)

	Year 20X1 Rs.	Year 20X2 Rs.
EPS for the year 20X1 as originally reported		
<i>Net profit of the year attributable to equity shareholders</i>	2.00	
<i>Weighted average number of equity shares out standing during the year</i>		
= (Rs. 20,00,000 / 10,00,000 shares)		
EPS for the year 20X1 restated for rights issue	1.92 (approx.)	
= [Rs. 20,00,000 / (10,00,000 shares × 1.04)]		
<i>EPS for the year 20X2 including effects of rights issue Rs. 30,00,000</i>		
(10,00,000 shares × 1.04 × 3/12) + (12,50,000 shares × 9/12)		
Rs. 30,00,000		2.51 (approx.)
11,97,500 shares		

**Working note:**

1. Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights} + \text{Total amount received from exercise Number of shares outstanding prior to exercise} + \text{Number of shares issued in the exercise}}{10,00,000 \text{ shares} + 2,50,000 \text{ shares}} = \text{Rs. 24}$$

$$\frac{\text{Rs. 3,00,00,000}}{12,50,000 \text{ shares}} = \text{Rs. 24}$$

2. Computation of adjustment factor

$$= \frac{\text{fair value per share prior to exercise of rights}}{\text{theoretical ex-rights value per share}} = \text{Rs. 25/RS. 24} = \text{Rs. 1.04 (approx.)}$$

**Question 17)**

No. of equity shares outstanding = 30,00,000 Basic earnings per share ₹ 5.00

No. of 12% convertible debentures of ₹ 100 each; 50,000 Each debenture is convertible into 10 equity shares

Tax Rate 30%

Compute Diluted Earnings per Share.

Working notes should form part of the answer.

**SOLUTION****Earnings for the year:**

= No. of Shares x Basic EPS

= 30,00,000 shares x ₹ 5 per share = ₹ 1,50,00,000

**Computation of Adjusted Net Profit:**

= Earnings for the year + Interest on debentures net of tax

= 1,50,00,000 + (6,00,000 - 1,80,000) = ₹ 1,54,20,000

**Computation of Adjusted Denominator:**

No. of equity shares resulting from conversion of debentures:

= 50,000 x 10 shares = 5,00,000 shares

No. of equity shares for diluted EPS = 30,00,000 + 5,00,000

= 35,00,000 shares

**Computation of Diluted EPS:**

= ₹ 1,54,20,000/35,00,000 shares = ₹ 4.4 per share.

**Question 18)**

- (a) Stock options have been granted by AB Limited to its employees and they vest equally over 5 years, i.e., 20 per cent at the end of each year from the date of grant. The options will vest only if the employee is still employed with the company at the end of the year. If the employee leaves the company during the vesting period, the options that have vested can be exercised, while the others would lapse. Currently, AB Limited includes only the vested options for calculating Diluted EPS. Should only completely vested options be included for computation of Diluted EPS? Is this in accordance with the provisions of AS 20? Explain.
- (b) X Limited, as at March 31, 2021, has income from continuing ordinary operations of Rs. 2,40,000, a loss from discontinuing operations of Rs. 3,60,000 and accordingly a net loss of Rs. 1,20,000. The Company has 1,000 equity shares and 200 potential equity shares outstanding as at March 31, 2021. You are required to compute Basic and Diluted EPS?

**SOLUTION:**

- (a) The current method of calculating Diluted EPS adopted by AB limited is not in accordance with AS 20. The calculation of Diluted EPS should include all potential equity shares, i.e., all the stock options granted at the balance sheet date, which are dilutive in nature, irrespective of the vesting pattern. The options that have lapsed during the year should be included for the portion of the period the same were outstanding, pursuant to the requirement of the standard.

AS 20 states that "A potential equity share is a financial instrument or other contract that entitles, or may entitle, its holder to equity shares". Options including employee stock option plans under which employees of an enterprise are entitled to receive equity shares as part of their remuneration and other similar plans are examples of potential equity shares. Further, for the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.

- (b) As per AS 20 "Potential equity shares should be treated as dilutive when, and only when, their conversion to

equity shares would decrease net profit per share from continuing ordinary operations". As income from continuing ordinary operations, Rs. 2,40,000 would be considered and not Rs. (1,20,000), for ascertaining whether 200 potential equity shares are dilutive or anti-dilutive. Accordingly, 200 potential equity shares would be dilutive potential equity shares since their inclusion would decrease the net profit per share from continuing ordinary operations from Rs. 240 to Rs. 200. Thus the basic E.P.S would be Rs. (120) and diluted E.P.S. would be Rs. (100).

## AS 16 – “BORROWING COSTS”

### Question 19)

Entity took a SBI Loan of 25,00,000 @12% p.a. on 1/4/22 for Building Construction:

1/5/22 = 15,00,000

1/Aug/22 = 10,00,000

Construction Completed on 28/Feb/23

Calculate Borrowing Cost to be Capitalised.

### Solution:

Capitalisation Shall start from 1/May till 28/Feb

1/May = 15,00,000 x 12% x 10/12 = 1,50,000

1/Aug = 10,00,000 x 12% x 10/12\* = 1,00,000

Borrowing Capital to be Capitalised = 2,50,000

Borrowing Capital to be transfer to P&L A/c = 3,00,000 – 2,50,000 = 50,000

\***Note:** - As per AS 16, Under specific Borrowing, Capitalisation Shall Commence from the date of First Expenditure incurred on Qualifying Asset for all Expenditure incurred further.

### Question 20)

Entity Borrowed on 1/4/22 9%, 30 lakhs for Construction of two Qualifying assets. Construction Begins from 1/4/22. The loan was availed on 1/4/22 & started utilizing in Qualifying Asset. Remaining funds were temporarily invested @7% p.a.

	QA 1	QA 2
Expenditure on 1/4/22	5,00,000	10,00,000
Expenditure on 1/10/22	5,00,000	10,00,000

Calculate Total Borrowing Cost & Capitalised Borrowing Cost.

### Solution:

Particulars	QA 1	QA 2
Borrowing Cost	10,00,000 x 9% = 90,000	20,00,000 x 9% = 1,80,000
(-) Investment Income	5,00,000 x 7% x 6/12 = (17,500)	10,00,000 x 7% x 6/12 = (35,000)
Net Borrowing Cost to be Capitalised	72,500	1,45,000
Total Cost of QA (After Capitalisation)	10,72,500	21,45,000

### Question 21)

Rainbow Limited borrowed an amount of ₹ 150 crores on 1.4.20X1 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Rainbow Ltd. capitalized ₹ 19.50 crores for the accounting period ending on 31.3.20X2. Due to surplus fund out of ₹ 150 crores, income of ₹ 3.50 crores were earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.



### Solution

Para 10 of AS 16 'Borrowing Costs' states "To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be

determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings."

The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Thus, the treatment of accountant of Rainbow Ltd. is incorrect.

**Amount of borrowing costs capitalized should be calculated as follows:**

Particulars	₹ in crores
Actual interest for 20X1-20X2 (11% of ₹ 150 crores)	16.50
Less: Income on temporary investment from specific borrowings	(3.50)
Borrowing costs to be capitalized during year 20X1-20X2	13.00

### Question 22)

On 1st April, 2011, Amazing Construction Ltd. obtained a loan of ₹32 crores to be utilized as under:



- (i) Construction of sealink across two cities : ₹25 crores  
(Work was held up totally for a month during the year due to high water levels)
- (ii) Purchase of equipments and machineries : ₹3 crores
- (iii) Working capital : ₹2 crores
- (iv) Purchase of vehicles : ₹50,00,000
- (v) Advance for tools/cranes etc. : ₹50,00,000
- (vi) Purchase of technical know-how : ₹1 crores
- (vii) Total interest charged by the bank for the year ending 31st March, 2012 : ₹80,00,000

Show the treatment of interest by Amazing Construction Ltd.

### SOLUTION

According to para 3 of AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use.

As per para 6 of the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

**Assumption:** Additional Assets is used for same restoration, Hence QA.

The treatment of interest by Amazing Construction Ltd. can be shown as:

	Qualifying Asset	Interest to be capitalized	Interest to be charged to Profit & Loss A/c	
Construction of sea-link	Yes	62,50,000		[80,00,000*(25/32)]
Purchase of equipments and machineries	No		7,50,000	[80,00,000*(3/32)]
Working capital	No		5,00,000	[80,00,000*(2/32)]
Purchase of vehicles	No		1,25,000	[80,00,000*(.5/32)]
Advance for tools, cranes etc.	No.		1,25,000	[80,00,000*(.5/32)]
Purchase of technical know-how	No		2,50,000	[80,00,000*(1/32)]
<b>Total</b>		<b>62,50,000</b>	<b>17,50,000</b>	

**Question 23)**

XYZ Ltd. has taken a loan of USD 10,000 on 1.04.2003 for a specific project at an interest rate of 5% p.a., payable annually. On 1 April, 2003, the exchange rate between the currencies was Rs. 45 per \$. The exchange rate, as at March, 31st, 2004 is Rs. 48 per \$. The Corresponding amount could have been borrowed by XYZ Ltd. in local currency at an interest rate of 11% p.a. as on 1 April, 2003.

**SOLUTION:**

**Step – 1** = Calculation of Actual Interest:

$$\$10000 \times 5\% = \$500 \times \text{Rs. } 48 = \text{Rs. } 24000$$

**Step – 2** = Calculation of Interest if borrowing in Local Currency:

$$\$10000 \times 45 \times 11\% = \text{Rs. } 49500$$

**Step – 3** = Calculation of Exchange Loss on FC Borrowings

$$\$10000 \times \text{Rs}3 = \text{Rs. } 30000$$

**Note:** Loss to the extent of saving in interest shall be treated as borrowing cost.

i.e., Actual Saving of Interest or Actual Exchange Loss whichever is lower (49500 – 24000) or 30000 whichever is lower = 25500/- is Borrowing cost

Remaining exchange loss is to be transferred to P&L as other expense as per AS 11

**Question 24)**

The borrowings profile of Santra Pharmaceuticals Ltd. set up for the manufacture of antibiotics at Navi Mumbai is as under:



Date	Nature of borrowings	Amount borrowed	Purpose of Borrowings	Incidental Expenses
1/1/08	15% Demand Loan	60 Lakhs	Acquisition of Fixed Assets	8.33%
1/7/08	14.5% Term Loan	40 Lakhs	Acquisition of Plant & Machinery	5%
1/10/08	14% Bonds	50 Lakhs	Acquisition of Fixed Assets	8%

Fixed assets considered as Qualified as Under:

- Sterling Manufacturing Shed Rs. 10,00,000
- Plant & Machinery (Total) Rs. 90,00,000
- Other Fixed Assets Rs. 10,00,000

The project is completed on 1st January 2009 and is ready for commercial production. Show the capitalization of the borrowing cost.

**SOLUTION**

**Assuming Calendar Year**

**Working Note – 1: Calculation of Borrowing Cost as Specific Borrowings.**

**1/7/08**

14.5% Term Loan	=	40,00,000
Interest (40,00,000 × 14.5% × 6/12)	=	2,90,000
+ Incidental Exp.	=	2,00,000
<b>Total Specific Borrowing Cost</b>	=	<b>4,90,000</b>

**Conclusion:** Entire 4,90,000 shall be capitalised to the cost of Plant & Machinery.

**Working Note – 2: Weighted Average Borrowing Rate: (General)**

(i) **1/1/08**

$$15\% \text{ Demand Loan} = 60,00,000 \times 15\% = 9,00,000$$

$$+ \text{Incidental Charges @ } 8.33\% = 5,00,000$$

$$\text{Total Borrowing Cost} = 14,00,000$$

(ii) 1/10/08

$$14\% \text{ Bond} = 50,00,000 \times 14\% \times \frac{3}{12} = 1,75,000$$

$$+ \text{Incidental Charges @ } 8\% = 4,00,000$$

$$\text{Total Borrowing Cost} = 5,75,000$$

$$\text{Weighted Average Capitalisation Rate} = \frac{14,00,000 + 5,75,000}{(60,00,000 \times \frac{12}{12}) + (50,00,000 \times \frac{3}{12})} \times 100 = 27.24\%$$

**Capitalisation of Borrowing Cost to the following Qualifying Assets:**

$$\text{S.M.S} = 10,00,000 \times 27.24\% = 2,72,400$$

$$\text{P \& M} = 50,00,000 \times 27.24\% = 13,62,000$$

$$\text{Other FA} = 10,00,000 \times 27.24\% = 2,72,400$$

$$\text{Total General Borrowing Cost Capitalized} = 19,06,800$$

$$\text{Borrowing Cost charged to P \& L} = 14,00,000 + 5,75,000 - 19,06,800 = 68,200$$

**Question 25)**

Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be started as soon as they are completed.

Following is the detail of the work done on different phases of the building during the current year:

(₹ In lakhs)

	Phase I	Phase II	Phase III	Phase IV
	₹	₹	₹	₹
Cash expenditure	10	30	25	30
Building purchased	24	34	30	38
Total expenditure	3	6	55	68
Total expenditure of all phases	4	4		221
Loan taken @ 15% at the beginning of the year				200

During mid of the current year, Phase I and Phase II have become operational. Find out the total amount to be capitalized and to be expensed during the year.

**Solution****Computation of amount to be capitalized**

No.	Particulars	₹
1.	Interest expense on loan ₹ 2,00,00,000 at 15%	30,00,000
2.	Total cost of Phases I and II (₹ 34,00,000 + 64,00,000)	98,00,000
3.	Total cost of Phases III and IV (₹ 55,00,000 + ₹ 68,00,000)	1,23,00,000
4.	Total cost of all 4 phases	2,21,00,000
5.	Total loan	2,00,00,000
6.	Interest on loan used for Phases I & II, based on proportionate Loan amount = $30,00,000 / 2,21,00,000 \times 98,00,000$	3,30,317 (approx.)
7.	Interest on loan used for Phases III & IV, based on proportionate Loan	16,69,683

amount = $30,00,000/2,21,00,000 \times 1,23,00,000$	(approx.)
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**Accounting treatment For Phase I and Phase II**

Since Phase I and Phase II have become operational at the mid of the year, half of the interest amount of ₹ 6,65,158.50 (i.e., ₹ 13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining half of the interest amount of ₹ 6,65,158.50 (i.e., ₹ 13,30,317/2) relating to Phase I and Phase II should be expensed during the year.

**For Phase III and Phase IV**

Interest of ₹ 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.

**Question 26)**

On 1st April, 2022 Workhouse Limited took a loan from a Financial Institution for ₹ 25,00,000 for the construction of Building. The rate of interest is 12%.

In addition to above loan, the company has taken multiple borrowings as follows:

- (i) 8% Debentures ₹ 15,00,000
- (ii) 15% Term Loan ₹ 30,00,000
- (iii) 10% Other Loans ₹ 18,00,000

The company has utilised the above funds in construction / purchase of the following assets:

- (i) Building ₹ 70,00,000
- (ii) Furniture ₹ 22,00,000
- (iii) Plant & Machinery ₹ 90,00,000
- (iv) Factory Shed ₹ 43,00,000

The construction of Building, Plant & Machinery and Factory Shed was completed on 31st March 2023. Readymade Furniture was purchased directly from the market. The factory was ready for production on 1st April 2023.

You are required to calculate the borrowing cost for both qualifying and non-qualifying assets.

**SOLUTION****Interest to be Capitalized (on qualifying asset)**

Particulars	Computation	₹
i. On specific Borrowings	$25,00,000 \times 12\%$	3,00,000
ii. On non-specific borrowings	(W.N.1)	6,67,500
iii. Amount of interest to be Capitalised	(i+ii)	9,67,500

**Interest transferred to P&L (on non-qualifying asset)**

Particulars	Computation	₹
i. On non-specific Borrowings	(W.N.1)	82,500

**Working note:****1. Treatment of interest under AS 16 on non-specific borrowings**

Particulars	Qualifying asset	# Computation	Interest-Capitalized	Interest-charged to P&L A/c
i. Building	Yes	$45,00,000/2,00,00,000 \times 63,00,000 \times 11.9048\%$	1,68,750	-
ii. Furniture	No	$22,00,000/2,00,00,000$	-	82,500



		x 63,00,000 x 11.9048%		
iii. Plant & Machinery	Yes	90,00,000/2,00,00,000 x 63,00,000 x 11.9048%	3,37,500	-
iv. Factory shed	Yes	43,00,000/2,00,00,000 x 63,00,000 x 11.9048%	1,61,250	-
<b>Total</b>			<b>6,67,500</b>	<b>82,500</b>

**NOTE: Alternative manner of presentation for Treatment of interest under AS 16 on non-specific borrowings:**

Particulars	Qualifying asset	Expenses Incurred ₹	Share in borrowings ₹	Interest Capitalized ₹	Interest - charged to P&L A/c ₹
i. Building	Yes	45,00,000	7,50,000 x 45/200	1,68,750	-
ii. Furniture	No	22,00,000	7,50,000 x 22/200	-	82,500
iii. Plant & Machinery	Yes	90,00,000	7,50,000 x 90 /200	3,37,500	-
iv. Factory shed	Yes	43,00,000	7,50,000 x 43 / 200	1,61,250	-
<b>Total</b>		<b>2,00,00,000</b>		<b>6,67,500</b>	<b>82,500</b>

## 2. Weighted Average interest rate for non-specific borrowings

Particulars	Amount of loan (a)	Rate of interest (b)	Amount of interest (c) = (a) x (b)
Debentures	15,00,000	8%	1,20,000
Term loan	30,00,000	15%	4,50,000
Other loans	18,00,000	10%	1,80,000
	63,00,000		7,50,000
		# Weighted Average Rate of Interest = 7,50,000 / 63,00,000 x 100 = 11.9048%	

### Question 27)

ABC Limited has started construction of an asset on 1st December, 2020, which continues till 31st March, 2021 (and is expected to go beyond a year). The entity has not taken any specific borrowings to finance the construction of the asset but has incurred finance costs on its general borrowings during the construction period. The directly attributable expenditure at the beginning of the month on this asset was Rs. 10 lakhs in December 2020 and Rs. 4 lakhs in each of the months of January to March 2021. At the beginning of the year, the entity had taken Inter Corporate Deposits of Rs. 20 lakhs at 9% rate of interest and had an overdraft of Rs. 4 lakhs, which increased to Rs. 8 lakhs on 1st March, 2021. Interest was paid on the overdraft at 10% until 1st January, 2021 and then the rate was increased to 12%. You are required to calculate the annual capitalization rate for computation of borrowing cost in accordance with AS 16 'Borrowing Costs'.

### SOLUTION

Calculation of capitalization rate on borrowings other than specific borrowings

Nature of general borrowings	Period of outstanding balance	Amount of loan (Rs.)	Rate of interest p.a.	Weighted average amount of interest (Rs.)
	a	b	c	d = [(b x c) xa/12]
9% Debentures	12 months	20,00,000	9%	1,80,000
Bank overdraft	9 months	4,00,000	10%	30,000

	2 months	4,00,000	12%	8,000
	1 month	8,00,000	12%	8,000
		36,00,000		2,26,000

Weighted average cost of borrowings

$$= \{20,00,000 \times (12/12)\} + \{4,00,000 \times (11/12)\} + \{8,00,000 \times (1/12)\} = 24,33,334$$

$$\text{Capitalisation rate} = [(\text{Weighted average amount of interest} / \text{Weighted average of general borrowings}) \times 100] = [(2,26,000 / 24,33,334) \times 100] = 9.29\% \text{ p.a.}$$

## AS 10 "PROPERTY, PLANT AND EQUIPMENT"

**Question 28)**

Fair value of Asset Purchased Rs. 1,00,000/-

Fair Value of Asset Given up Rs. 70000/-

Cash Paid Rs. 25000/-

Carrying Amount of Given up asset Rs. 55000/-

How to Record Asset Purchased, assume Commercial substance is present in the transaction.

**Solution:**

New Asset A/c Dr.	95000
To Old Asset A/c	55000
To Bank A/c	25000
To Gain (P&L)	15000 (B/f)

**Question 29)**

Fair value of Asset Purchased Rs. 3,00,000/-Fair Value of Asset given up is not known Carrying Amount of Given up asset Rs. 5,50,000/-Cash Received - 200000

How to record as per IndAs 16, Assume Commercial substance is present in the transaction.

**Solution:**

New Asset A/c	Dr.	3,00,000	
Bank A/c	Dr.	2,00,000	
Loss on Ex.	Dr.	50,000	
		To Old Asset A/c	5,50,000

**Question 30)**

Fair value of Asset Purchased Rs. 3,00,000/-

Fair Value of Asset given up 3,30,000/-

Carrying Amount of Given up asset Rs. 2,00,000/-

Cash Paid 50,000/-

Give Accounting Treatment as per IndAs 16,

Assuming No Commercial substance is present in the transaction.

**Solution**

New Asset A/c Dr.	2,50,000 (B/f)
To Old Asset A/c	2,00,000
To Cash A/c	50,000

**Question 31)**

PPE costs Rs. 50 Lacs acquired on 01.04.21 with estimated useful life of 20 years. Estimated Decommissioning liability to be incurred after 20 years is 12 Lacs. Discounting Rate is 10%. At the end of the 6th Year, estimated outflow of Decomm. Liab. Changed to Rs. 10 Lacs & discounting rate changed to 11%.

Apply IndAS 16 till 6th Year.

**Solution****1. Calculate total cost of PPE as on 1/4/21**

Particular	Amount
Purchase & Direct Cost	50,00,000
+ PV of Decommissioning liability (12,00,000 x 0.148)	1,78,320
Cost of PPE	51,78,320

**Journal Entry**

PPE a/c	Dr.	51,78,320	
	To Bank/Creditor		50,00,000
	To Provision for Decommissioning cost		1,78,320

**2. Calculate the amt of provision to be shown at the end of the year under b/s**

1st year. Interest cost as 178320 @ 10% = 17,832

Interest cost (p&l)	Dr.	17,832	
	To Provision a/c		17,832

Year	Opening Balance	Interest During the year	Closing Balance
1 <sup>st</sup> year	1,78,320	17,832	1,96,152
2 <sup>nd</sup> year	1,96,152	19,615	2,15,767
3 <sup>rd</sup> year	2,15,767	21,577	2,37,344
4 <sup>th</sup> year	2,37,344	23,734	2,61,078
5 <sup>th</sup> year	2,61,078	26,108	2,87,186
6 <sup>th</sup> year	2,87,186	28,718	3,15,905

Carrying amount = Provision for decommissioning cost at the end of the 6th year = 3,15,905

**3. Calculate the change in provision of Decommissioning cost as on 1/4/27: -**

What should be the provision amt based as following received figures: -

Discount rate = 11%  
 Out flow = 10,00,000  
 Remaining period = 20 – 6 = 14 years  
 PVF @ 11% for 14th year = 0.232

Revised provision based as change (0.232 x 10,00,000) = 2,32,000 as on 1/4/27  
 Carrying amount (opening balance) of provision = 3,15,905 as on 1/4/27  
 Decrease in liabilities = 83,905

**Case 1: Suppose PPE is under Cost model:**

Provision a/c	Dr.	83905	
	To PPE a/c		83905

**Case 2: Suppose PPE is under Revaluation model:**

Provision a/c	Dr.	83905	
	To Rev. Surplus a/c		83905

However, Gain to the Extent of earlier Revaluation loss shall be changed to P&L a/c.

**Question 32)**

Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs. 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs. 49,500 per month after adding 10% profit margin. The machine was purchased at Rs. 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs. 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 30,000 to supervise machinery installation at the factory site. Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shrishti Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

**SOLUTION****Calculation of Cost of Fixed Asset (i.e., Machinery)**

Particulars			Rs.
Purchase Price		Given (Rs. 158,34,000 x 100/112)	1,41,37,500
Add:	Site Preparation Cost	Given	1,41,870
	Technician's Salary	Specific/Attributable overheads for 3 months (45,000 x3)	1,35,000
	Initial Delivery Cost	Transportation	55,770
	Professional Fees for Installation	Architect's Fees	30,000
<b>Total Cost of Asset</b>			<b>1,45,00,140</b>

**Question 33)**

On 1st April 20X1, an item of property is offered for sale at Rs. 10 million, with payment terms being three equal installments of Rs.33,33,333 over a two years period (payments are made on 1st April 20X1, 31st March 20X2 and 31st March 20X3).

The property developer is offering a discount of 5 percent (i.e., Rs. 0.5 million) if payment is made in full at the time of completion of sale. Implicit interest rate of 5.36 percent p.a.

Show how the property will be recorded in accordance of AS 10.

**SOLUTION:**

AS 10 requires that the cost of an item of PPE is the cash price equivalent at the recognition date. Hence, the purchaser that takes up the deferred payment terms will recognise the acquisition of the asset as follows

<b>On 1st April, 20X1</b>		(Rs)	(Rs)
Property, Plant and Equipment	Dr.	95,00,000	
To Cash			33,33,333
To Accounts Payable			61,66,667
(Initial recognition of property)			
<b>On 31st March 20X2</b>			
Interest Expense	Dr.	3,30,533	
Accounts payable	Dr.	30,02,800	
To Cash			33,33,333
(Recognition of interest expense and payment of second installment)			

<b>On 31st March 20X3</b>			
Interest Expense	Dr.	1,69,467	
Accounts payable	Dr.	31,63,867	
To Cash			33,33,334
(Recognition of interest expense and payment of final installment)			

**Question 34)**

An entity gave the following Note in its Financial Statements:

'The company chooses not to charge depreciation on Property, Plant and Equipment on account of:

- Annual Maintenance Contracts being expensed thereby ensuring timely repairs of Plant and Machinery.
- Depreciation being a non-cash expense has no impact on cash flows. Accordingly, it is not necessary to depreciate an asset when repairs and maintenance charges are expensed in the Statement of Profit and Loss.
- The values of certain assets like Property increase with passage of time, and hence charging depreciation does not make sense.
- At the end of the useful life, the asset is ultimately sold, and since the asset is at cost due to no depreciation, exact profit or loss on sale of the asset is stated.'



You are required to state the appropriateness of the above accounting policy in line with the relevant Accounting Standards.

**Solution**

Depreciation refers to writing off the value of the asset over its useful life. Such write-off is necessitated on account of normal wear-and-tear, usage, or obsolescence. Since items of Property, Plant and Equipment are generally used in generating revenue, the pro-rated write-off in value of such item should be recorded in the books against the income earned by such an asset.

Providing depreciation is mandatory, in spite of the fact that repairs are expensed in the Statement of Profit and Loss, or the value of the Property is appreciating. Depreciation is a systematic allocation of cost of the asset against the income generated from the continued use of the asset. Further, the Companies Act, 2013 mandates depreciation to be charged in order to determine the correct profits. Thus, not charging depreciation would result in non-compliance with the Companies Act provisions as well.

The argument laid down by the company and the reasons for the same being invalid are discussed below.

- Annual Maintenance Contracts being expensed thereby ensuring timely repairs of Plant and Machinery:  
The fact that the company enters into Annual Maintenance Contracts for timely repairs can be regarded as a running cost. Such expense is incurred in order to ensure that the machine continues to run as intended. Thus, it implies that because the machine is being utilized, it will need regular repairs. In other words, continuous use is resulting in normal wear-and-tear which is the reason why depreciation should be charged by the company. By stating that the company incurs Annual Maintenance Expenses, the company is recording only the 'maintenance expenses', but not the wear-and-tear requiring the maintenance in the first place. Hence, this argument put forth by the company is not valid.
- Depreciation being a non-cash expense has no impact on cash flows. Accordingly, it is not necessary to depreciate an asset when repairs and maintenance charges are expensed in the Statement of Profit and Loss.  
When viewed from the prism of depreciation alone, it appears that the fact that depreciation is a non-cash item is correct. However, it must be noted that at the time of procurement of the asset, the company would have paid cash. Depreciation is after all writing off this amount over the life of the asset. Hence the argument that depreciation is a non-cash item is not valid. Depreciation is writing off the cost of the asset (which was already paid for) over the useful life of the asset, and hence is mandatory.

- (c) The values of certain assets like Property increase with passage of time, and hence charging depreciation does not make sense.

Certain assets like immovable property do increase in value with the passage of time. However, such assets are 'used for the purposes of business' and are not 'held for sale' or held as investment property. Accordingly, since the asset is being used for carrying on business, providing depreciation will give a true and fair view of the results of the company, and hence the argument that the value of the property appreciates is not valid.

If the company wants to show the fair market value of the PPE, then it has the option to apply Revaluation model. However, depreciation is mandatory to be charged in Revaluation model also.

- (d) At the end of the useful life, the asset is ultimately sold, and since the asset is at cost due to no depreciation, exact profit or loss on sale of the asset is stated.'

The value of any asset, after usage, will reduce. Accordingly, the argument that the 'exact profit or loss on sale of the asset' will be obtained is incorrect. Due to usage of the asset, the value of the asset would be lower than the cost. Charging depreciation would seek to bring the book value approximating to such reduced value. Thereafter, on sale of the asset, the true profit or loss would be available. Accordingly, this argument is also invalid.

It may be pertinent to note that Accounting Standard 1, Disclosure of Accounting Policies states that Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts. In other words, the company cannot be absolved of the fact that it has not complied with the relevant accounting standards merely by giving a disclosure of incorrect policies or practices being followed.

Thus, the company's stand of disclosing the incorrect policy as a remedy is not correct. The company is suggested to charge depreciation on a systematic basis over the useful life of the asset thereby complying with the Accounting Standards.

### Question 35)

Skanda Ltd. acquired a machinery for ₹ 2,50,00,000 five years ago. Depreciation was charged at 10% p.a. on SLM basis, useful life being 10 years. At the beginning of Year 3, the machinery was revalued to ₹ 3,00,00,000 with the surplus on revaluation being credited to Revaluation Reserve. Depreciation was provided on the revalued amount over the balance useful life of 8 years. The machinery was sold in the current year for ₹ 1,12,50,000. Give the accounting treatment for the above in the Company's accounts. What will be the treatment if the machinery fetched only ₹ 42,50,000 now?



### Solution

Particulars	₹
Original Cost of the Asset	2,50,00,000
Less: Depreciation for 2 years (₹ 2,50,00,000 x 10% x 2 years)	50,00,000
Book Value at the beginning of Year 3	2,00,00,000
Add: Revaluation Surplus (balancing figure)	1,00,00,000
Revalued Amount as given (= revised depreciable value)	3,00,00,000
Less: Depreciation for Years 3-5 (₹ 3,00,00,000 ÷ 8 yrs x 3 yrs)	1,12,50,000
<b>Carrying Amount at the end of Year 5</b>	<b>1,87,50,000</b>

The treatment of Gain / Loss on Disposal / Revaluation is as below:

Particulars	Disposal Proceeds = ₹ 1,12,50,000	Disposal Proceeds = ₹ 42,50,000
Book Value Less Disposal Proceeds = Loss recognized in Profit or Loss	₹ 1,87,50,000 – ₹ 1,12,50,000 = ₹ 75,00,000 (Loss)	₹ 1,87,50,000 – ₹ 42,50,000 = ₹ 1,45,00,000 (Loss)
Revaluation Surplus directly transferred to Retained Earnings	₹ 1,00,00,000	₹ 1,00,00,000

**Question 36)**

Akshar Ltd. installed a new Plant (not a qualifying asset), at its production facility, and incurred the following costs:



- Cost of the Plant (as per supplier's invoice): ₹ 30,00,000
- Initial delivery and handling costs: ₹ 1,00,000
- Cost of site preparation: ₹ 2,00,000
- Consultant fee for advice on acquisition of Plant: ₹ 50,000
- Interest charges paid to supplier against deferred credit: ₹ 1,00,000
- Estimate of Dismantling and Site Restoration costs: ₹ 50,000 after 10 years (Present Value is ₹ 30,000)
- Operating losses before commercial production: ₹ 40,000

The company identified motors installed in the Plant as a separate component and a cost of ₹ 5,00,000 (Purchase Price) and other costs were allocated to them proportionately. The company estimates the useful life of the Plant and those of the Motors as 10 years and 6 years respectively and SLM method of Depreciation is used.

At the end of Year 4, the company replaces the Motors installed in the Plant at a cost of ₹ 6,00,000 and estimated the useful life of new motors to be 5 years. Also, the company revalued its entire class of Fixed Assets at the end of Year 4. The revalued amount of Plant as a whole is ₹ 25,00,000. At the end of Year 8, the company decides to retire the Plant from active use and also disposed the Plant as a whole for ₹ 6,00,000.

There is no change in the Dismantling and Site Restoration liability during the period of use. You are required to explain how the above transaction would be accounted in accordance with AS 10.

**Solution****1. Cost at Initial Recognition:**

Particulars	₹
Cost of the Plant (as per Invoice)	30,00,000
Initial Delivery and Handling Costs	1,00,000
Cost of Site Preparation	2,00,000
Consultants' Fees	50,000
Estimated Dismantling and Site Restoration Costs	30,000
Total Cost of Plant including Motors	33,80,000
Less: Cost of Motors identified as a separate component (1/6)*	5,63,333
<b>Cost of the Plant (excluding Motors – balance 5/6)</b>	<b>28,16,667</b>

\* Purchase price of Motors = ₹ 5,00,000 out of ₹ 30,00,000 i.e., 1/6 of value of Plant

**Note:** Since the asset is not a qualifying asset, payment of interest to the supplier is not capitalized. Further, operating losses of ₹ 40,000 incurred before commercial production is not a directly attributable cost, and hence excluded from cost of asset. These costs are expensed to the P/L as and when they are incurred.

**2. Recognition of Motors Replacement**

Particulars	₹
Cost of Motors determined above	5,63,333
Less: Depreciation for 4 years (as per SLM)	3,75,555
5,63,333 ÷ 6 years × 4 years	
<b>Carrying Amount of Motors at the end of Year 4</b>	<b>1,87,778</b>

**Accounting:** The company should derecognize the existing Carrying Amount of Motors replaced of ₹ 1,87,778. Further, the acquisition cost of new motors of ₹ 6,00,000 would be capitalized as a separate component. This amount will be depreciated over the next 5 years at ₹ 6,00,000 ÷ 5 years = ₹ 1,20,000 p.a.



## 3. Revaluation

Particulars	₹
Cost of the Plant at initial recognition [from (1) above]	28,16,667
Less: SLM Depreciation for 4 years: ₹ 28,16,667 ÷ 10 years x 4 years	11,26,667
Carrying Amount of Plant at the end of Year 4	16,90,000
Revalued Amount of Plant (Excluding Motors, since the same is treated as a separate component: ₹ 25,00,000 – ₹ 6,00,000)	19,00,000
<b>Therefore, Gain on Revaluation credited to Revaluation Reserve</b>	<b>2,10,000</b>
<b>Revised Depreciation Charge p.a.: 19,00,000 ÷ 6 years</b>	<b>3,16,667</b>

## 4. Derecognition

Particulars	Motors	Plant (excluding Motors)
Cost / Revalued Amount at end of Year 4	6,00,000	19,00,000
Less: Depreciation for Years 5-8	1,20,000 x 4 = 4,80,000	3,16,667 x 4 = 12,66,668
Carrying Amount before Disposal / De- recognition	1,20,000	6,33,332
Less: Disposal Proceeds ₹ 6,00,000 allocated in ratio of carrying amount	95,575	5,04,425
<b>Loss to be written off to P/L</b>	<b>24,425</b>	<b>1,28,907</b>

**Notes:**

(a) The Revaluation Surplus of ₹ 2,10,000 would be transferred directly to Retained Earnings.

(b) The allocation of disposal proceeds of ₹ 6,00,000 for the plant as whole is apportioned based on carrying amount of motors and plant (excluding motors)

Alternatively, it may be apportioned as 1/6 towards motors and 5/6 plant (excluding motors) based on the reasoning that the initially, motors amounted to 1/6 of the entire plant. This approach may not be preferable because there has been a revaluation of the plant (excluding motors) and a disposal and subsequent acquisition of the Motor, which is not in the initial proportion of 5/6 and 1/6 respectively.

**Question 37)**

Bharat Infrastructure Ltd. acquired a heavy machinery at a cost of ₹ 1,000 lakhs, the breakdown of its components is not provided. The estimated useful life of the machinery is 10 years. At the end of Year 6, the turbine, which is a major component of the machinery, needed replacement, as further usage and maintenance was uneconomical. The remainder of the machine is in good condition and is expected to last for the remaining 4 years. The cost of the new turbine is ₹ 450 lakhs. Give the accounting treatment for the new turbine, assuming SLM Depreciation and a discount rate of 8%.

**Solution**

As per AS 10, Property, Plant and Equipment, the derecognition of the carrying amount of components of an item of Property, Plant and Equipment occurs regardless of whether the cost of the previous part / inspection was identified in the transaction in which the item was acquired or constructed. If it is not practicable for an enterprise to determine the carrying amount of the replaced part/ inspection, it may use the cost of the replacement or the estimated cost of a future similar inspection as an indication of what the cost of the replaced part/ existing inspection component was when the item was acquired or constructed.

In the given case, the new turbine will produce economic benefits to Bharat Infrastructure Ltd. and the cost is measurable. Since the recognition criteria is fulfilled, the same should be recognised as a separate item of Property, Plant and Equipment. However, since the initial breakup of the components is not available, the cost of the

replacement of ₹ 450 lakhs can be used as an indication based on the guidance given above, discounted at 8% for the 6-year period lapsed.

Thus, estimate of cost 6 years back = ₹ 450 lakhs ÷ 1.08<sup>6</sup> = ₹ 283.58 lakhs Current carrying amount of turbine (to be de-recognised) = Estimated cost ₹ 283.58 lakhs (–) SLM depreciation at 10% (useful life 10 years) for 6 years ₹ 170.15 lakhs = ₹ 113.43 lakhs.

Hence revised carrying amount of the machinery will be as under:

Particulars	₹ in lakhs
Historical Cost [₹ 1,000 lakhs (–) SLM Depreciation at 10% (10 year life) for 6 years]	400.00
Add: Cost of new turbine	450.00
Less: Derecognition of current carrying amount of old turbine	(113.43)
<b>New Carrying Amount of Machinery</b>	<b>736.57</b>

### Question 38)

- (a) Entity A has a policy of not providing for depreciation on PPE capitalized in the year until the following year, but provides for a full year's depreciation in the year of disposal of an asset. Is this acceptable?
- (b) Entity A purchased an asset on 1st January 2016 for Rs. 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 2020, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.
- (c) The following items are given to you:

#### ITEMS

- (1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);
- (2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training);
- (3) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- (4) Costs of opening a new facility or business, such as, inauguration costs;
- (5) Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

With reference to AS 10 "Property, Plant and Equipment", classify the above items under the following heads:

#### HEADS

- (i) Purchase Price of PPE
- (ii) Directly attributable cost of PPE or
- (iii) Cost not included in determining the carrying amount of an item of PPE.

### SOLUTION

- (a) The depreciable amount of a tangible fixed asset should be allocated on a systematic basis over its useful life. The depreciation method should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Useful life means the period over which the asset is expected to be available for use by the entity. Depreciation should commence as soon as the asset is acquired and is available for use. Thus, the policy of Entity A is not acceptable.
- (b) The entity has charged depreciation using the straight-line method at Rs. 10,000 per annum i.e. (1,00,000/10 years). On 1st January 2020, the asset's net book value is [1,00,000 – (10,000 x 4)] = Rs. 60,000.

The remaining useful life is 4 years. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of four years. Consequently, it should charge depreciation for the next 4 years at Rs. 15,000 per annum i.e. (60,000 / 4 years). Depreciation is recognized even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.

(C)

- (1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment) will be classified as **“Directly attributable cost of PPE”**.
- (2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training) will be classified under **head (iii) as it will not be included in determining the carrying amount of an item of PPE.**
- (3) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management will be included in determination of **Purchase Price of PPE**
- (4) Costs of opening a new facility or business, such as, inauguration costs will be classified under **head (iii) as it will not be included** in determining the carrying amount of an item of PPE.
- (5) Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates will be included in determination of **Purchase Price of PPE.**

## AS 15 “ EMPLOYEE BENEFITS”

### Question 39)

A lump sum gratuity, equal to 1% of final salary for each year of service, is payable on termination of service. The salary in year 1 is Rs. 10,000 and is assumed to increase at 7% (compound) each year resulting in Rs. 13,100 at the end of year 5. The discount rate used is 10% per annum. Shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions.

#### SOLUTION:

(Amount in Rs.)

#### Computation of benefits attributed to the current and prior years:

Year	1	2	3	4	5
<b>Benefit attributed to:</b>					
- Prior year	0	131	262	393	524
- Current year (1% of final salary)	131	131	131	131	131
- Current and prior years	131	262	393	524	655

#### Computation of obligation for an employee:

Year	1	2	3	4	5
Opening Obligation	-	89	196	324	476
Interest at 10%	-	9	20	33	48
Current service cost (see note 2)	89	98	108	119	131
<b>Closing Obligation (see note 1)</b>	<b>89</b>	<b>196</b>	<b>324</b>	<b>476</b>	<b>655</b>

#### Note 1

##### Closing obligation

Year	1	2	3	4	5
Gratuity attributable	131	262	393	524	655
Payable after (years)	4	3	2	1	0
Discounting factor	.683	.751	.826	.909	1
<b>PV</b>	<b>89</b>	<b>196</b>	<b>324</b>	<b>476</b>	<b>655</b>

#### Note 2

##### Current Service Cost

Year	1	2	3	4	5
Gratuity of current year	131	131	131	131	131
Payable after (years)	4	3	2	1	0
Discounting factor	.683	.751	.826	.909	1
<b>PV</b>	<b>89</b>	<b>98</b>	<b>108</b>	<b>119</b>	<b>131</b>

### Question 40)

On 1.4.20X1, the fair value of plan assets is Rs.10,000. On 30.9.20X1 it paid benefits of Rs. 1,500 and received contributions of Rs. 4,500. On 31.03.20X2, fair value of plan assets is Rs.15,000 and PV of obligation was Rs. 14,972. Actuarial losses on obligation was Rs. 60 on 31.03.20X2.

Find the net actuarial gain/losses on 31.03.20X2 based on the following estimates:

Interest and dividend income	9.00%
Realised and unrealized gain on plan assets	1.50%
Administration costs	(1.00%)

**SOLUTION**

Calculation of Annual Ex. Return %

Interest and dividend income	9.00%
Realised and unrealized gain on plan assets	1.50%
Administration costs	(1.00%)
Net Annual Ex. Return %	9.50%

Six monthly rate = [Square Root of (1+0.095)] - 1 X 100 = 4.64%

**Plan Assets**

Date	Particulars	Amount	Date	Particulars	Amount
01/04	To Balance	10,000	30/09	By Bank	1,500
30/09	To Bank	4,500			
31/03	To Ex. Return				
	10,000X9.5%	950			
	3,000X4.64%	139			
31/03	To Actuarial Gain	911	31/03	By Balance	15,000

**Question 41)**

An enterprise operates a pension plan that provides a pension of 2% on final salary for each year of service. The benefit will be vested after 5 years of service. On 1.1.2005, the enterprise improves the pension to 2.5% of the final salary for each year of service starting from 1.1.2001 at the date of improvement the Present Value of additional benefits for service from 1.1.2001 to as follows:

- Employees with more than 5 years of service at 1.1.2005Rs. 2,00,000
- Employees with less than 5 years of service Rs. 1,20,000  
(Average period until vesting = 3 years)

Suggest the accounting treatment.

**SOLUTION**

01) Amortised Past Service Cost means Additional Benefits payable to employees with more than 5 years of service = 2,00,000

It is to be immediately recognised in P&amp;L

02) Unamortised Past Service Cost means additional benefits payable to employees with less than 5 years i.e. Unvested Benefits = Rs. 1,20,000

It is to be recognized in next 3 years.

01/01/05	Amortised PSC dr.	2	
	Unamortised PSC dr.	1.2	
	To DBO Payable		3.2
01/01/05	Profit and loss A/c dr.	2	
	To Amortised PSC		2

**Question 42)**

An employee Roshan has joined a company XYZ Ltd. in the year 20X1. The annual emoluments of Roshan as decided is ₹14,90,210. The company also has a policy of giving a lump sum payment of 25% of the last drawn annual salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service. The salary of the Roshan is expected to grow @ 10% per annum.

The company has inducted Roshan in the beginning of the year and it is expected that he will complete the minimum five year term before retiring. Thus he will get 5 yearly increment.



What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

### Solution

#### Calculation of Defined Benefit Obligation (DBO)

Expected last drawn salary	₹ 14,90,210 x 110% x 110% x 110% x 110% x 110%	<b>₹24,00,000</b>
Defined Benefit Obligation (DBO)	₹ 24,00,000 x 25% x 5	<b>₹30,00,000</b>

Amount of ₹ 6,00,000 will be charged to Profit and Loss Account of the company every year as cost for Defined Benefit Obligation.

#### Calculation of Current Service Cost

Year	Equal apportioned amount of DBO [i.e. ₹ 30,00,000/5 years]	Discounting @ 8% PV factor	Current service cost (Present Value)
a	b	c	d = b × c
1	6,00,000	0.735 (4 Years)	4,41,000
2	6,00,000	0.794 (3 Years)	4,76,400
3	6,00,000	0.857 (2 Years)	5,14,200
4	6,00,000	0.926 (1 Year)	5,55,600
5	6,00,000	1 (0 Year)	6,00,000

#### Calculation of Interest Cost to be charged per year

	Opening balance	Interest cost	Current service cost	Closing balance
a	b	C = b × 8%	d	e = b + c + d
1	0	0	4,41,000	4,41,000
2	4,41,000	35,280	4,76,400	9,52,680
3	9,52,680	76,214	5,14,200	15,43,094
4	15,43,094	1,23,447	5,55,600	22,22,141
5	22,22,141	1,77,859*	6,00,000	30,00,000

\*Due to approximations used in calculation, this figure is adjusted accordingly

### Question 43)

As on 1st April, 20X1 the fair value of plan assets was ₹1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 20X1 the plan paid out benefits of ₹19,000 and received inward contributions of ₹49,000. On 31st March, 20X2 the fair value of plan assets was ₹1,50,000 and present value of the defined benefit obligation was ₹1,47,920. Actuarial losses on the obligations for the year 20X1 - 20X2 were ₹600.

On 1st April, 20X1, the company made the following estimates, based on its market studies, understanding and prevailing prices

	%
Interest & dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Fund administrative costs	(1.00)
<b>Expected Rate of Return</b>	<b>10.25</b>

You are required to find the expected and actual returns on plan assets.

**Solution****Computation of Expected and Actual Returns on Plan Assets**

		₹
Return on ₹ 1,00,000 held for 12 months at 10.25%		10,250
Return on ₹ 30,000 (49,000-19,000) held for six months at 5% (equivalent to 10.25% annually, compounded every six months)		1,500
<b>Expected return on plan assets for 20X1-20X2</b>		<b>11,750</b>
Fair value of plan assets as on 31 March, 20X2		1,50,000
Less: Fair value of plan assets as on 1 April, 20X1	1,00,000	
Contributions received	<u>49,000</u>	(1,49,000)
		<b>1,000</b>
Add: Benefits paid		19,000
<b>Actual return on plan assets</b>		<b>20,000</b>

Alternatively, the above question may be solved without giving compound effect to rate of return.

**Question 44)**

Rock Star Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. If the benefits are determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.



Rock Star Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at ₹ 18 (10% of ₹180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Rock Star Ltd. on the basis of given information:

- Immediately before the curtailment, gross obligation is estimated at ₹6,000 based on current actuarial assumption.
- The fair value of plan assets on the date is estimated at ₹5,100.
- The unamortized past service cost is ₹180.
- Curtailment reduces the obligation by ₹600, which is 10% of the gross obligation.

**Solution****Gain from curtailment is estimated as under:**

		₹
Reduction in gross obligation		600
Less: Proportion of un-amortised past service cost		(18)
<b>Gain from curtailment</b>		<b>582</b>

**The liability to be recognised after curtailment in the balance sheet is estimated as under:**

		₹
Reduced gross obligation (90% of ₹ 6,000)		5,400
Less: Fair value of plan assets		(5,100)
Less: Un-amortised past service cost (90% of ₹180)		300
Liability to be recognised in the balance sheet		(162)
<b>Liability to be recognised in the balance sheet</b>		<b>138</b>

**Question 45)**

Mr. Rajan is working for Infotech Ltd. Consider the following particulars:

Annual salary of Mr. Rajan = ₹ 30,00,000

Total working days in 20X0-X1 = 300 days

Leaves allowed in 20X0-X1 as per company policy = 10 days

Leaves utilized by Mr. Rajan in 20X0-X1 = 8 days

The unutilized leaves are settled by way of payment and accordingly, carry forward of such leaves to the subsequent period is not allowed.

Compute the total employee benefit expense for Infotech Ltd. in respect of 20X0-X1.

**SOLUTION**

Mr Rajan is entitled to a salary of ₹ 30,00,000 for 300 total working days.

Thus, per day salary works out to ₹ 30,00,000 ÷ 300 days = Rs. 10,000 per day

In the year 20X0-20X1, Mr. Rajan availed 8 out of 10 leaves allowed by the company.

Accordingly, leaves unutilized = 10 – 8 = 2 days

In line with the company policy, Infotech Ltd. will pay Mr. Rajan for the unutilized leave.

Thus, total expense for 20X0-20X1 = ₹ 30,00,000 + (2 days unutilized leaves x ₹ 10,000 per day) = ₹ 30,20,000.



## **AS 23 – “ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS”**

### **Question 46)**

On 1/4/24 B Ltd. acquired 20% Equity interest in A Ltd. at a cost of 2,40,000/-

On 1/4/24 Equity Share Capital of A Ltd was 8,00,000 and Reserves & Surplus of A Ltd. was 3,00,000

On 31/3/25 Reserves & Surplus of A Ltd. was 5,00,000

During 24-25, Dividend Paid by A Ltd. to its Share Holders 15%

Apply AS 23 on DOA & Balance Sheet Date.

### **Solution:**

#### **Analysis of Profit of A Ltd.**

	Capital Profit	Post – Acquisition	Balance Sheet
Reserves & Surplus	3,00,000	2,00,000	5,00,000
+ Dividend	-	1,20,000	
	<b>3,00,000</b>	<b>3,20,000</b>	

- 3,20,000 is the Total Earning of A Ltd. for the year
- Post-Acquisition share in Profit (20%) = 64,000

#### **Equity Method**

Investment Cost as on DOA (Including Goodwill 20,000)	2,40,000
(+) 20% share in Post – Acquisition Profit @ 20%	64,000
(-) Dividend Received	(24,000)
<b>Investment @ 20% as per Equity</b>	<b>2,80,000</b>

#### **1/4/24 - Investment Purchased**

Investment A/c	Dr.	2,40,000
To Bank A/c		2,40,000

#### **31/3/25 - Consolidation**

Investment A/c	Dr.	64,000
To Consolidated P&L		64,000

#### **During 24-25 - Dividend Received**

Bank A/c	Dr.	24,000
To Investment A/c		24,000

(This is not Income. This is Recovery)

**QUESTION 47)**

A Ltd. acquired 40% share in B Ltd. on April 01, 20X1 for ₹ 10 lacs. On that date B Ltd. had 1,00,000 equity shares of ₹ 10 each fully paid and accumulated profits of ₹ 2,00,000. During the year 20X1-20X2, B Ltd. suffered a loss of ₹ 10,00,000; during 20X2-20X3 loss of ₹ 12,50,000 and during 20X3-20X4 again a loss of ₹ 5,00,000. Show the extract of consolidated balance sheet of A Ltd. on all the four dates recording the above events.

**Solution****Calculation of Goodwill/Capital Reserve under Equity Method**

Particulars	₹
Equity Shares	10,00,000
Reserves & Surplus	2,00,000
Net Assets	12,00,000
40% share of Net Assets	4,80,000
Less: Cost of Investment	(10,00,000)
Goodwill	5,20,000

**Consolidated Balance Sheet (Extract) as on April 01, 20X1: ASSETS**

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on April 1	4,80,000	
Add: Goodwill	5,20,000	10,00,000

**Calculation of Carrying Amount of Investment as at 31 March 20X2:**

Investment in Associate as per AS 23	₹
Share of Net Assets on 1 April, 20X1	4,80,000
Add: Goodwill	5,20,000
Cost of Investment	10,00,000
Less: Loss for the year (10,00,000 x 40%)	(4,00,000)
Carrying Amount of Investment	6,00,000

**Consolidated Balance Sheet (Extract) as on March 31, 20X2: ASSETS**

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on 1 April, 20X1	4,80,000	
Less: Share of Loss as above	(4,00,000)	
	80,000	
Add: Goodwill	5,20,000	6,00,000

**Calculation of Carrying Amount of Investment as at 31 March 20X3:**

Investment in Associate as per AS 23	₹
Carrying Amount of Investment as on 31 March 20X2	6,00,000
Less: Loss for the year (12,50,000 x 40%)	(5,00,000)
Carrying Amount of Investment	1,00,000

**Consolidated Balance Sheet (Extract) as on March 31, 20X3: ASSETS**

Investment in Associate as per AS 23	₹	₹
Share of Net Assets on 1 April, 20X1	4,80,000	
Less: Share of Loss as above (₹ 4,00,000 + ₹5,00,000)	(4,20,000)	
Add: Goodwill		1,00,000

**Calculation of Carrying Amount of Investment as at 31 March 20X4:**

Investment in Associate as per AS 23	₹
Carrying Amount of Investment	1,00,000
Less: Loss for the year (5,00,000 x 40% = 2,00,000, restricted to Carrying amount of Investment in B Ltd.) -refer note below	
Carrying Amount of Investment	

**Consolidated Balance Sheet (Extract) as on March 31, 20X4: ASSETS**

Investment in Associate as per AS 23	₹
Investment in B Ltd.	-

**QUESTION 48)**

Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-20X1. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-20X1 East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-20X1. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-20X2 (assume profits to accrue evenly) and declared dividends of ₹ 60,000 on 12-06-20X2.

Calculate the carrying amount of investment in:

- Separate financial statements of Bright Ltd. as on 31-03-20X2;
- Consolidated financial statements of Bright Ltd.; as on 31-03-20X2;
- What will be the carrying amount as on 30-06-20X2 in consolidated financial statements?

**SOLUTION****(i) Carrying amount of investment in Separate Financial Statement of Bright Ltd. as on 31.03.20X2**

	₹
Amount paid for investment in Associate (on 1.06.20X1)	2,00,000
Less: Pre-acquisition dividend (₹50,000 x 30%)	(15,000)
Carrying amount as on 31.3.20X2 as per AS 13	1,85,000

**(ii) Carrying amount of investment in Consolidated Financial Statements of Bright Ltd. as on 31.3.20X2 as per AS 23**

	₹
Carrying amount as per separate financial statements	1,85,000
Add: Proportionate share of 10-month profit of investee as per equity method (30% of ₹3,00,000 x 10/12)	75,000
Carrying amount as on 31.3.20X2	2,60,000

(iii) **Carrying amount of investment in Consolidated Financial Statement of Bright Ltd. as on 30.6.20X2 as per AS 23**

	₹
Carrying amount as on 31.3.20X2	2,60,000
Less: Dividend received (₹60,000 x 30%)	(18,000)
Carrying amount as on 30.6.20X2	2,42,000

**Case 1: Conversion from a passive investor to an associate in the same year:**

A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 during the same year. Other information is as follow:

Cost of Investment for 10% ₹1,00,000 and for 15% ₹1,45,000

Net asset on April 01 ₹8,50,000 and on October 01 ₹10,00,000.

**Calculations for April 01:**

<b>Cost of investment</b>	<b>₹1,00,000</b>
10% share in net asset	₹85,000
Goodwill	₹15,000

**Calculations for October 01:**

<b>15% share in net asset</b>	<b>₹1,50,000</b>
Cost of investment	₹1,45,000
Capital Reserve	₹5,000
Total goodwill (15,000 – 5,000)	₹10,000

**Case 2: Conversion from a passive investor to an associate in the same year:**

A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on 1<sup>st</sup> October of the same year. Other information is as follow:

Cost of Investment for 10% ₹1,00,000 and for 15% ₹1,55,000

Net asset on 1<sup>st</sup> April ₹8,50,000 and on 1<sup>st</sup> October ₹10,00,000.

**Calculations for April 01:**

<b>Cost of investment</b>	<b>₹1,00,000</b>
10% share in net asset	₹85,000
Goodwill	₹15,000

**Calculations for October 01:**

<b>Cost of investment</b>	<b>₹1,55,000</b>
15% share in net asset	₹1,50,000
Goodwill	₹5,000
Total goodwill (15,000 + 5,000)	₹20,000

**Case 3: Further acquisition in an associate in the same year:**

A Ltd. acquired 25% stake of B Ltd. on 1<sup>st</sup> April and further 5% on 1<sup>st</sup> October of the same year. Other information is as follow:

Cost of Investment for 25% ₹1,50,000 and for 5% ₹20,000

Net asset on 1<sup>st</sup> April ₹5,00,000.

Profit for the year ₹90,000 earned in the ratio 2:1 respectively.

**Calculations for April 01:**

<b>Cost of investment</b>	<b>₹1,50,000</b>
25% share in net asset	<u>₹1,25,000</u>
Goodwill	<u>₹25,000</u>

**Calculations for October 01:**

<b>Profits for the first half (90,000/3) x 2</b>	<b>₹60,000</b>
Additional share of A Ltd.	5%
Pre-acquisition profits i.e. capital reserve (60,000 x 5%)	₹3,000
5% share in net asset	₹25,000
Cost of investment	<u>₹20,000</u>
Capital Reserve	<u>₹5,000</u>
Cost of Investment on April 01	₹1,50,000
Less: Goodwill	<u>₹25,000</u>
Carrying Amount on April 01	₹1,25,000
Add: Additional Share in Net Asset on October 01	₹25,000
Add: Capital share of Profits for first half	₹3,000
Add: Revenue shares of Profits for first half (60,000 x 25%)	₹15,000
Add: Revenue shares of Profits for second half (30,000 x 30%)	<u>₹9,000</u>
<b>Total Carrying Amount on March 31</b>	<b><u>₹1,77,000</u></b>

## **AS 27 “FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES”**

### **QUESTION 49)**

Mr. A, Mr. B and Mr. C entered into a joint venture to purchase a land, construct and sell flats. Mr. A purchased a land for ₹ 60,00,000 on 01.01.20X1 and for the purpose he took loan from a bank for ₹ 50,00,000 @ 8% interest p.a. He also paid registering fees ₹ 60,000 on the same day. Mr. B supplied the materials for ₹ 4,50,000 from his godown and further he purchased the materials for ₹ 5,00,000 for the joint venture. Mr. C met all other expenses of advertising, labour and other incidental expenses which turnout to be ₹ 9,00,000. On 30.06.20X1 each of the venturer agreed to take away one flat each to be valued at ₹ 10,00,000 each flat and rest were sold by them as follow: Mr. A for ₹ 40,00,000; Mr. B for ₹ 20,00,000 and Mr. C for ₹ 10,00,000. Loan was repaid on the same day by Mr. A along with the interest and net proceeds were shared by the partners equally.

You are required to prepare the draft Consolidated Profit & Loss Account and Joint Venture Account in the books of each venturer.

### **Solution**

#### **Draft Consolidated Profit & Loss Account**

Particulars	₹	₹	Particulars	₹	₹
To Purchase of Land:			By Sale of Flats:		
Mr. A		60,00,000	Mr. A	40,00,000	
To Registration Fees:			Mr. B	20,00,000	
Mr. A		60,000	Mr. C	10,00,000	70,00,000
To Materials:			By Flats taken by Venturers:		
Mr. B		9,50,000	Mr. A	10,00,000	
To Other Expenses:			Mr. B	10,00,000	
Mr. C		9,00,000	Mr. C	10,00,000	30,00,000
To Bank Interest:					
Mr. A		2,00,000			
To Profits:					
Mr. A	6,30,000				
Mr. B	6,30,000				
Mr. C	6,30,000	18,90,000			
		<b>1,00,00,000</b>			<b>1,00,00,000</b>

#### **In the Books of Mr. A Joint Venture Account**

Particulars	₹	Particulars	₹
To Bank Loan (Purchase of Land)	50,00,000	By Bank (Sale of Flats)	40,00,000
To Bank (Purchase of Land)	10,00,000	By Land & Building	10,00,000
To Bank (Registration Fees)	60,000	By Bank (Received from Mr. B)	14,20,000
To Bank (Bank Interest)	2,00,000	By Bank (Received from Mr. C)	4,70,000

To Profit on JV	6,30,000		
	<b>68,90,000</b>		<b>68,90,000</b>

**In the Books of Mr. B Joint Venture  
Account**

Particulars	₹	Particulars	₹
To Purchases (Material Supplied)	4,50,000	By Bank (Sale of Flats)	20,00,000
To Bank (Materials)	5,00,000	By Land & Building	10,00,000
To Profit on JV	6,30,000		
To Bank (Paid to Mr. A)	14,20,000		
	<b>30,00,000</b>		<b>30,00,000</b>

**In the Books of Mr. C Joint Venture  
Account**

Particulars	₹	Particulars	₹
To Bank (Misc. Expenses)	9,00,000	By Bank (Sale of Flats)	10,00,000
To Profit on JV	6,30,000	By Land & Building	10,00,000
To Bank (Paid to Mr. A)	4,70,000		
	<b>20,00,000</b>		<b>20,00,000</b>

**QUESTION 50)**

A Ltd. a UK based company entered into a joint venture with B Ltd. in India, wherein B Ltd. will import the goods manufactured by A Ltd. on account of joint venture and sell them in India. A Ltd. and B Ltd. agreed to share the expenses & revenues in the ratio of 5:4 respectively whereas profits are distributed equally. A Ltd. invested 49% of total capital but has equal share in all the assets and is equally liable for all the liabilities of the joint venture.

Following is the trial balance of the joint venture at the end of the first year:

Particulars	Dr. (₹)	Cr. (₹)
Purchases	9,00,000	
Other Expenses	3,06,000	
Sales		13,05,000
Property, Plant and Equipment	6,00,000	
Current Assets	2,00,000	
Unsecured Loans		2,00,000
Current Liabilities		1,00,000
Capital		4,01,000

Closing inventory was valued at ₹ 1,00,000.

You are required to prepare the Consolidated Financial Statement.

**Solution**

**Consolidated Profit & Loss Account**

Particulars	Note No.	(₹)
Revenue from operations	1	13,05,000
Total Revenue (A)		13,05,000

Less: Expenses		
Purchases	2	9,00,000
Other expenses	3	3,06,000
Changes in inventories of finished goods	4	<u>(1,00,000)</u>
Total Expenses (B)		<u>11,06,000</u>
Profit Before Tax (A-B)		<u>1,99,000</u>

### Consolidated Balance Sheet

		Note No.	(₹)
<b>I</b>	<b>Equity and liabilities</b>		
	1. Shareholders' funds:		
	Share Capital	5	4,01,000
	Reserves and Surplus	6	1,99,000
	2. Non-current liabilities		
	Long term borrowings	7	2,00,000
	3. Current Liabilities	8	<u>1,00,000</u>
			<u>9,00,000</u>
<b>II</b>	<b>Assets</b>		
	Non-current Assets		
	Property, Plant and Equipment	9	6,00,000
	Current Assets		
	Inventories	10	1,00,000
	Other current assets	11	<u>2,00,000</u>
			<u>9,00,000</u>

### Notes to Accounts

	Particulars		(₹)
<b>1.</b>	<b>Revenue from operations</b>		
	Sales:		
	A Ltd.	7,25,000	
	B Ltd.	<u>5,80,000</u>	13,05,000
<b>2.</b>	<b>Purchases</b>		
	A Ltd.	5,00,000	
	B Ltd.	<u>4,00,000</u>	9,00,000
<b>3.</b>	<b>Other expenses</b>		
	A Ltd.	1,70,000	
	B Ltd.	<u>1,36,000</u>	3,06,000
<b>4.</b>	<b>Closing Inventory</b>		
	A Ltd.	50,000	
	B Ltd.	<u>50,000</u>	1,00,000
<b>5.</b>	<b>Share Capital</b>		
	A Ltd.	1,96,490	
	B Ltd.	<u>2,04,510</u>	4,01,000
<b>6.</b>	<b>Reserves and Surplus</b>		
	Profit & Loss Account:		



	A Ltd.	99,500	
	B Ltd.	99,500	1,99,000
<b>7.</b>	<b>Long Term Borrowings</b>		
	Unsecured Loans:		
	A Ltd.	1,00,000	
	B Ltd.	1,00,000	2,00,000
<b>8.</b>	<b>Current Liabilities</b>		
	A Ltd.	50,000	
	B Ltd.	50,000	1,00,000
<b>9.</b>	<b>Property, Plant and Equipment</b>		
	A Ltd.	3,00,000	
	B Ltd.	3,00,000	6,00,000
<b>10.</b>	<b>Inventories</b>		
	A Ltd.	50,000	
	B Ltd.	50,000	1,00,000
<b>11.</b>	<b>Other Current Assets</b>		
	A Ltd.	1,00,000	
	B Ltd.	1,00,000	2,00,000

**QUESTION 51)**

A Ltd. entered into a joint venture with B Ltd. on 1:1 basis and a new company C Ltd. was formed for the same purpose and following is the balance sheet of all the three companies:

Particulars	A Ltd.	B Ltd.	C Ltd.
Share Capital	10,00,000	7,50,000	5,00,000
Reserve & Surplus	18,00,000	16,00,000	12,00,000
Loans	3,00,000	4,00,000	2,00,000
Current Liabilities	4,00,000	2,50,000	1,00,000
Property, Plant and Equipment	30,50,000	26,25,000	19,50,000
Investment in JV	2,50,000	2,50,000	-
Current Assets	2,00,000	1,25,000	50,000

Prepare the balance sheet of A Ltd. and B Ltd. under proportionate consolidation method.

**Solution****Balance Sheet of A Ltd.**

		Note No.	(₹)
<b>I</b>	<b>Equity and liabilities</b>		
	Shareholders' funds:		
	Share Capital		10,00,000
	Reserves and Surplus	1	24,00,000
	Non-current liabilities	2	4,00,000
	Current Liabilities	3	4,50,000
	<b>TOTAL</b>		<b>42,50,000</b>
<b>II</b>	<b>Assets</b>		

	Non-current Assets		
	Property, Plant and Equipment:	4	40,25,000
	Current Assets	5	2,25,000
			<b>42,50,000</b>

**Notes to Accounts**

		₹	₹
1.	Reserves and Surplus		
	A Ltd.	18,00,000	
	C Ltd.	6,00,000	24,00,000
2.	Long Term Borrowings		
	Loans:		
	A Ltd.	3,00,000	
	C Ltd.	1,00,000	4,00,000
3.	Current Liabilities:		
	A Ltd.	4,00,000	
	C Ltd.	50,000	4,50,000
4.	Property, Plant and Equipment:		
	A Ltd.	30,50,000	
	C Ltd.	9,75,000	40,25,000
5.	Current Assets:		
	A Ltd.	2,00,000	
	C Ltd.	25,000	2,25,000

**Balance Sheet of B Ltd.**

		Note No.	(₹)
<b>I</b>	<b>Equity and liabilities</b>		
	Shareholders' funds:		
	Share Capital	1	7,50,000
	Reserves and Surplus	2	22,00,000
	Non-current liabilities	3	5,00,000
	Current Liabilities		3,00,000
			<b>37,50,000</b>
<b>II</b>	<b>Assets</b>		
	Non-current Assets	4	36,00,000
	Property, Plant and Equipment	5	
	Current Assets		1,50,000
			<b>37,50,000</b>

**Notes to Accounts**

		₹	₹
1.	Reserves and Surplus		
	A Ltd.	16,00,000	
	C Ltd.	6,00,000	22,00,000

2.	Long Term Borrowings Loans:		
	A Ltd.	4,00,000	
	C Ltd.	<u>1,00,000</u>	5,00,000
3.	Current Liabilities:		
	A Ltd.	2,50,000	
	C Ltd.	<u>50,000</u>	3,00,000
4.	Property, Plant and Equipment:		
	A Ltd.	26,25,000	
	C Ltd.	<u>9,75,000</u>	36,00,000
5.	Current Assets:		
	A Ltd.	1,25,000	
	C Ltd.	25,000	1,50,000

## AS 25 “INTERIM FINANCIAL REPORTING”

### QUESTION 52)

Sincere Corporation is dealing in seasonal product. Sales pattern of the product quarter-wise is as follows:

1 <sup>st</sup> quarter 30 <sup>th</sup> June	10%
2 <sup>nd</sup> quarter 30 <sup>th</sup> September	10%
3 <sup>rd</sup> quarter 31 <sup>st</sup> December	60%
4 <sup>th</sup> quarter 31 <sup>st</sup> March	20%

Information regarding the 1<sup>st</sup> quarter ended on 30<sup>th</sup> June, 20X1 is as follows:

Sales	80 crores
Salary and other expenses	60 crores
Advertisement expenses (routine)	4 crores
Administrative and selling expenses	8 crores

While preparing interim financial report for first quarter Sincere Corporation wants to defer ₹ 10 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore, the third quarter should be debited by more expenditure. Considering the seasonal nature of business and the expenditures are uniform throughout all quarters, calculate the result of the first quarter as per AS 25. Also give a comment on the company's view.

### Solution

Particulars	₹ In crores	
	Result of first quarter ended 30 <sup>th</sup> June, 20X1	80
Turnover Other Income	Nil	
Total (a)		80
Less: Changes in inventories		Nil
Salaries and other cost		60
Administrative and selling Expenses (4+8)		12
Total (b)		72
Profit (a)-(b)		8

According to AS 25, the Income and Expense should be recognized when they are earned and incurred respectively. Therefore, seasonal incomes will be recognized when they occur. Thus, the company's view is not as per AS 25.

### QUESTION 53)

Accountants of Poornima Ltd. showed a net profit of ₹ 7,20,000 for the third quarter of 20X1 after incorporating the following:

- (i) Bad debts of ₹ 40,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.
- (ii) Extra ordinary loss of ₹ 35,000 incurred during the quarter has been fully recognized in this quarter.
- (iii) Additional depreciation of ₹ 45,000 resulting from the change in the method of charge of depreciation

assuming that ₹ 45,000 is the charge for the 3<sup>rd</sup> quarter only.  
Ascertain the correct quarterly income.

### Solution

In the above case, the quarterly income has not been correctly stated. As per AS 25 “Interim Financial Reporting”, the quarterly income should be adjusted and restated as follows:

Bad debts of ₹ 40,000 have been incurred during current quarter. Out of this, the company has deferred 50% (i.e.) ₹ 20,000 to the next quarter. Therefore, ₹ 20,000 should be deducted from ₹ 7,20,000. The treatment of extra-ordinary loss of ₹35,000 being recognized in the same quarter is correct.

Recognising additional depreciation of ₹ 45,000 in the same quarter is in tune with AS 25. Hence no adjustments are required for these two items.

Poornima Ltd should report quarterly income as ₹7,00,000 (₹7,20,000 – ₹20,000).

### QUESTION 54)

What are the periods for which Interim financial Statements are required to be presented? You are required to answer your question in light of preparation of financial statements for the period ended and as at 31<sup>st</sup> December, 20X1. The Financial Year is FY 20X1-X2.

### SOLUTION

As per Accounting Standard 25, Interim reports should include interim financial statements (condensed or complete) for periods as given below.

Statement	Current period	Comparative period
Balance sheet	End of current interim period	End of immediately preceding financial year
Statement of profit and loss	Current interim period and cumulatively for the year-to-date	Comparable interim period and year-to-date of immediately preceding financial year
Cash flow statement	Cumulatively for the current financial year-to-date	Comparable year-to-date of immediately preceding financial year

In light of the above, following periods needs to be covered in interim financial statements for the period ended and as at 31<sup>st</sup> December, 20X1:

<b>Balance Sheet</b>	as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year (As at 31 December 20X1 and 31 March 20X1).
<b>Statements of Profit and Loss</b>	for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year. (for 3 months and 9 months i.e., year to date ended 31 December 20X1 and same for 31 December

	20X0 being comparative period).
<b>Cash Flow Statement</b>	cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year. (year to date i.e., 1 April 20X1 to 31 December 20X1 and 1 April 20X0 to 31 December 20X0).

**QUESTION 55)**

On 30<sup>th</sup> June, 20X1, Asmitha Ltd. incurred ₹ 2,00,000, net loss from disposal of a business segment. Also, on 31<sup>st</sup> July, 20X1, the company paid ₹ 60,000 for property taxes assessed for the calendar year 20X1. How the above transactions should be included in determination of net income of Asmitha Ltd. for the six months interim period ended on 30<sup>th</sup> September, 20X1.

**Solution**

According to Para 10 of AS 25 “Interim Financial Reporting”, if an enterprise prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of financial statements. As at 30<sup>th</sup> September, 20X1, Asmitha Ltd would report the entire amount of ₹ 2,00,000 as loss on the disposal of its business segment since the loss was incurred during interim period. A cost charged as an expense in an annual period should be allocated to interim periods on accrual basis.

Since ₹ 60,000 Property tax payment relates to entire calendar year 20X1, ₹ 30,000 would be reported as an expense for six months ended on 30<sup>th</sup> September, 20X1 while out of the remaining ₹ 30,000, ₹ 15,000 for January, 20X1 to March, 20X1 should be shown as payment of the outstanding amount of previous year and another ₹ 15,000 related to quarter October, 20X1 to December, 20X1 would be reported as prepaid expenses.

**QUESTION 56)**

An enterprise reports quarterly, estimates an annual income of ₹ 10 lakhs. Assume tax rates on 1<sup>st</sup> ₹ 5,00,000 at 30% and on the balance income at 40%. The estimated quarterly income are ₹ 75,000, ₹ 2,50,000, ₹ 3,75,000 and ₹ 3,00,000.

Calculate the tax expense to be recognized in each quarter.

**Solution**

As per para 29 of AS 25 ‘Interim Financial Reporting’, income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

	₹
Estimated Annual Income (A)	10,00,000
Tax expense:	
30% on ₹5,00,000	1,50,000
40% on remaining ₹5,00,000	2,00,000

	(B) <u>3,50,000</u>
--	---------------------

Weighted average annual income tax rate =  $3,50,000 / 10,00,000 = 35\%$

Tax expense to be recognized in each of the quarterly reports	₹
Quarter I - ₹ 75,000 x 35%	26,250
Quarter II - ₹ 2,50,000 x 35%	87,500
Quarter III - ₹ 3,75,000 x 35%	1,31,250
Quarter IV - ₹ <u>3,00,000</u> x 35%	<u>1,05,000</u>
₹ <u>10,00,000</u>	<u>3,50,000</u>

### QUESTION 57)

Antarbarti Limited reported a Profit Before Tax (PBT) of ₹ 4 lakhs for the third quarter ending 30-09-20X1. On enquiry you observe the following. Give the treatment required under AS 25:

- (i) Dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.
- (ii) 80% of sales promotion expenses ₹ 15 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in the last quarter is high.
- (iii) In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹ 12 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 3 lakhs.
- (iv) ₹ 2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.
- (v) Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of ₹ 3 lakhs. Out of this loss ₹ 1 lakh relates to previous quarters.
- (vi) Sale of investment in the first quarter resulted in a gain of ₹ 20 lakhs. The company had apportioned this equally to the four quarters.

Prepare the adjusted profit before tax for the third quarter.

### Solution

As per para 36 of AS 25 "Interim Financial Reporting", seasonal or occasional revenue and cost within a financial year should not be deferred as of interim date until it is appropriate to defer at the end of the enterprise's financial year. Therefore, dividend income, extra-ordinary gain, and gain on sale of investment received during 3<sup>rd</sup> quarter should be recognised in the 3<sup>rd</sup> quarter only. Similarly, sales promotion expenses incurred in the 3<sup>rd</sup> quarter should also be charged in the 3<sup>rd</sup> quarter only.

Further, as per AS 10, Property, Plant and Equipment, if there is change in the depreciation method, such a change should be accounted for as a change in accounting estimate in accordance with AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, and applied prospectively. Therefore, no adjustment would be required due to change in the method of depreciation.

Accordingly, the adjusted profit before tax for the 3<sup>rd</sup> quarter will be as follows:

## Statement showing Adjusted Profit Before Tax for the third quarter

	(₹in lakhs)
Profit before tax (as reported)	4
Add: Dividend income ₹(4-1) lakhs	3
Excess depreciation charged in the 3 <sup>rd</sup> quarter, due to change in the method	-
Extra ordinary gain ₹(2-1) lakhs	1
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively ₹(3-2) lakhs	1
	9
Less: Sales promotion expenses (80% of ₹15 lakhs)	(12)
Gain on sale of investment (occasional gain should not be deferred)	(5)
	<b>(8)</b>
<b>Adjusted Profit before tax for the third quarter</b>	



## **AS 28 "IMPAIRMENT OF ASSETS"**

### Question 58)

At the end of 20X0, enterprise M acquired 100% of enterprise Z for ₹ 3,000 lakhs. Z has 3 cash-generating units A, B and C with net fair values of ₹ 1,200 lakhs, ₹ 800 lakhs and ₹ 400 lakhs respectively. M recognises goodwill of ₹ 600 lakhs (₹ 3,000 lakhs less ₹ 2,400 lakhs) that relates to Z. At the end of 20X4, A makes significant losses. Its recoverable amount is estimated to be ₹ 1,350 lakhs. Carrying amounts are detailed below (₹ In Lakh)

End of 20×4	A	B	C	Goodwill	Total
Net carrying amount	1300	1200	800	120	3420

#### Scenario A - Goodwill Can be Allocated on a Reasonable and Consistent Basis

On the date of acquisition of Z, the net fair values of A, B and C are considered a reasonable basis for a pro-rata allocation of the goodwill to A, B and C.

Allocation of goodwill at the end of 20X4:

	A	B	C	Goodwill
End of 20×0				
Net fair values	1200	800	400	2400
Pro-Rata	50%	33%	17%	100%
End of 20×4				
Net carrying amount	1300	1200	800	3300
Allocation of goodwill (Using pro rate above )	60	40	20	120
Net carrying amount (After goodwill)	1360	1240	820	3420

In accordance with the 'bottom-up' test in paragraph 78(a) of AS 28, M compares A's recoverable amount to its carrying amount after the allocation of the carrying amount of goodwill:

End of 20×4	A (Rs. In Lakh)
Carrying amount after allocation of goodwill	1360
Recoverable amount	1350
Impairment loss	10

M recognises an impairment loss of ₹ 10 lakhs for A. The impairment loss is fully allocated to the goodwill in accordance with paragraph 87 of AS 28.

#### Scenario B - Goodwill Cannot be Allocated on a Reasonable and Consistent Basis

There is no reasonable way to allocate the goodwill that arose on the acquisition of Z to A, B and C. At the end of 20X4, Z's recoverable amount is estimated to be ₹3,400 lakhs.

At the end of 20X4, M first applies the 'bottom-up' test in accordance with paragraph 78(a) of this Statement. It compares A's recoverable amount to its carrying amount excluding the goodwill.

End of 20X4	A (Rs. In Lakh)
Carrying amount	1300
Recoverable amount	1350

Impairment loss	0
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Therefore, no impairment loss is recognised for A as a result of the 'bottom-up' test.

Since the goodwill could not be allocated on a reasonable and consistent basis to A, M also performs a 'top-down' test in accordance with paragraph 78(b) of AS 28. It compares the carrying amount of Z as a whole to its recoverable amount (Z as a whole is the smallest cash-generating unit that includes A and to which goodwill can be allocated on a reasonable and consistent basis)

**Application of the 'top-down' test (Amount in ₹ lakhs)**

End of 20×4	A	B	C	Goodwill	Total
Carrying amount	1300	1200	800	120	3420
Impairment loss arising from the 'bottom-up' test	0	-	-	-	0
Carrying amount after the 'bottom-up' test	1300	1200	800	120	3420
Recoverable amount	-	-	-	-	3400
Impairment loss arising from 'topdown' test	-	-	-	-	20

Therefore, M recognises an impairment loss of ₹ 20 lakhs that it allocates fully to goodwill in accordance with AS 28.

**QUESTION 59)**

Ergo Industries Ltd. gives the following estimates of cash flows relating to Property, Plant and Equipment on 31-12-20X1. The discount rate is 15%

Year	Cash Flow (₹ in lakhs)
20×2	4000
20×3	6000
20×4	6000
20×5	8000
20×6	4000

Residual value at the end of 20X6	= ₹ 1000 lakhs
Property, Plant and Equipment purchased on 1-1-20XX	= ₹ 40,000 lakh
Useful life	= 8 years
Net selling price on 31-12-20X1	= ₹20,000 lakhs

**Calculate on 31-12-20X1:**

- Carrying amount at the end of 20X1
- Value in use on 31-12-20X1
- Recoverable amount on 31-12-20X1
- Impairment loss to be recognized for the year ended 31-12-20X1
- Revised carrying amount.
- Depreciation charge for 20X2.

**Note:** The year 20XX is the immediate preceding year before the year 20X0.

**Solution:****Calculation of Value in Use**

Year	Cash flow	Discount as per 15%	Discounted cash flow
20×2	4,000	0.870	3,480
20×3	6,000	0.756	4,536
20×4	6,000	0.658	3,948
20×5	8,000	0.572	4,576
20×6	4,000	0.497	1,988
20×6	1,000 (Residual)	0.497	497
			19,025

**a) Calculation of carrying amount:**

- i. Original cost = ₹ 40,000 lakhs
- ii. Depreciation for 3 years =  $[(40,000-1000) \times 3/8] = ₹ 14,625$  lakhs
- iii. Carrying amount on 31-12-20X1 =  $[40,000-14,625] = ₹ 25,375$  lakhs

b) Value in use = ₹ 19,025 lakhs

c) Recoverable amount = higher of value in use and net selling price i.e. ₹ 20,000 lakhs

d) Impairment Loss = ₹  $(25,375-20,000) = ₹ 5,375$  lakhs

e) Revised carrying amount = ₹  $(25,375-5,375) = ₹ 20,000$  lakhs

f) Depreciation charge for 20X2 =  $(20,000-1000)/5 = ₹ 3,800$  lakhs

**QUESTION 60)**

From the following details of an asset

- (i) Find out impairment loss
- (ii) Treatment of impairment loss
- (iii) Current year depreciation

Particulars of Asset:

Cost of asset	₹ 56 lakhs
Useful life period	10 years
Salvage value	Nil
Current carrying value	₹27.30 lakhs
Useful life remaining	3 years
Recoverable amount	₹12 lakhs
Upward revaluation done in last year	₹14 lakhs

**SOLUTION**

According to AS 28 "Impairment of Assets", an impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Impairment Loss and its treatment	
Current carrying amount (including revaluation amount of ₹ 14 lakhs)	27,30,000
Less: Current recoverable amount	(12,00,000)
Impairment Loss	15,30,000
Impairment loss charged to revaluation Reserve	14,00,000
Impairment loss charged to profit and loss account	1,30,000

After the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

In the given case, the carrying amount of the asset will be reduced to ₹ 12,00,000 after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year). Therefore, the depreciation for the current year will be ₹ 4,00,000.

### QUESTION 61)

Himalaya Ltd. which is in the business of manufacturing and exporting its product. Sometimes, back at the end of 20X4, the Government put restrictions on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth Rs 5,500 lakhs for Rs 6,000 lakh at the end of the year 20X0. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on a straight-line basis. When the Government put the restriction at the end of 20X4, the company recognised the impairment loss by determining the recoverable amount of assets for Rs 3,120 lakh. In 20X6 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at Rs 3,420 lakh.

#### Required:

- i. Calculation and allocation of impairment loss in 20X4.
- ii. Reversal of impairment loss and its allocation as per AS 28 in 20X6.

#### Solution

**(Assuming goodwill is amortised over 5 years as per AS 14)**

##### (i) Calculation and allocation of impairment loss in 20X4

(Amount in Rs.lakhs)

	Goodwill	Identifiable assets	Total
Historical cost	500	5,500	6,000
Accumulated depreciation/amortization (4 yrs.)	400	(1,467)	(1,467)
Carrying amount before impairment	100	4,033	4,133
Impairment loss*	(100)	(913)	(1013)
<b>Carrying amount after impairment loss</b>	<b>0</b>	<b>3,120</b>	<b>3,120</b>

#### \*Notes:

1. As per AS 28, an impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:
  - first, to goodwill allocated to the cash-generating unit (if any); and

- then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

Hence, first goodwill is impaired at full value and then identifiable assets are impaired to arrive at recoverable value.

**(ii) Carrying amount of the assets at the end of 20X6 (Amount in Rs. lakhs)**

End of 20X6	Goodwill	Identifiable assets	Total
Carrying amount in 20X6	0	2,553	2,553
Add: Reversal of impairment loss (W.N.2)	-	747	747
<b>Carrying amount after reversal of impairment loss</b>	<b>-</b>	<b>3,300</b>	<b>3,300</b>

**Working Note:**

**1. Calculation of depreciation after impairment till 20X6 and reversal of impairment loss in 20X6**

(Amount in Rs lakhs)			
	Goodwill	Identifiable assets	Total
A. Carrying amount after impairment loss in 20X4	0	3,120	3,120
B. Additional depreciation (i.e. $(3,120/11) \times 2$ ) refer Note	-	(567)	(567)
C. Carrying amount	0	2,553	2,553
D. Recoverable amount			3,420
<b>E. Excess of recoverable amount over carrying amount (D-C)</b>			<b>867</b>

**Note:** It is assumed that the restriction by the Government has been lifted at the end of the year 20X6. Therefore, depreciation for 2 years is calculated (2005, 2006).

**2. Determination of the amount to be impaired by calculating depreciated historical cost of the identifiable assets without impairment at the end of 20X6**

**(Amount in Rs lakhs)**

End of 20X6	Identifiable assets
Historical cost	5,500
Accumulated depreciation	$(366.67 \times 6 \text{ years}) = (2,200)$
Depreciated historical cost	3,300
<b>Carrying amount (in W.N. 1)</b>	<b>2,553</b>
<b>Amount of reversal of impairment loss</b>	<b>747</b>

**Notes:**

As per AS 28, in allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset should not be increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.

Hence impairment loss reversal is restricted to Rs 747 lakhs only.

**Note:**

Impairment Loss on Goodwill shall not be reversed except certain conditions.

## **AS 13 “ACCOUNTING FOR INVESTMENTS”**

### **QUESTION 62)**

Blue-chip Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13 (Revised).

State the values, at which the investments have to be reclassified in the following cases:

- (i) Long term investments in Company A, costing Rs 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to Rs 6.5 lakhs to recognise ‘other than temporary’ decline in value. The fair value on date of transfer is Rs 6.8 lakhs.
- (ii) Long term investments in Company B, costing Rs 7 lakhs are to be re-classified as current. The fair value on date of transfer is Rs 8 lakhs and book value is Rs 7 lakhs.
- (iii) Current investment in Company C, costing Rs 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs 12 lakhs.

### **SOLUTION**

As per AS 13 (Revised) ‘Accounting for Investments’, where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

- (i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs 6.5 lakhs in the books.
- (ii) The carrying / book value of the long-term investment is same as cost i.e., Rs 7 lakhs. Hence this long-term investment will be reclassified as current investment at book value of Rs 7 lakhs only.
- (iii) In this case, reclassification of current investment into long-term investments will be made at Rs 10 lakhs as cost is less than its market value of Rs 12 lakhs.

### **QUESTION 63)**

On 1<sup>st</sup> April, 20X1, Mr. Vijay had 30,000 Equity shares in X Ltd. at a bookvalue of ₹ 4,50,000 (Face Value ₹ 10 per share). On 22<sup>nd</sup> June, 20X1, he purchased another 5000 shares of the same company for ₹ 80,000.



The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 20X1.

On 31st August, 20X1 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of ₹ 15 per share. Due date for the payment was 30th September, 20X1, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of ₹ 2 per share.

On 31st October, 20X1, Vijay received dividends from X Ltd. @ 20% for the year ended 31st March, 20X1. Dividend for the shares acquired by him on 22nd June, 20X1 to be adjusted against the cost of purchase.

On 15th November, 20X1 Vijay sold 20,000 Equity shares at a premium of ₹ 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 20X2 assuming the shares are being valued at average cost.

### Solution

#### Account in Books of Vijay (Scrip: Equity Shares in X Ltd.)

		No.	Amount			No.	Amount
			₹				₹
1.4.20X1	To Bal b/d	30,000	4,50,000	31.10.20X1	By Bank (dividend on shares acquired on 22.6.20X1)	—	10,000
22.6.20X1	To Bank	5,000	80,000				
10.8.20X1	To Bonus	5,000	—				
30.9.20X1	To Bank (Rights Shares)	10,000	1,50,000				
15.11.20X1	To P&L A/c (Profit on sale of shares)		32,000	15.11.20X1	By Bank (Sale of shares)	20,000	3,00,000
				31.3.20X2	By Bal. c/d	30,000	4,02,000
		<b>50,000</b>	<b>7,12,000</b>			<b>50,000</b>	<b>7,12,000</b>

#### Working Notes:

- (1) **Bonus Shares** =  $(30,000 + 5,000) / 7 = 5,000$  shares
- (2) **Right Shares** =  $(30,000 + 5,000 + 5,000) / 8 \times 3 = 15,000$  shares
- (3) **Rights shares sold** =  $15,000 \times 1/3 = 5,000$  shares
- (4) **Dividend received** =  $30,000 \times 10 \times 20\% = ₹60,000$  will be taken to P&L statement
- (5) Dividend on shares purchased on 22.6.20X1  
 $= 5,000 \times 10 \times 20\%$   
 $= ₹10,000$  is adjusted to Investment A/c
- (6) Profit on sale of 20,000 shares = Sales proceeds – Average cost  
 Sales proceeds = ₹3,00,000  
 Average Cost =  $(4,50,000 + 80,000 + 1,50,000 - 10,000) / 50,000 \times 20,000 = ₹2,68,000$   
 Profit = ₹3,00,000 – ₹2,68,000 = ₹32,000.
- (7) Cost of shares on 31.3.20X2  
 $(4,50,000 + 80,000 + 1,50,000 - 10,000) / 50,000 \times 30,000 = ₹4,02,000$
- (8) Sale of rights amounting ₹10,000 (₹2 x 5,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

### QUESTION 64)

The following information is presented by Mr. Z (a stock broker), relating to his holding in 9% Central Government Bonds.

Opening balance (nominal value) ₹1,20,000, Cost ₹1,18,000 (Nominal value of each unit is ₹100).

1.3.20X1	Purchased 200 units, ex-interest at ₹98.
1.7.20X1	Sold 500 units, ex-interest out of original holding at ₹100.
1.10.20X1	Purchased 150 units at ₹98, cum interest.
1.11.20X1	Sold 300 units, ex-interest at ₹99 out of original holdings.



Interest dates are 30<sup>th</sup> September and 31<sup>st</sup> March. Mr. Z closes his books every 31<sup>st</sup> December. Show the investment account as it would appear in his books. Mr. Z follows FIFO method.

### Solution

#### In the Books of Mr. Z 9% Central Government Bonds (Investment) Account

Particulars		Nominal Value	Interest	Principal	Particulars		Nominal Value	Interest	Principal
20X1		₹	₹	₹	20X1		₹	₹	₹
Jan.1	Balance b/d (W.N.1)	1,20,000	2,700	1,18,000	Mar. 31	By Bank A/c (W.N.3)	-	6,300	-
March 1	To Bank A/c (W.N.2)	20,000	750	19,600	July 1	By Bank A/c (W.N.4)	50,000	1,125	50,000
July 1	To P&L A/c (W.N.5)	-	-	833	Sept. 30	By Bank A/c (W.N.6)	-	4,050	-
Oct.1	To Bank A/c (150 x 98)	15,000	-	14,700	Nov. 1	By Bank A/c (W.N.7)	30,000	225	29,700
Nov.1	To P&L A/c (W.N.8)	-	-	200	Dec. 31	By Balance c/d (W.N. 9 & W.N.10)	75,000	1,688	73,633
Dec. 31	To P&L A/c (b.f.) (Transfer)		9,938						
		<b>1,55,000</b>	<b>13,388</b>	<b>1,53,333</b>			<b>1,55,000</b>	<b>13,388</b>	<b>1,53,333</b>

#### Working Note:

1. Interest element in opening balance of bonds =  $1,20,000 \times 9\% \times 3/12 = ₹2,700$
2. **Purchase of bonds on 1.3.20X1**  
Interest element in purchase of bonds =  $200 \times 100 \times 9\% \times 5/12 = ₹750$   
Investment element in purchase of bonds =  $200 \times 98 = ₹19,600$
3. Interest for half-year ended 31 March =  $1,400 \times 100 \times 9\% \times 6/12 = ₹6,300$
4. Sale of bonds on 1.7.20X1  
Interest element =  $500 \times 100 \times 9\% \times 3/12 = ₹1,125$  Investment element =  $500 \times 100 = ₹50,000$
5. **Profit on sale of bonds on 1.7.20X1**  
Cost of bonds =  $(1,18,000 / 1,200) \times 500 = ₹49,167$   
Sale proceeds = ₹50,000  
Profit element = ₹833
6. **Interest for half-year ended 30 September**  
=  $900 \times 100 \times 9\% \times 6/12 = ₹4,050$
7. **Sale of bonds on 1.11.20X1**  
Interest element =  $300 \times 100 \times 9\% \times 1/12 = ₹225$   
Investment element =  $300 \times 99 = ₹29,700$
8. **Profit on sale of bonds on 1.11.20X1**  
Cost of bonds =  $(1,18,000 / 1,200) \times 300 = ₹29,500$   
Sale proceeds = ₹29,700  
Profit element = ₹200



## 9. Closing value of investment

Calculation of closing balance:	Nominal value		₹
Bonds in hand remained in hand at 31 <sup>st</sup> December 20X1			
From original holding (1,20,000 – 50,000 – 30,000)	40,000	1,18,000/1,20,000 × 40,000	39,333
Purchased on 1st March	20,000		19,600
Purchased on 1 <sup>st</sup> October	15,000		14,700
	75,000		73,633

10. Interest element in closing balance of bonds =  $750 \times 100 \times 9\% \times 3/12 = ₹1,688$

**QUESTION 65)**

A Ltd. purchased on 1st April, 2018 8% convertible debenture in C Ltd. of face value of Rs. 2,00,000 @ Rs. 108. On 1st July, 2018 A Ltd. purchased another Rs. 1,00,000 debentures @ Rs. 112 cum interest.

On 1st October, 2018 Rs. 80,000 debenture was sold @ Rs. 108. On 1st December, 2018, C Ltd. give option for conversion of 8% convertible debentures into equity share of Rs. 10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2018 is Rs. 110 and Rs. 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. The accounting year of A Ltd. is calendar year.

Prepare investment account in the books of A Ltd. on average cost basis.

**SOLUTION****Investment Account for the year ending on 31st December, 2018****Script: 8% Convertible Debentures in C Ltd.****[Interest Payable on 31st March and 30th September]**

Date	Particulars	Nominal value (Rs)	Interest (Rs)	Cost (Rs)	Date	Particulars	Nominal Value (Rs)	interest (Rs)	Cost (Rs)
1.4.18	To bank A/c	2,00,000	-	2,16,000	30.09.18	By Bank A/c [Rs. 3,00,000 x 8% x (6/12)]		12,000	
1.7.18	To bank A/c (W.N.1)	1,00,000	2,000	1,10,000	1.10.18	By Bank A/c	80,000		86,400
31.12.18	To P & L A/c [Interest]	3,00,000	14,033	3,26,000	1.10.18	By P&L A/c (loss) (W.N.1)			533
					1.12.18	By Bank A/c (Accrued interest) (Rs. 55,000 x 0.08 x 2/12)		733	
					1.12.18	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767

					1.12.18	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		<b>3,00,000</b>	<b>16,033</b>	<b>3,26,000</b>			<b>3,00,000</b>	<b>16,033</b>	<b>3,26,000</b>

**SCRIP: Equity Shares in C LTD.**

Date	Particulars	Cost (Rs)	Date	Particulars	Cost (Rs)
1.12.18	To 8 % debentures	59,767	31.12.18	By balance c/d	59,767

**Working Notes:**

- (i) Cost of Debenture purchased on 1st July = Rs. 1,12,000 – Rs. 2,000 (Interest) = Rs. 1,10,000  
(ii) Cost of Debentures sold on 1st Oct. = (Rs. 2,16,000 + Rs. 1,10,000) x 80,000/3,00,000 = Rs. 86,933  
(iii) Loss on sale of Debentures = Rs. 86,933 – Rs. 86,400 = Rs. 533  
Nominal value of debentures converted into equity shares = Rs. 55,000  
[(Rs. 3,00,000 – 80,000) x .25]

**Interest received before the conversion of debentures:**

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

- (iv) Cost of Debentures converted = (Rs. 2,16,000 + Rs. 1,10,000) x 55,000/3,00,000  
= Rs. 59,767

- (v) Cost of closing balance of Debentures = (Rs. 2,16,000 + Rs. 1,10,000) x 1,65,000 / 3,00,000  
= Rs. 1,79,300

- (vii) Closing balance of Debentures has been valued at cost being lower than the market value i.e., Rs. 1,81,500 (Rs. 1,65,000 @ Rs. 110)

- (viii) 5,000 equity Shares in C Ltd. will be valued at cost of Rs. 59,767 being lower than the market value Rs. 75,000 (Rs. 15 x 5,000)

**Note:** It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

**QUESTION 66)**

Smart Investments made the following investments in the year 20X1-X2:

12% State Government Bonds having nominal value Rs.100



Date	Particulars
01.04.20X1	Opening Balance (1200 bonds) book value of Rs. 126,000
02.05.20X1	Purchased 2,000 bonds @ Rs. 100 cum interest
30.09.20X1	Sold 1,500 bonds at Rs. 105 ex interest

Interest on the bonds is received on 30<sup>th</sup> June and 31<sup>st</sup> Dec. each year.

15.04.20X1	Purchased 5,000 equity shares @ Rs. 200 on cum right basis Brokerage of 1% was paid in addition (Nominal Value of shares Rs. 10)
03.06.20X1	The company announced a bonus issue of 2 shares for every 5 shares held
16.08.20X1	The company made a rights issue of 1 share for every 7 shares held at Rs. 250 per share. The entire money was payable by 31.08.20X1.
22.8.20X1	Rights to the extent of 20% was sold @ Rs. 60. The remaining rights were subscribed.
02.09.20X1	Dividend @ 15% for the year ended 31.03.20X1 was received on 16.09.20X1
15.12.20X1	Sold 3,000 shares @ Rs. 300. Brokerage of 1% was incurred extra.
15.01.20X2	Received interim dividend @ 10% for the year 20X1 –X2
31.03.20X2	The shares were quoted in the stock exchange @ Rs. 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

### Solution

**In the books of Smart Investments**  
**12% Govt. Bonds for the year ended 31<sup>st</sup> March, 20X2**

Date	Particulars	Nos.	Interest	Amount	Date	Particulars	Nos.	Interest	Amount
1.4.X1	To Opening balance b/d (W.N.7)	1,200	3,600	1,26,000	30.6.X1	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.X1	To Bank A/c (W.N.8)	2,000	8,000	1,92,000	30.9.X1	By Bank A/c (W.N.1 & W.N.9)	1,500	4,500	1,57,500
30.9.X1	To P & L A/c (Profit on Sale) (W.N.1)			8,437.50	31.12.X1	By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
31.3.X2	To P & L A/c (Interest)		27,400		31.3.X2	By Bal. c/d (W.N.2 & W.N.10)	1,700	5,100	1,68,937.50
		<b>3,200</b>	<b>39,000</b>	<b>3,26,437.50</b>			<b>3,200</b>	<b>39,000</b>	<b>3,26,437.50</b>

**Investments in Equity shares of X Ltd. for year ended 31.3.20X2**

Date	Particulars	Nos.	Dividend	Amount	Date	Particulars	Nos.	Dividend	Amount
15.4.X1	To Ban A/c (W.N.3)	5,000		10,10,000	16.9.X1	By Bank (Dividend) (5,000 x 10 x 15%)	-	-	7,500

						(refer note 1 and 2)			
3.6.X1	To Bonus Issue	2,000	-	-		By Bank (Sale) (W.N.4)	3,000	-	8,91,000
31.8.X1	To Bank A/c (W.N.11)	800		2,00,000	15.12.X1	By Bank (interim dividend) (W.N.12)		4,800	
15.12.X1	To P & L A/c (W.N.5)			4,28,500	15.1.X2	By Bal. c/d (W.N.6)	4,800		7,40,000
31.3.X2	To P & L A/c		4,800		31.3.X2				
		<b>7800</b>	<b>4,800</b>	<b>16,38,500</b>			<b>7800</b>	<b>4,800</b>	<b>16,38,500</b>

**Working Notes:****1. Profit on sale of bonds on 30.9.X1**

= Sales proceeds – Average cost

Sales proceeds = Rs. 1,57,500 (i.e., 1,500 x 105)

Average cost = Rs. [(1,26,000+1,92,000) X 1,500/3,200] = 1,49,062.50

Profit = 1,57,500 – Rs. 1,49,062.50 = Rs. 8,437.50

**2. Valuation of bonds on 31<sup>st</sup> March, 20X2**

Cost = Rs. 3,18,000/3,200 x 1,700 = 1,68,937.50

**3. Cost of equity shares purchased on 15/4/20X1**

= Cost + Brokerage

= (5,000 x Rs. 200) + 1% of (5,000 x Rs. 200) = Rs. 10,10,000

**4. Sale proceeds of equity shares on 15/12/20X1**

= Sale price – Brokerage

= (3,000 x Rs. 300) – 1% of (3,000 x Rs. 300) = Rs. 8,91,000.

**5. Profit on sale of shares on 15/12/20X1**

= Sales proceeds – Average cost

Sales proceeds = Rs. 8,91,000

Average cost = Rs. [(10,10,000+2,00,000-7,500) x 3,000/7,800]

= Rs. [12,02,500 x 3,000/7,800] = 4,62,500

Profit = Rs. 8,91,000 – Rs. 4,62,500 = Rs. 4,28,500.

**6. Valuation of equity shares on 31<sup>st</sup> March, 20X2**

Cost = Rs. [12,02,500 x 4,800/7,800] = Rs. 7,40,000

Market Value = 4,800 shares x Rs. 220 = Rs. 10,56,000

Closing stock of equity shares has been valued at Rs. 7,40,000 i.e., cost being lower than the market value.

**7. Interest accrued on opening balance of bonds**

$$= 1,200 \times 100 \times 12\% \times 3/12 = \text{Rs. } 3,600$$

**8. Interest element in bonds purchased on 02.05.20X1**

$$= 2,000 \times 100 \times 12\% \times 4/12 = \text{Rs. } 8,000$$

Cost of investment (amount in investment column)

$$= (2,000 \times 100) - 8,000 = \text{Rs. } 1,92,000$$

**9. Interest element in bonds sold on 30.09.20X1**

$$= 1,500 \times 100 \times 12\% \times 3/12 = \text{Rs. } 4,500$$

**10. Interest accrued on closing balance of bonds**

$$= 1,700 \times 100 \times 12\% \times 3/12 = \text{Rs. } 5,100$$

**11. Right shares**

$$\text{No. of right shares issued} = (5,000 + 2,000) \times 1/7 = 1,000$$

$$\text{shares No. of right shares sold} = 1,000 \times 20\% = 200 \text{ shares}$$

Proceeds from sale of right shares =  $200 \times 60 = \text{Rs. } 12,000$  to be credited to statement of profit and loss

$$\text{No. of right shares subscribed} = 1,000 - 200 = 800 \text{ shares}$$

**12. Amount of interim dividend**

$$= (5,000 + 2,000 + 800 - 3,000) \times 10 \times 10\% = \text{Rs. } 4,800$$

**Note:**

1. It is presumed that no dividend is received on bonus shares as bonus shares are declared on 3.6.20X1 and dividend pertains to the year ended 31.03.20X1.
2. The amount of dividend for the period, for which shares were not held by the investor, has been treated as capital receipt.

## AS 7 “CONSTRUCTION CONTRACTS”

### QUESTION 67)

AB contractors enters into a contract on 1<sup>st</sup> January 20X1 with XY to construct a 5-storied building. Under the contract, AB is required to complete the construction in 3 years (i.e., by 31<sup>st</sup> December 20X3). The following information is relevant:

Fixed price (agreed) ₹5crore

Material cost escalation (to the extent of 20% of increase in material cost) Labour cost escalation (up to 30% of increase in minimum wages)

In case AB is able to complete the construction in less than 2 years and 10 months, it will be entitled for an additional incentive of ₹ 50 lakh. However, in case the construction is delayed beyond 3 years and 2 months, XY will charge a penalty of ₹ 20 lakh. At the start of the contract, AB has a reason to believe that construction will be completed in 2 years and 8 months. Assume that the construction was actually completed in 2 years 9 months.

Labour cost was originally estimated to be ₹1.20 crore (based on initial minimum wages). However, the costs have increased by 25% during the construction period.

Material costs have increased by 40% due to short-supply. The total increase in material cost due to the 40% escalation is ₹ 80 lakh.

You are required to suggest what should be the contract revenue in above case?

Assume that in year 20X2, XY has requested AB to increase the scope of the contract. An additional floor is required to be constructed and there is an increase in contract fee by ₹ 1 crore.

AB has incurred a cost of ₹ 20 lakh for getting the local authority approvals which it will be entitled to claim from XY in addition to the increase in the fixed fee.

Also measure the total contract revenue in this case.

### SOLUTION

Total Revenue after considering the escalation costs, claims and incentives:

Fixed Price:	5.00 crore
Incentive for early completion	0.50 crore
Material costs recovery (to the extent of 20%)	0.40 crore
Labour costs recovery (Actual increase is less than 30%)	0.30 crore [1.20 crore x 25%]
Total Contract Revenue	6.20 crore
Add: Variation to the contract	1.00 crore
Add: Claims recoverable from XY	0.20 crore
Total Contract Revenue	7.40 crore

### QUESTION 68)

RT Enterprises has entered into a fixed price contract for construction of a tower with its customer. Initial tender price agreed is ₹ 220 crore. At the start of the contract, it is estimated that total costs to be incurred will be ₹ 200 crore. At the end of year 1, this estimate stands revised to ₹ 202 crore. Assume that the construction is expected to be completed in 3 years.

During year 2, the customer has requested for a variation in the contract. As a result of that, the total contract

value will increase by ₹ 5 crore and the costs will increase by ₹ 3 crore.

RT has 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:** ₹ 52.52 crore

**Year 2:** ₹ 154.20 crore (including unused material of 2.5 crore)

**Year 3:** ₹ 205 crore.

You are required to calculate:

- Stage of completion for each year.
- Profit to be recognised for each year.

## SOLUTION

**(a) Stage of completion** = Costs incurred to date / Total estimated costs  
 Year 1 : 52.52 crore / 202 crore = 26%

Year 2: (154.20 crore – 2.50 crore) / 205 crore = 74%

Year 3: 205 crore / 205 crore = 100%

### (b) Profit for the year

	Year 1	Year 2	Year 3
Contract Revenue (1)	57.20 crore (220 crore x 26%)	109.30 crore (225 crore x 74% - 57.20 crore)	58.50 crore (225 crore x 100% - 109.30 crore - 57.20 crore)
Contract Cost (2)	52.52 crore (202 crore x 26%)	99.18 crore (205 crore x 74% - 52.52 crore)	53.30 crore (205 crore x 100% - 99.18 crore - 52.52 crore)
Contract Profit (1)– (2)	4.68 crore	10.12 crore	5.20 crore

## QUESTION 69)

Sarita Construction Co. obtained a contract for construction of a dam. The following details are available in records of company for the year ended 31st March, 2018:



	Rs In Lakhs
Total Contract Price	12,000
Work Certified	6,250
Work not certified	1,250
Estimated further cost to completion	8,750
Progress payment received	5,500
Progress payment to be received	1,500

Applying the provisions of Accounting Standard 7 "Accounting for Construction Contracts" you are required to compute:

- Profit/Loss for the year ended 31st March, 2018.
- Contract work in progress as at end of financial year 2017-18.
- Revenue to be recognized out of the total contract value.
- Amount due from/to customers as at the year end.

**SOLUTION:**

(i)	<b>Loss for the year ended, 31st March, 2018</b>	<b>(Rs in lakhs)</b>
	Amount of foreseeable loss	
	Total cost of construction (6,250 + 1,250 + 8,750)	16,250
	Less: Total contract price	(12,000)
	Total foreseeable loss to be recognised as expense	4,250

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

Loss for the year ended, 31st March, 2018 amounting Rs 4,250 will be recognized.

(ii)	<b>Contract work-in-progress as on 31.3.18</b>	<b>(Rs in lakhs)</b>
	Contract work-in-progress i.e., cost incurred to date are Rs 7,500 lakhs:	6,250
	Work certified	1,250
	Work not certified	7,500

**(iii) Proportion of total contract value recognised as revenue**

Cost incurred till 31.3.18 is 46.15% ( $7,500/16,250 \times 100$ ) of total costs of construction.

Proportion of total contract value recognised as revenue:

46.15% of Rs 12,000 lakhs = Rs 5,538 lakhs

**(iv) Amount due from/to customers at year end**

(Contract costs + Recognised profits – Recognised Losses) – (Progress payments received + Progress payments to be received)

$$= (7,500 + \text{Nil} - 4,250) - (5,500 + 1,500) \text{ Rs in lakhs}$$

$$= [3,250 - 7,000] \text{ Rs in lakhs}$$

Amount due to customers = Rs 3,750 lakhs

**QUESTION 70)**

**a)** Sky Limited belongs to Heavy Engineering Contractors specializing in construction of Flyovers. The company just entered into a contract with a local municipal corporation for building a flyover. No activity has started on this contract.

As per the terms of the contract, Sky Limited will receive an additional Rs. 50 lakhs if the construction of the flyover were to be finished within a period of two years from the commencement of the contract. The accountant of the entity wants to recognize this revenue since in the past the company has been able to meet similar targets very easily. Give your opinion on this treatment.

**(b)** ABC Ltd., a construction contractor, undertakes the construction of commercial complex for XYZ Ltd. ABC Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units i.e. Rs. 50 lakh, Rs. 60 lakh and Rs. 75 lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS 7, whether ABC Ltd., should treat it as a single contract or three separate contracts.



**SOLUTION**

(a) According to AS 7 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when both the conditions are met:

- (i) The contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and
- (ii) The amount of the incentive payment can be measured reliably.

In the given problem, the contract has not even begun and hence the contractor (Sky Limited) should not recognize any revenue of this contract. Therefore, the accountant's contention for recognizing Rs. 50 lakhs as revenue is not correct.

(b) As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

ABC Ltd. has submitted separate proposals for each of the 3 units of commercial complex. Also, the revenue and completion time has been laid down for each unit separately which implies separate negotiation for them.

Therefore, ABC Ltd. is required to treat construction of each unit as a separate construction contract as the above-mentioned conditions of AS 7 are fulfilled in the given case.

## PREPARATION OF FINANCIAL STATEMENTS

### QUESTION 71)

You are required to prepare a Statement of Profit and Loss and Balance Sheet from the following Trial Balance extracted from the books of the International Hotels Ltd., on 31<sup>st</sup> March, 20X2:



	Dr.	Cr.
	Rs	Rs
Authorised Capital-divided into 5,000 6% Preference Shares of Rs 100 each and 10,000 equity Shares of Rs 100 each		15,00,000
Subscribed Capital -		
5,000 6% Preference Shares of Rs 100 each		5,00,000
Equity Capital		8,05,000
Purchases - Wines, Cigarettes, Cigars, etc.	45,800	
- Foodstuffs	36,200	
Wages and Salaries	28,300	
Rent, Rates and Taxes	8,900	
Laundry	750	
Sales - Wines, Cigarettes, Cigars, etc.		68,400
- Food		57,600
Coal and Firewood	3,290	
Carriage and Cooliage	810	
Sundry Expenses	5,840	
Advertising	8,360	
Repairs	4,250	
Rent of Rooms		48,000
Billiard		5,700
Miscellaneous Receipts		2,800
Discount received		3,300
Transfer fees		700
Freehold Land and Building	8,50,000	
Furniture and Fittings	86,300	
Inventory on hand, 1st April, 20X1		
Wines, Cigarettes. Cigars, etc.	12,800	
Foodstuffs	5,260	
Cash in hand	2,200	
Cash with Bankers	76,380	
Preliminary and formation expenses	8,000	
2,000 Debentures of Rs 100 each (6%)		2,00,000
Profit and Loss Account		41,500
Trade payables		42,000
Trade receivables	19,260	
Investments	2,72,300	
Goodwill at cost	5,00,000	
General Reserve		2,00,000
	<b>19,75,000</b>	<b>19,75,000</b>
Wages and Salaries Outstanding	1,280	
<b>Inventory on 31st March, 20X2</b>		

Wines, Cigarettes and Cigars, etc.	22,500	
Foodstuffs	16,400	

Depreciation: Furniture and Fittings @ 5% p.a.: Land and Building @ 2% p.a.

The Equity capital on 1<sup>st</sup> April, 20X1 stood at Rs 7,20,000, that is 6,000 shares fully paid and 2,000 shares Rs 60 paid. The directors made a call of Rs 40 per share on 1<sup>st</sup> October 20X1. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ Rs 90 per share as fully paid. The Directors declare a dividend of 8% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

## SOLUTION

### Statement of Profit and Loss of International Hotels Ltd. for the year ended 31<sup>st</sup> March, 20X2

	Particulars	Notes	Amount
I.	Revenue from operations	9	1,79,700
II.	Other income	10	6,800
III.	<b>Total Revenue (I + II)</b>		<b>1,86,500</b>
IV.	Expenses:		
	Cost of materials consumed	11	25,060
	Purchases of Inventory-in-Trade	12	45,800
	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	13	(9,700)
	Employee benefits expense	14	29,580
	Other operating expenses	15	18,000
	Selling and administrative expenses	16	14,200
	Finance costs	17	12,000
	Depreciation and amortisation expense	18	21,315
	Other expense (preliminary expenses written off)		8,000
	<b>Total expenses</b>		<b>1,64,255</b>
V.	<b>Profit (Loss) for the period (III - IV)</b>		<b>22,245</b>

### Balance Sheet of International Hotels Ltd. as on 31st March, 20X2

Particulars		Note No	Rs
<b>EQUITY AND LIABILITIES</b>			
<b>1</b>	<b>Shareholders' funds</b>		
a	Share capital	1	13,00,000
b	Reserves and Surplus	2	2,68,745
<b>2</b>	<b>Non-current liabilities</b>		
a	Long-term borrowings	3	2,00,000
<b>3</b>	<b>Current liabilities</b>		
a	Trade Receivables	4	42,000
b	Other current liabilities	5	13,280
<b>Total</b>			<b>18,24,025</b>
<b>ASSETS</b>			
<b>1</b>	<b>Non-current assets</b>		
a	PPE		
I	Tangible assets	6	9,14,985
II	Intangible assets (Goodwill)		5,00,000
B	Non-current investments		2,72,300
<b>2</b>	<b>Current assets</b>		

A	Inventories	7	38,900
B	Trade receivables		19,260
C	Cash and bank balances	8	78,580
<b>Total</b>			<b>18,24,025</b>

## Notes to accounts

			Rs
<b>1</b>	<b>Share Capital</b>		
	Equity share capital		
	Authorised		
	10,000 Equity shares of Rs 100 each		10,00,000
	Issued & subscribed		
	8,000 Equity Shares of Rs 100 each		8,00,000
	Preference share capital		
	Authorised		
	5,000 6% Preference shares of Rs 100 each		5,00,000
	Issued & subscribed		
	5,000 6% Preference shares of Rs 100 each		5,00,000
	<b>Total</b>		<b>13,00,000</b>
<b>2</b>	<b>Reserves and Surplus</b>		
	Capital reserve [100 x (90 – 40)]		5,000
	General reserve	2,00,000	
	Less: Amount used to pay dividend	(30,255)	1,69,745
	Surplus (Profit & Loss A/c)	22,245	
	Add: Balance from previous year	41,500	
			63,745
	<b>Total</b>		<b>2,68,745</b>
<b>3</b>	<b>Long-term borrowings</b>		
	Secured		
	6% Debentures		2,00,000
	<b>Total</b>		<b>2,00,000</b>
<b>4</b>	<b>Trade Receivables</b>		42,000
<b>5</b>	<b>Other current liabilities</b>		
	Wages and Salaries Outstanding	1,280	
	Interest on debentures dividend Receivable	12,000	13,280
	<b>Total</b>		<b>13,280</b>
<b>6</b>	<b>Tangible assets</b>		
	Freehold land & Buildings	8,50,000	
	Less: Depreciation	(17,000)	8,33,000
	Furniture and Fittings	86,300	
	Less: Depreciation	(4,315)	81,985
	<b>Total</b>		<b>9,14,985</b>
<b>7</b>	<b>Inventories</b>		
	Wines, Cigarettes & Cigars, etc.		22,500
	Foodstuffs		16,400
	<b>Total</b>		<b>38,900</b>
<b>8</b>	<b>Cash and cash equivalents</b>		
	Cash at bank		76,380
	Cash in hand		2,200
	Other bank balances		Nil

	<b>Total</b>		<b>78,580</b>
<b>9</b>	<b>Revenue from operations</b>		
	<b>Sale of products</b>		
	Wines, Cigarettes, Cigars etc.	68,400	
	Food	57,600	1,26,000
	<b>Sale of services</b>		
	Room Rent	48,000	
	Billiards	5,700	53,700
	<b>Total</b>		<b>1,79,700</b>
<b>10</b>	<b>Other income</b>		
	Transfer fees	700	
	Miscellaneous Receipts	2,800	
	Discount received	3,300	
	<b>Total</b>		<b>6,800</b>
<b>11</b>	<b>Cost of materials consumed</b>		
	Opening Inventory	5,260	
	Add: Purchases during the year	36,200	
	Less: Closing Inventory	(16,400)	25,060
	<b>Total</b>		<b>25,060</b>
<b>12</b>	<b>Purchases of Inventory-in-Trade</b>		
	Wines, Cigarettes etc.		45,800
	<b>Total</b>		<b>45,800</b>
<b>13</b>	<b>Changes in inventories of finished goods work-in-progress and Inventory-in-Trade</b>		
	Wines, Cigarettes etc.		
	Opening Inventory	12,800	
	Less: Closing Inventory	(22,500)	(9,700)
	<b>Total</b>		<b>(9,700)</b>
<b>14</b>	<b>Employee benefits expense</b>		
	Wages and Salaries	28,300	
	Add: Wages and Salaries Outstanding	1,280	29,580
	<b>Total</b>		<b>29,580</b>
<b>15</b>	<b>Other operating expenses</b>		
	Rent, Rates and Taxes		8,900
	Coal and Firewood		3,290
	Laundry		750
	Carriage and Cooliage		810
	Repairs		4,250
	<b>Total</b>		<b>18,000</b>
<b>16</b>	<b>Selling and administrative expenses</b>		
	Advertising		8,360
	Sundry Expenses		5,840
	<b>Total</b>		<b>14,200</b>
<b>17</b>	<b>Finance costs</b>		
	Interest on Debentures (2,00,000 x 6%)	12,000	
	<b>Total</b>		<b>12,000</b>
<b>18</b>	<b>Depreciation and amortisation expense</b>		
	Land and Buildings (8,50,000 x 2%)	17,000	
	Furniture & Fittings (86,300 x 5%)	4,315	
	<b>Total</b>		<b>21,315</b>

**QUESTION 72)**

On 31<sup>st</sup> March, 20X1, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31<sup>st</sup> March, 20X1.



Particulars	Amount (Rs.)	
	Debit	Credit
Equity Share Capital, fully paid shares of Rs. 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture & Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long-Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Unpaid Dividend		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
<b>Total</b>	<b>1,76,24,000</b>	<b>1,76,24,000</b>

The following additional information was also provided in respect of the above balances:

- 50,000 fully paid equity shares were allotted as consideration for land.
- The cost of assets were:

Building	Rs. 32,00,000
Plant and Machinery	Rs. 30,00,000
Furniture and Fixture	Rs. 16,50,000

- Trade Receivables for Rs. 4,86,000 due for more than 6 months.
- Balances with banks include Rs. 56,000, the Naya bank, which is not a scheduled bank.
- Loan from Public Finance Corporation repayable after 3 years.
- The balance of Rs. 26,30,000 in the loan account with Public Finance Corporation is inclusive of Rs. 1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.
- Other long-term loans (unsecured) includes:

Loan taken from Nixes Bank	Rs. 13,80,000
(Amount repayable within one year)	(Rs. 4,80,000)
Loan taken from Directors	Rs. 8,50,000

- Bills Receivable for Rs. 1,60,000 maturing on 15th June, 20X1 has been discounted.
- Short term borrowings includes:

Loan from Naya bank	Rs. 1,16,000 (Secured)
Loan from directors	Rs. 48,000

10) Transfer of Rs. 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.

11) Inventory of finished goods includes loose tools costing Rs. 5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)

You are required to prepare the Balance Sheet of the Company as on March 31st 20X1 as required under Part - I of Schedule III of the Companies Act, 2013.

You are not required to give previous year figures

## SOLUTION

### SR Ltd.

#### Balance Sheet as at 31<sup>st</sup> March, 20X1

Particulars	Notes	Figures at the end of current reporting period (Rs.)
<b>Equity and Liabilities</b>		
<b>Shareholders' funds</b>		
Share capital	1	79,85,000
Reserves and Surplus	2	30,21,000
<b>Non-current liabilities</b>		
Long-term borrowings	3	42,66,000
<b>Current liabilities</b>		
Short-term borrowings	4	9,40,000
Trade Receivables		8,13,000
Other current liabilities	5	2,04,000
Short-term provisions	6	3,80,000
<b>Total</b>		<b>1,76,09,000</b>
<b>Assets</b>		
<b>Non-current assets</b>		
PPE	7	92,00,000
<b>Current assets</b>		
Inventories	8	58,00,000
Trade receivables	9	17,50,000
Cash and cash equivalents	10	4,84,000
Short-term loans and advances		3,75,000
<b>Total</b>		<b>1,76,09,000</b>

### Notes to accounts

<b>1.</b>	<b>Share Capital</b>		
	Equity share capital		
	Issued, subscribed and called up		
	1,60,000 Equity Shares of Rs. 50 each (Out of the above 50,000 shares have been issued for consideration other than cash)	80,00,000	
	Less: Calls in arrears	(15,000)	79,85,000
<b>2.</b>	<b>Reserves and Surplus</b>		
	General Reserve	9,41,000	
	Add: Transferred from Profit and loss account	35,000	9,76,000
	Securities premium		15,00,000
	Surplus (Profit & Loss A/c)	5,80,000	

	Less: Appropriation to General Reserve (proposed)	(35,000)	5,45,000
			<b>30,21,000</b>
<b>3.</b>	<b>Long-term borrowings</b>		
	Secured: Term Loans		
	Loan from Public Finance Corporation [Receivable after 3 years (Rs. 26,30,000 - Rs. 1,34,000 for interest accrued but not due)] (secured by hypothecation of land)		24,96,000
	Unsecured		
	Bank Loan (Nixes bank)	9,00,000	
	(Rs. 13,80,000 - Rs. 4,80,000 Receivable within 1 year)		
	Loan from Directors	8,50,000	
	Others	20,000	17,70,000
	<b>Total</b>		<b>42,66,000</b>
<b>4.</b>	<b>Short-term borrowings</b>		
	Loan from Naya bank (Secured)	1,16,000	
	Loan from Directors	48,000	
	Loan from Nixes bank Receivable within one year	4,80,000	
	Others	2,96,000	
			<b>9,40,000</b>
<b>5.</b>	<b>Other current liabilities</b>		
	Unpaid dividend	70,000	
	Interest accrued but not due on borrowings	1,34,000	
			<b>6,84,000</b>
<b>6.</b>	<b>Short-term provisions</b>		
	Provision for taxation		3,80,000
<b>7.</b>	<b>PPE</b>		
	Land		25,00,000
	Buildings	32,00,000	
	Less: Depreciation	(2,00,000)	30,00,000
	Plant & Machinery	30,00,000	
	Less: Depreciation	(6,00,000)	24,00,000
	Furniture & Fittings	16,50,000	
	Less: Depreciation	(3,50,000)	13,00,000
	<b>Total</b>		<b>92,00,000</b>
<b>8.</b>	<b>Inventories</b>		
	Raw Material	13,00,000	
	Finished goods	40,00,000	
	Loose tools	5,00,000	58,00,000
<b>9.</b>	<b>Trade receivables</b>		
	Outstanding for a period exceeding six months		4,86,000
	Others		12,64,000
	<b>Total</b>		<b>17,50,000</b>
<b>10.</b>	<b>Cash and cash equivalents</b>		
	Balances with banks		
	with Scheduled Banks	3,58,000	
	with others banks	56,000	4,14,000
	Cash in hand		70,000
	<b>Total</b>		<b>4,84,000</b>

**Note:** There is a contingent liability amounting to Rs. 1,60,000



**QUESTION 73)**

Kapil Ltd. has authorized capital of Rs. 50 lakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following balances as on 31st March, 2017:

	Rs		Rs
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns (Tangible Asset)	3,75,000	Calls in Arrear @ Rs 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity shares capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of Rs. 10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000	Trade Payables (for goods)	2,40,500
Freehold Land	16,25,000	Sales	36,17,000
Plant & Machinery	7,50,000	Rent (Cr.)	30,000
Engineering Tools	1,50,000	Transfer fees received	6,500
Trade Receivables	4,00,500	Profit & Loss A/c (Cr.)	67,000
Advertisement	15,000	Repairs to Building	56,500
Commission & Brokerage	67,500	Bad debts	25,500
Business Expenses	56,000		

The inventory (valued at cost or market value, which is lower) as on 31st March, 2017 was Rs. 7,08,000. Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits.

Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @ 10%. Provide 25,000 as doubtful debts after writing off Rs. 16,000 as bad debts. Provide for income tax @ 30%.

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date.

**SOLUTION****Kapil Ltd. Balance Sheet as at 31st March, 2017**

Particulars		Note No.	(Rs)
<b>I</b>	<b>Equity and Liabilities</b>		
<b>(1)</b>	<b>Shareholders' Funds</b>		
	(a) Share Capital	1	19,90,000
	(b) Reserves and Surplus	2	3,47,000
<b>(2)</b>	<b>Current Liabilities</b>		
	(a) Trade Payables		2,40,500
	(b) Short Term Borrowings	3	12,67,000
	(b) Other Current Liabilities	4	61,000
	(c) Short-Term Provisions	5	1,20,000
	<b>Total</b>		<b>40,25,500</b>
<b>II</b>	<b>ASSETS</b>		
<b>(1)</b>	<b>Non-Current Assets</b>		
	(a) Fixed Assets		
	(i) Tangible Assets	5	29,30,000
<b>(2)</b>	<b>Current Assets</b>		
	(a) Inventories		7,08,000
	(b) Trade Receivables	6	3,59,500

(c) Cash and Cash Equivalents	7	28,000
<b>Total</b>		<b>40,25,500</b>

**Kapil Ltd. Statement of Profit and Loss for the year ended 31st March, 2017**

Particulars		Note No.	(Rs)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
<b>III</b>	<b>Total Revenue [I + II]</b>		<b>36,53,500</b>
<b>IV Expenses:</b>			
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	<b>Total Expenses</b>		<b>32,53,500</b>
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		(1,20,000)
<b>VII</b>	<b>Profit for the period</b>		<b>2,80,000</b>

**Notes to Accounts:****1. Share Capital**

<b>Authorized Capital</b>		
5,00,000 Equity Shares of Rs. 10 each		50,00,000
<b>Issued Capital</b>		
2,00,000 Equity Shares of Rs. 10 each		20,00,000
<b>Subscribed Capital and fully paid</b>		
1,95,000 Equity Shares of Rs. 10 each		19,50,000
<b>Subscribed Capital but not fully paid</b>		
5,000 Equity Shares of Rs. 10 each Rs. 8 paid		40,000
(Call unpaid Rs. 10,000)		19,90,000

**2. Reserves and Surplus**

General Reserve		7,000
<b>Surplus i.e., Balance in Statement of Profit &amp; Loss:</b>		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	
Less: Transfer to Reserve @ 2.5%	(7,000)	3,40,000
		<b>3,47,000</b>

**3. Short Term Borrowings**

Bank Overdraft	12,67,000
	<b>12,67,000</b>

**4. Other Current Liabilities**

Outstanding Expenses [25,000+36,000]	61,000
	<b>61,000</b>

## 5. Short-term Provisions

Provision for Tax	1,20,000
	<b>1,20,000</b>

## 6. Tangible Assets

Particulars	Value given (Rs)	Depreciation rate	Depreciation Charged (Rs)	Written down value at the end (Rs)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	<b>30,50,000</b>		<b>1,20,000</b>	<b>29,30,000</b>

## 7. Trade Receivables

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	(25,000)
	<b>3,59,500</b>

## 8. Cash &amp; Cash Equivalent

Cash Balance	8,000
Bank Balance in current A/c	20,000
	<b>28,000</b>

## 9. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	<b>36,500</b>

## 10. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	25,000
	<b>13,93,000</b>

## 11. Finance Cost

Interest on Bank overdraft	1,11,000
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## 12. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	<u>25,000</u>
	<b>4,40,000</b>

**QUESTION 74)**

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



Particulars	Dr.	Cr.
Investment in shares at cost (non-current investment)	1,50,000	
Purchases	14,71,500	
Selling expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and wages (included Rs. 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 up to 30th Sep (1st half year)	11,250	
Trade receivables and trade payables	1,50,300	2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 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		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	
<b>Total</b>	<b>44,72,850</b>	<b>44,72,850</b>

**Other Information:**

- Closing Stock was valued at Rs. 4,27,500.
- Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.
- Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
- Bills Receivable includes Rs. 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
- Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.
- Depreciation on Furniture to be charged at 10% on Written Down Value.
- Interest on Debentures for the half year ending on 31st March was due on that date.
- Technical Knowhow Fees is to be written off over a period of 10 years.
- Trade receivables include Rs. 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.

**SOLUTION**

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

		Note	(Rs.)
<b>I</b>	<b>Equity and Liabilities</b>		
<b>(1)</b>	<b>Shareholders' funds:</b>		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	1,14,150
<b>(2)</b>	<b>Non-current liabilities:</b>		
	Long term borrowings	3	4,50,000
<b>(3)</b>	<b>Current liabilities:</b>		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	11,250
	<b>Total</b>		<b>24,88,950</b>
<b>II</b>	<b>ASSETS</b>		
<b>(1)</b>	<b>Non- Current Assets:</b>		
	(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
<b>(2)</b>	<b>Current Assets:</b>		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		84,000
	<b>Total</b>		<b>24,88,950</b>

**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	Rs.
<b>I</b>	Revenue from Operations		20,11,050
<b>II</b>	Other income (Dividend income)		12,750
<b>III</b>	<b>Total Revenue (I &amp;+ II)</b>		<b>20,23,800</b>
<b>IV</b>	<b>Expenses:</b>		
	(a) Purchases of Inventory (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work in progress & inventory (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	11	3,47,550
	<b>Total Expenses</b>		<b>19,95,150</b>
<b>V</b>	Profit before exceptional, extraordinary items and tax		28,650
<b>VI</b>	Exceptional items		-
<b>VII</b>	Profit before extra-ordinary items and tax		28,650

VII I	Extraordinary items		-
IX	<b>Profit before tax</b>		<b>28,650</b>

**Notes to accounts**

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

<b>7.</b>	<b>Intangible Assets</b>		
	Technical knowhow	4,50,000	
	Less: Written off	45,000	4,05,000
<b>8.</b>	<b>Trade Receivables</b>		
	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
<b>9.</b>	<b>Employee benefit expenses</b>		
	Salaries & Wages	1,56,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised	6,000	
	Less: Directors' Remuneration shown separately	30,000	
	Balance amount		1,20,000
<b>10</b>	<b>Finance Costs</b>		
	Interest on bank overdraft	29,400	
	Interest on debentures	22,500	51,900
<b>11</b>	<b>Other Expenses</b>		
	Payment to the auditors	18,000	3,47,550
	Director's remuneration	30,000	
	Selling expenses	2,37,300	
	Technical knowhow written of (4,50,000/10)	45,000	
	Advertisement (Goods and Articles Distributed)	15,000	
	Bad Debts (4,500 x 50%)	2,250	

**Working note**

<b>Calculation of Sundry Debtors-Other Debts</b>		
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% Rs. 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

## CASH FLOW STATEMENT

### QUESTION 75)

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.20X1 from the following information:

- (1) Sales for the year amounted to Rs135 crores out of which 60% was cash sales.
- (2) Purchases for the year amounted to Rs55 crores out of which credit purchase was 80%.
- (3) Administrative and selling expenses amounted to Rs18 crores and salary paid amounted to Rs22 crores.
- (4) The Company redeemed debentures of Rs20 crores at a premium of 10%. Debenture holders were issued equity shares of Rs15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was Rs1.5 crores.
- (5) Dividend paid during the year amounted to Rs11.7 crores (including Dividend distribution tax) was also paid.
- (6) Investment costing Rs12 crores were sold at a profit of Rs2.4 crores.
- (7) Rs8 crores was paid towards income tax during the year.
- (8) A new plant costing Rs21 crores was purchased in part exchange of an old plant. The book value of the old plant was Rs12 crores but the vendor took over the old plant at a value of Rs10 crores only. The balance was paid in cash to the vendor.
- (9) The following balances are also provided:



	Rs in crores 1.4.20X0	Rs in crores 31.3.20X1
Debtors	45	50
Creditors	21	23
Bank	6	

### SOLUTION

Gamma Ltd.

**Cash Flow Statement for the year ended  
31st March, 20X1 (Using direct method)**

Particulars	Rs in crores	Rs in crores
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash sales (60% of 135)	81	
Cash receipts from Debtors [45+ (135x40%) - 50]	49	
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers [21+(55x80%)23]	(42)	
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	37	
Income tax paid	(8)	
<b>Net cash generated from operating activities</b>		<b>29</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets (21 – 10)	(11)	
<b>Net cash used in investing activities</b>		<b>3.4</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Redemption of debentures (22-15)	(7)	



Interest paid	(1.5)	
Dividend paid	(11.7)	
<b>Net cash used in financing activities</b>		<b>(20.2)</b>
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

**QUESTION 76)**

From the following Balance Sheet & information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31<sup>st</sup> March, 20X1:

**Balance Sheet**

	31st March, 20X1	31st March, 20X0
<b>Liabilities</b>		
Equity Share Capital	6,00,000	5,00,000
10% Redeemable Preference Share Capital	–	2,00,000
Capital Redemption Reserve	1,00,000	–
Capital Reserve	1,00,000	–
General Reserve	1,00,000	2,50,000
Profit and Loss Account	70,000	50,000
9% Debentures	2,00,000	–
Trade payables	1,15,000	1,10,000
Liabilities for Expenses	30,000	20,000
Provision for Taxation	95,000	60,000
Dividend payable	90,000	60,000
	<b>15,00,000</b>	<b>12,50,000</b>
	<b>31st March, 20X1</b>	<b>31st March, 20X0</b>
<b>Assets</b>		
Land and Building	1,50,000	2,00,000
Plant and Machinery	7,65,000	5,00,000
Investments	50,000	80,000
Inventory	95,000	90,000
Trade receivables	2,50,000	2,25,000
Cash and Bank	65,000	90,000
Voluntary Separation Payments	1,25,000	65,000
	<b>15,00,000</b>	<b>12,50,000</b>

**Additional Information:**

- (i) A piece of land has been sold out for Rs 1,50,000 (Cost – Rs 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on sale and profit on revaluation.
- (ii) On 1<sup>st</sup> April, 20X0 a plant was sold for Rs 90,000 (Original Cost – Rs 70,000 and W.D.V. – Rs 50,000) and Debentures worth Rs1 lakh was issued at par as part consideration for plant of Rs4.5 lakhs acquired.
- (iii) Part of the investments (Cost – Rs 50,000) was sold for Rs 70,000.
- (iv) Pre-acquisition dividend received Rs 5,000 was adjusted against cost of investment.
- (v) Directors have declared 15% dividend for the current year.
- (vi) Voluntary separation cost of Rs 50,000 was adjusted against General Reserve.
- (vii) Income-tax liability for the current year was estimated at Rs 1,35,000.

Depreciation @ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.

**SOLUTION**

**Cash Flow Statement of Ryan Limited**  
**For the year ended 31st March, 20X1**

Particulars	Rs	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit before taxation (W.N.1)	2,45,000	
Adjustment for		
Depreciation (W.N.3)	1,35,000	
Profit on sale of plant (W.N.3)	(40,000)	
Profit on sale of investments (W.N.3)	(20,000)	
Interest on debentures (W.N.4)	18,000	
<b>Operating profit before working capital changes</b>	<b>3,38,000</b>	
Increase in inventory	(5,000)	
Increase in trade receivables	(25,000)	
Increase in Trade payables	5,000	
Increase in accrued liabilities	10,000	
Extraordinary items	(1,10,000)	
Income taxes paid (W.N.8)	(1,00,000)	
<b>Net cash generated from operating activities</b>		<b>1,13,000</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of land (W.N.2)	1,50,000	
Proceeds from sale of plant (W.N.3)	90,000	
Proceeds from sale of investments (W.N.4)	70,000	
Purchase of plant (W.N.3)	(3,50,000)	
Purchase of investments (W.N.4)	(25,000)	
Pre-acquisition dividend received (W.N.4)	5,000	
<b>Net cash used in investing activities</b>		<b>(60,000)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of equity shares (6,00,000 – 5,00,000)	1,00,000	
Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000	
Redemption of preference shares	(2,00,000)	
Dividends paid	(60,000)	
Interest paid on debentures	(18,000)	
<b>Net cash used in financing activities</b>		<b>(78,000)</b>
Net decrease in cash and cash equivalents		(25,000)
Cash and cash equivalents at the beginning of the year		90,000
Cash and Cash equivalents at the end of the year		65,000

**Working Notes:**

## 1. Net Profit before taxation

Particulars	Rs
Net profit before taxation	
Retained profit	1,00,000
Less: Balance as on 31.3.20X0	(50,000)
	20,000
Provision for taxation	1,35,000
Dividend payable	90,000

Net Profit before taxation	2,75,000
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## 2. Land and Building Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	2,00,000	By	Cash (Sale)	1,50,000
To	Capital reserve (Profit on sale)	30,000	By	Balance c/d	1,50,000
To	Capital reserve (Revaluation profit)	70,000			
		<b>3,00,000</b>			<b>3,00,000</b>

## 3. Plant and Machinery Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	5,00,000	By	Cash (Sale)	90,000
To	Profit and loss account	40,000	By	Depreciation	1,35,000
To	Debentures	1,00,000	By	Balance c/d	7,65,000
To	Bank	3,50,000			
		<b>9,90,000</b>			<b>9,90,000</b>

## 4. Investments Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	80,000	By	Cash (Sale)	70,000
To	Profit and loss account	20,000	By	Dividend (Pre acquisition)	5,000
To	Bank (Balancing figure)	25,000	To	Balance C/d	50,000
		<b>125,000</b>			<b>125,000</b>

## 5. Capital Reserve Account

Particulars		Rs	Particulars		Rs
To	Balance c/d	70,000	By	Profit on revaluation of land	70,000
		<b>70,000</b>			<b>70,000</b>

## 6. General Reserve Account

Particulars		Rs	Particulars		Rs
To	Capital redemption reserve	1,00,000	By	Balance b/d	2,50,000
To	Balance c/d	1,50,000			
		<b>2,50,000</b>			<b>2,50,000</b>

## 7. Dividend payable Account

Particulars		Rs	Particulars		Rs
To	Bank (Balancing figure)	1,50,000	By	Balance b/d	60,000
To	Balance c/d	-	By	Profit & loss account	90,000
		<b>1,50,000</b>			<b>1,50,000</b>

## 8. Provision for Taxation Account

Particulars		Rs	Particulars		Rs
To	Bank (Balancing figure)	1,00,000	By	balance b/d	60,000
To	Balance c/d	95,000	By	Profit & loss account	1,35,000
		<b>1,95,000</b>			<b>1,95,000</b>

## 9. Other Current Assets Account

Particulars		Rs	Particulars		Rs
To	Balance b/d	65,000	By	Balance c/d	1,00,000
To	Bank (Balancing figure)	35,000			
		<b>1,00,000</b>			<b>1,00,000</b>

**QUESTION 77)**

The Balance Sheet of New Light Ltd. for the years ended 31<sup>st</sup> March, 20X0 and 20X1 are as follows:



			Notes	31 <sup>st</sup> March, 20X0 (Rs.)	31 <sup>st</sup> March, 20X1 (Rs.)
		<b>Equity and liabilities</b>			
<b>1</b>		<b>Shareholders' funds</b>			
	A	Share capital	1	16,00,000	18,80,000
	B	Reserves and Surplus	2	8,40,000	11,00,000
<b>2</b>		<b>Non-current liabilities</b>			
	A	Long term borrowings	3	4,00,000	2,80,000
<b>3</b>		<b>Current liabilities</b>			
	A	Other current liabilities	4	6,00,000	5,20,000
	B	Short term provision (Provision for tax)		3,60,000	3,40,000
		<b>Total</b>		<b>38,00,000</b>	<b>41,20,000</b>
		<b>Assets</b>			
<b>1</b>		<b>non-current assets</b>			
	A	Property, plant and Equipment	5	22,80,000	26,40,000
	B	Non-Current investment		4,00,000	3,20,000
<b>2</b>		<b>Current assets</b>			
	A	Cash and Cash equivalents		10,000	10,000
	B	Inventory		2,16,000	3,00,000
	C	Other current assets		8,94,000	8,50,000
		<b>Total</b>		<b>38,00,000</b>	<b>41,20,000</b>

**Notes to accounts**

No.	Particular	31 <sup>st</sup> March, 20X0	31 <sup>st</sup> March, 20X1
<b>1</b>	<b>Share capital</b>		
	Equity share capital	12,00,000	16,00,000
	10% Preference share capital	4,00,000	2,80,000
	<b>Total</b>	<b>16,00,000</b>	<b>18,80,000</b>
<b>2</b>	<b>Reserves and Surplus</b>		
	General reserve	6,00,000	7,60,000
	Profit and Loss account	2,40,000	3,40,000
	<b>Total</b>	<b>8,40,000</b>	<b>11,00,000</b>
<b>3</b>	<b>Long term borrowings</b>		
	9% Debentures	4,00,000	2,80,000
	<b>Total</b>	<b>4,00,000</b>	<b>2,80,000</b>
<b>4</b>	<b>Other current liabilities</b>		
	Dividend payable	1,20,000	-
	Current Liabilities	4,80,000	5,20,000
	<b>Total</b>	<b>6,00,000</b>	<b>5,20,000</b>
<b>5</b>	<b>Property, plant and equipment</b>		
	Property, plant and equipment	32,00,000	38,00,000
	Less: Depreciation	(9,20,000)	(11,60,000)
	<b>Net carrying value</b>	<b>22,80,000</b>	<b>26,40,000</b>

**Additional information:**

- (i) The company sold one fixed asset for Rs 1,00,000, the cost of which was Rs 2,00,000 and the depreciation provided on it was Rs 80,000.
- (ii) The company also decided to write off another fixed asset costing Rs 56,000 on which depreciation amounting to Rs 40,000 has been provided.
- (iii) Depreciation on fixed assets provided Rs 3,60,000.
- (iv) Company sold some investment at a profit of Rs 40,000.
- (v) Debentures and preference share capital redeemed at 5% premium. Debentures were redeemed at the year end.
- (vi) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.3.20X0 was Rs 2,16,000. The inventory on 31.3.20X1 was correctly valued at Rs 3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.

**SOLUTION****New Light Ltd.****Cash Flow Statement for the year ended 31st March, 20X1**

<b>A. Cash Flow from operating activities</b>	<b>Rs.</b>
Profit after appropriation	
Increase in profit and loss A/c after inventory adjustment [Rs. 3,40,000 – (Rs. 2,40,000 + Rs. 24,000)]	76,000
Transfer to general reserve	1,60,000
Dividend payable	1,60,000
Provision for tax	3,40,000
Net profit before taxation and extraordinary item	5,76,000
<b>Adjustments for:</b>	
Depreciation	3,60,000
Loss on sale of fixed assets	20,000
Decrease in value of fixed assets	16,000
Profit on sale of investment	(40,000)
Premium on redemption of preference share capital	6,000
Interest on debentures	36,000
Premium on redemption of debentures	6,000
Operating profit before working capital changes	9,80,000
Increase in current liabilities (Rs. 5,20,000 – Rs. 4,80,000)	40,000
Increase in other current assets [Rs. 11,50,000 – (Rs. 11,10,000 + Rs. 24,000)]	(16,000)
Cash generated from operations	10,04,000
Income taxes paid	(3,60,000)
Net Cash generated from operating activities	6,44,000
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>	
Purchase of fixed assets (W.N.3)	(8,56,000)
Proceeds from sale of fixed assets (W.N.3)	1,00,000
Proceeds from sale of investments (W.N.2)	1,20,000
Net Cash from investing activities	(6,36,000)
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>	
Proceeds from issuance of share capital	4,00,000

Redemption of preference share capital (Rs. 1,20,000 + Rs. 6,000)	(1,26,000)
Redemption of debentures (Rs. 1,20,000 + Rs. 6,000)	(1,26,000)
Dividend paid	(1,20,000)
Interest on debentures	(36,000)
Net Cash from financing activities	(8,000)
Net increase/decrease in cash and cash equivalent during the year	Nil
<b>Cash and cash equivalent at the beginning of the year</b>	<b>10,000</b>
<b>Cash and cash equivalent at the end of the year</b>	<b>10,000</b>

**Working Notes:**

1. Revaluation of inventory will increase opening inventory by Rs. 24,000.  $2,16,000/90 \times 100 = \text{Rs. } 24,000$

Therefore, opening balance of other current assets would be as follows:

Rs. 11,10,000 + Rs. 24,000 = Rs. 11,34,000

Due to under valuation of inventory, the opening balance of profit and loss account be increased by Rs. 24,000.

The opening balance of profit and loss account after revaluation of inventory will be Rs. 2,40,000 + Rs. 24,000 = Rs. 2,64,000

**2. Investment Account**

Particulars	Rs	Particulars	Rs
To Balance b/d	4,00,000	By Bank A/c	1,20,000
To Capital reserve A/c (Profit on sale of investment)	40,000	(balancing figure being investment sold)	
		By Balance c/d	3,20,000
	<b>4,40,000</b>		<b>4,40,000</b>

**3. Fixed Assets Account**

Particulars	Rs	Particulars	Rs
To Balance b/d	32,00,000	By Bank A/c (sale of assets)	1,00,000
To Bank A/c (Balancing figure being assets purchased)	8,56,000	By Accumulated depreciation A/c	80,000
		By Profit and loss A/c (loss on sale of assets)	20,000
		By Accumulated depreciation A/c	40,000
		By Profit and loss A/c (assets written off)	16,000
		By Balance c/d	38,00,000
	<b>40,56,000</b>		<b>40,56,000</b>

**4. Accumulated Depreciation Account**

Particulars	Rs	Particulars	Rs
To Fixed assets A/c	80,000	By Balance b/d	9,20,000
To Fixed assets A/c	40,000	By Profit and loss A/c (depreciation for the period)	3,60,000
To Balance c/d	11,60,000		
	<b>12,80,000</b>		<b>12,80,000</b>

**ICAI's View on Preference Dividend:** Preference Dividend is not declared on Balance Sheet date because it is not shown as payable on Closing Balance sheet. Hence, if not declared from P&L then must not be paid and to be ignored.

**Alternate View:** If it is cumulative Preference Share Capital, dividend must have been declared & already paid on 31/3

(a) Added to CFOA since declared out of P&L.

(b) Deduct from Financing Activity since Paid in cash.

**QUESTION 78)**

ABC Ltd. gives you the following information. You are required to prepare Cash Flow Statement by using indirect methods as per AS 3 for the year ended 31.03.20X1:

			Notes	31 <sup>st</sup> March, 20X0 (Rs.)	31 <sup>st</sup> March, 20X1 (Rs.)
		<b>Equity and liabilities</b>			
<b>1</b>		<b>Shareholders' funds</b>			
	A	Share capital		50,00,000	50,00,000
	B	Reserves and Surplus		26,50,000	36,90,000
<b>2</b>		<b>Non-current liabilities</b>			
	A	Long term borrowings	1	-	9,00,000
<b>3</b>		<b>Current liabilities</b>			
	A	Short term borrowings (Bank loan)		1,50,000	3,00,000
	B	Trade payable		8,80,000	8,20,000
	C	Other current liabilities	2	4,80,000	2,70,000
		<b>Total</b>		<b>91,60,000</b>	<b>1,09,80,000</b>
		<b>Assets</b>			
<b>1</b>		<b>non-current assets</b>			
	A	Property, plant and Equipment	3	21,20,000	32,80,000
<b>2</b>		<b>Current assets</b>			
	A	Current investment		11,80,000	15,00,000
	B	Inventory		20,10,000	19,20,000
	C	Trade receivable	4	22,40,000	26,40,000
	D	Cash and Cash equivalents		15,20,000	15,20,000
	E	Other current assets (prepaid expenses)		90,000	1,20,000
		<b>Total</b>		<b>91,60,000</b>	<b>1,09,80,000</b>

**Notes to accounts**

No.	Particular	31 <sup>st</sup> March, 20X0	31 <sup>st</sup> March, 20X1
<b>1</b>	<b>Long term borrowings</b>		
	9% Debentures (issued at the end of year)	-	9,00,000
	<b>Total</b>	-	<b>9,00,000</b>
<b>2</b>	<b>Other current liabilities</b>		
	Dividend payable	1,50,000	-
	Liabilities for expenses	3,30,000	2,70,000
	<b>Total</b>	<b>4,80,000</b>	<b>2,70,000</b>
<b>3</b>	<b>Property, plant and equipment</b>		
	Plant and equipment	27,30,000	40,70,000
	Less: Depreciation	(6,10,000)	(7,90,000)
	<b>Net carrying value</b>	<b>21,20,000</b>	<b>32,80,000</b>
<b>4</b>	<b>Trade receivables</b>		
	Gross amount	23,90,000	28,30,000
	Less: provision for doubtful debts	(1,50,000)	(1,90,000)
	<b>Total</b>	<b>22,40,000</b>	<b>26,40,000</b>

**Additional Information:**

- (i) Net profit for the year ended 31st March, 20X1, after charging depreciation Rs 1,80,000 is Rs 10,40,000.

- (ii) Trade receivables of Rs 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

## SOLUTION

### Cash Flow Statement of ABC Ltd. for the year ended 31.3.20X1

CASH FLOWS FROM OPERATING ACTIVITIES	Rs.
Net Profit	10,40,000
Add: Adjustment for Depreciation (Rs. 7,90,000 – Rs. 6,10,000)	1,80,000
Increase in Provision for Doubtful Debts (Rs. 4,20,000 – Rs. 1,50,000)	2,70,000
Operating Profit Before Working Capital Changes	14,90,000
Add: Decrease in Inventories (Rs. 20,10,000 – Rs. 19,20,000)	90,000
	15,80,000
Less: Increase in Current Assets	
Trade Receivables (Rs. 30,60,000 – Rs. 23,90,000)	6,70,000
Prepaid Expenses (Rs. 1,20,000 – Rs. 90,000)	30,000
Decrease in Current Liabilities:	
Trade Payables (Rs. 8,80,000 – Rs. 8,20,000)	60,000
Expenses Outstanding (Rs. 3,30,000 – Rs. 2,70,000)	60,000
	(8,20,000)
<b>Net Cash from Operating Activities</b>	<b>7,60,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment in Current Investments	(3,20,000)
Purchase of Plant & Equipment (Rs. 40,70,000 – Rs. 27,30,000)	(13,40,000)
<b>Net Cash Used in Investing Activities</b>	<b>(16,60,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Bank Loan Raised (Rs. 3,00,000 – Rs. 1,50,000)	1,50,000
Issue of Debentures	9,00,000
Payment of Dividend	(1,50,000)
<b>Net Cash Used in Financing Activities</b>	<b>9,00,000</b>
Net Increase in Cash During the Year	-
Add: Cash and Cash Equivalents as on 1.4.20x0 (Rs. 15,20,000 + Rs. 11,80,000)	15,20,000
Cash and Cash Equivalents as on 31.3.20x1 (Rs. 18,20,000 + Rs. 15,00,000)	15,20,000

#### Note:

- Bad debts amounting Rs 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.20X1. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.20X1.
- Current investments (i.e., Marketable securities) may not be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.



**QUESTION 79)**

The following information was extracted from the books of S Ltd. for the year ended 31.03.2020.

- (1) Net profit before taking into account income tax and after taking into account the following items was Rs. 30 Lakhs
  - (a) Depreciation on Property, Plant and Equipment Rs. 7,00,000
  - (b) Discount on issue of debentures written off Rs. 45,000
  - (c) Interest on debentures paid Rs. 4,35,000
  - (d) Investment of Book value Rs. 3,50,000 sold for 3,75,000
  - (e) Interest received on investments Rs.70,000
- (2) Income tax paid during the year Rs.12,80,000
- (3) The company issued 60,000 equity shares of Rs. 10 each at a premium of 20% on 10.04.2019
- (4) 20,000 9% Preference Shares of Rs. 100 were redeemed on 31st March 2020 at a premium of 5%
- (5) Dividend paid during the year amounted to Rs. 11,00,000 (Including dividend distribution tax)
- (6) A new plant costing 7 Lakhs was purchased in part exchange of an old plant on 1st January 2020. The book value of the old plant was Rs. 8 Lakhs but the vendor took over the old plant at a value of Rs. 6 Lakhs only. The balance amount was paid to vendor through cheque on 30th March 2020.
- (7) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.03.2020 was 14,76,000.  
The Inventory on 31.03.2019 was correctly valued at Rs. 13,50,000
- (8) Current assets and current liabilities in the beginning and at the end of the years 2019-2020 were as:

	As on 01.04.2019	As on 31.03.2020
	Rs.	Rs.
Inventory	13,50,000	14,76,000
Trade Receivables	3,27,000	3,13,200
Cash in Hand	2,40,700	3,70,500
Trade payables	2,84,700	2,87,300
Outstanding expenses	97,000	1,01,400

You are required to prepare a Cash Flow Statement for the year ended 31<sup>st</sup> March 2020 as per AS 3 (revised) using the indirect method.

**SOLUTION**

**S Ltd.**

**Cash Flow Statement for the year ended 31st March, 2020**

<b>Cash flows from operating activities</b>		
Net profit before taxation*		30,00,000
Adjustments for:		
Depreciation on PPE	7,00,000	
Discount on debentures	45,000	
Profit on sale of investments	(25,000)	
Interest income on investments	(70,000)	
Interest on debentures	4,35,000	
Stock adjustment	1,64,000	
{14,76,000 less 16,40,000(14,76,000/90X100)}		
Operating profit before working capital change		12,49,000
Changes in working capital		42,49,000
(Excluding cash and bank balance):		
Less: Increase in inventory	(2,90,000)	

{16,40,000(14,76,000/90X100) less 13,50,000}		
Add: Decrease in Trade receivables	13,800	
Increase in trade payables	2,600	
Increase in o/s expenses	4,400	(2,69,200)
Cash generated from operations		39,79,800
Less: Income taxes paid		(12,80,000)
Net cash generated from operating activities		26,99,800
<b>Cash flows from investing activities</b>		
Sale of investments	3,75,000	
Interest received	70,000	
Payments for purchase of fixed assets (7,00,000 – 6,00,000)	(1,00,000)	
Net cash used in investing activities		3,45,000
<b>Cash flows from financing activities</b>		
Redemption of Preference shares	(21,00,000)	
Issue of shares	7,20,000	
Interest paid	(4,35,000)	
Dividend paid	(11,00,000)	
Net cash used in financing activities		(29,15,000)
Net increase in cash		1,29,800
Cash at beginning of the period		2,40,700
<b>Cash at end of the period</b>		<b>3,70,500</b>

\*Net profit given in the question is after considering only the items listed as information point (1) of the question; hence amount of loss on plant not added back

### QUESTION 80)

Given below is the Statement of Profit and Loss of ABC Ltd. and relevant Balance Sheet information:

#### Extract of Balance sheet

		Particular	Notes	31.3.20X1 (Rs. In lakhs)	31.3.20X0 (Rs. In lakhs)
		<b>Equity and Liabilities</b>			
<b>1</b>		<b>Current liabilities</b>			
	a	Trade Payables		250	230
	b	Short term Provisions	1	200	180
	c	Other current liabilities	2	70	50
		<b>Assets</b>			
<b>1</b>		<b>Current assets</b>			
	a	Inventories		200	180
	b	Trade Receivable		400	250
	c	Other current assets	3	195	180

#### Statement of Profit and Loss of ABC Ltd. for the year ended 31<sup>st</sup> March, 20X1

	Particulars	Notes	Rs. In lakhs
<b>I</b>	Revenue from operations		4,150
<b>II</b>	Other income	4	100
<b>III</b>	Total income (I + II)		<b>4250</b>
	<b>Expenses:</b>		

	Purchase on Stock-in-Trade		2,400
	Change in inventories of finished goods		(20)
	Employee benefits expense		800
	Depreciation expense		100
	Finance cost	5	60
	Other expenses		200
<b>IV</b>	<b>Total expenses</b>		<b>3,540</b>
<b>V</b>	Profit before tax (III -IV)		710
<b>VI</b>	Tax expense:		
	Current tax		200
<b>VII</b>	<b>Profit for the year from continuing operations</b>		<b>510</b>

**Appropriations**

Balance of profit and loss account brought forward	50
Transfer to general reserve	200
Dividend paid	330

**Notes to accounts:**

		20X1 (Rs. In lakhs)	20X0 (Rs. In lakhs)
<b>1</b>	<b>Short term provision</b>		
	Provision for tax	200	180
<b>2</b>	<b>Other current liabilities</b>		
	Outstanding wages	50	40
	Outstanding expenses	20	10
	<b>Total</b>	<b>70</b>	<b>50</b>
<b>3</b>	<b>Other current assets:</b>		
	Advance tax	195	180
<b>4</b>	<b>Other income:</b>		
	Interest and dividend	100	
<b>5</b>	<b>Finance cost:</b>		
	Interest	60	

Compute cash flow from operating activities using both direct and indirect method.

**SOLUTION****By direct method****Computation of Cash Flow from Operating Activities**

Particulars	Rs in lakhs	Rs in lakhs
Cash Receipts:		
Cash sales and collection from Trade receivables		
Sales + Opening Trade receivables – Closing Trade receivables (A)	4,150+250-400	4,000
Cash payments:		
Cash purchases & payment to Trade payables Purchases + Opening Trade payables – Closing Trade payables	2,400+230-250	2,380
Wages and salaries paid	800+40-50	790
Cash expenses	200+10-20	190
Taxes paid – Advance tax		195
(B)		3,555
<b>Cash flow from operating activities (A – B)</b>		<b>445</b>

**By Indirect Method**  
**Computation of Cash Flow from Operating Activities**

	Rs in lakhs	Rs in lakhs
<b>By Indirect method</b>		
Profit before tax		710
Add: Non-cash items: Depreciation		100
Add: Interest: Financing cash outflow		60
Less: Interest and Dividend: Investment cash inflow		(100)
Less: Tax paid		(195)
Working capital adjustments		
Trade receivables	$250-400 = (150)$	
Inventories	$180-200 = (20)$	
Trade payables	$250-230 = 20$	
Outstanding wages	$50-40=10$	
Outstanding expenses	$20-10 = 10$	(130)
<b>Cash flow from operating activities</b>		<b>445</b>

## ACCOUNTING FOR RECONSTRUCTION OF COMPANIES

### QUESTION 81)

Recover Ltd decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March 2020 is as follows:

		Particulars	Notes	Rs.
		<b>Equity and Liabilities</b>		
1		<b>Shareholders' funds</b>		
	A	Share capital	1	3,50,000
	B	Reserves and surplus	2	(70,000)
2		<b>Non-current liabilities</b>		
	A	Long-term borrowings	3	55,000
3		<b>Current liabilities</b>		
	A	Trade Payables		80,000
	B	Short term Borrowings – Bank overdraft		90,000
				<b>5,05,000</b>
		<b>Assets</b>		
1		<b>Non-current assets</b>		
	A	Property, Plant Equipment	4	3,35,000
	B	Intangible assets	5	50,000
	C	Non-current investments	6	40,000
2		<b>Current assets</b>		
	A	Inventories		30,000
	B	Trade receivables		50,000
				<b>5,05,000</b>

### Notes to accounts:

<b>1</b>	<b>Share Capital</b>	<b>Rs.</b>
	Equity share capital:	
	20,000 Equity Shares of Rs. 10 each	2,00,000
	Preference share capital:	
	15,000 8% Cumulative Preference Shares of Rs. 10 each (preference dividend has been in arrears for 4 years)	1,50,000
		<b>3,50,000</b>
2	<b>Reserves and surplus</b>	
	Securities premium	10,000
	Profit and loss account (debit balance)	(80,000)
		<b>(70,000)</b>
3	<b>Long-term borrowings</b>	
	<u>Secured</u>	
	9% Debentures (secured on the freehold property)	50,000
	Accrued interest on 9% debentures	5,000
		<b>55,000</b>
4	<b>Property, Plant and Equipment</b>	
	Freehold property	1,20,000
	Leasehold property	85,000

	Plant and machinery	1,30,000
		3,35,000
<b>5</b>	<b>Intangible assets</b>	
	Goodwill	50,000
		50,000
<b>6</b>	<b>Non-current investments</b>	
	Non-Trade investments at cost	40,000
		40,000

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

- i) The preference shares were reduced to Rs. 2.5 per share, and the equity shares to Rs. 1 per share.
- ii) One new equity share of Rs. 1 was issued for the arrears of preferred dividend for past 4 years.
- iii) The balance on Securities Premium Account was utilized and was transferred to capital reduction account.
- iv) The debenture holders took over the freehold property at an agreed figure of Rs. 75,000 and paid the balance to the company after deducting the amount due to them.
- v) Plant and Machinery was written down to Rs. 1,00,000.
- vi) Non-trade Investments were sold for Rs. 32,000.
- vii) Goodwill and obsolete stock (included in the value of inventories) of Rs. 10,000 were written off.
- viii) A contingent liability of which no provision had been made was settled at Rs. 7,000 and of this amount, Rs. 6,300 was recovered from the insurance.

You are required (a) to show the Journal Entries, necessary to record the above transactions in the company's books and (b) to prepare the Balance Sheet, after completion of the scheme.

### SOLUTION:

#### In the books of Recover Ltd

#### Journal entries

Particulars	Dr. Rs.	Cr. Rs.
8% Cumulative Preference share capital (Rs. 10) A/c Dr. To 8% Cumulative Preference share capital (Rs. 2.5) A/c To Capital reduction (Rs. 7.5) A/c (Preference shares being reduced to shares of Rs. 2.5 per share and remaining transferred to capital reduction account as per capital reduction scheme)	1,50,000	37,500 1,12,500
Equity share capital A/c (Rs. 10) Dr. To Equity Share capital A/c (Rs. 1) To Capital reduction A/c (Rs. 9) (Equity shares reduced to Rs. 1 per share with the remaining amount transferred to capital reduction as a part of the internal reconstruction scheme.)	2,00,000	20,000 1,80,000
Capital reduction A/c Dr. To Equity share capital A/c (Equity shares of Rs. 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)	48,000	48,000
Securities Premium A/c Dr. To Capital reduction A/c (Amount from the securities premium utilized towards the capital reduction a/c as a part of the internal reconstruction scheme)	10,000	10,000
9% Debentures A/c Dr. Accrued interest on debentures A/c Dr. Bank A/c Dr. Capital reduction A/c Dr.	50,000 5,000 20,000 45,000	

To Freehold property A/c (Debenture holders being paid by the sale of property, which is sold at a loss debited to the capital reduction account. Amount received in excess being refunded to company by debenture holders as a part of the internal reconstruction scheme.)			1,20,000
Capital reduction A/c To Plant and Machinery Ac To Goodwill A/c To Inventory A/c (The assets written off as a part of the internal reconstruction scheme)	Dr.	90,000	30,000 50,000 10,000
Bank A/c Capital reduction A/c To Investments A/c (Investments sold at a loss debited to capital reduction account as a part of the internal reconstruction scheme)	Dr. Dr.	32,000 8,000	40,000
Contingent Liability A/c To Bank A/c (Contingent liability paid as a part of the internal reconstruction scheme)	Dr.	7,000	7,000
Bank A/c Capital reduction A/c To Contingent Liability A/c (The insurance company remitting part of the contingency payment amount)	Dr. Dr.	6,300 700	7,000
Capital reduction A/c To Profit and loss A/c (Accumulated losses written off to capital reduction account as a part of the internal reconstruction scheme).	Dr.	80,000	80,000
Capital reduction A/c To Capital reserve A/c (The balance in capital reduction account transferred to capital reserve as a part of the internal reconstruction scheme)	Dr.	30,800	30,800

**Balance sheet of Recover Ltd. as at 31<sup>st</sup> March 2020 (and reduced)**

		Particulars	Notes	Rs.
		<b>Equity and Liabilities</b>		
1		<b>Shareholders' funds</b>		
	A	Share capital	1	1,05,500
	B	Reserves and surplus	2	30,800
2		<b>Non-current liabilities</b>		
	A	Long-term borrowings		-
3		<b>Current liabilities</b>		
	A	Trade Payables		80,000
	B	Short term Borrowings – Bank overdraft		<u>90,000</u>
				<b>3,06,300</b>
		<b>Assets</b>		
1		<b>Non-current assets</b>		
	A	Property, Plant Equipment	3	1,85,000
2		<b>Current assets</b>		
	A	Inventories		20,000
	B	Trade receivables		50,000
	C	Cash and cash equivalents	4	<u>51,300</u>
				<b>3,06,300</b>

**Notes to Accounts**

1	Share Capital	Rs.
	<b>Equity share capital:</b>	
	68,000 Equity Shares of Rs. 1 each	68,000
	Preference share capital:	
	15,000 8% Cumulative Preference Shares of Rs. 2.5 each	3,75,00
		1,05,500
2	<b>Reserves and surplus</b>	
	Capital Reserve	30,800
3	<b>Property, Plant and Equipment</b>	
	Leasehold property	85,000
	Plant and machinery	1,00,000
		1,85,000
4	<b>Cash and cash equivalents</b>	
	Bank A/c (20,000+32,000-7000+6,300)	51,300

**QUESTION 82)**

The following is the Balance sheet of Purple Limited as at 31<sup>st</sup> March, 2022:

**Balance Sheet of Purple Limited as at 31<sup>st</sup> March, 2022**

	Particulars	Notes	Rs
	<b>Equity and Liabilities</b>		
1	<b>Shareholders' funds</b>		
a	Share capital	1	15,00,000
b	Reserves & Surplus	2	(3,00,000)
2	<b>Current liabilities</b>		
A	Trade Payables		2,20,000
b	Short Term Borrowings – Bank Overdraft		2,00,000
	<b>Total</b>		<b>16,20,000</b>
	<b>Assets</b>		
1	<b>Non-current assets</b>		
a	Property, Plant and Equipment	3	10,20,000
b	Intangible assets	4	1,20,600
2	<b>Current assets</b>		
a	Inventories		1,70,000
b	Trade receivables		3,01,800
c	Cash and cash equivalents		7,600
	<b>Total</b>		<b>16,20,000</b>

**Notes to accounts:**

			Rs
1	<b>Share Capital</b>		
	90,000 Equity Shares of Rs. 10 each fully paid	9,00,000	
	6% Preference Share Capital	6,00,000	15,00,000
2	<b>Reserves &amp; Surplus</b>		
	Profit & Loss account		(3,00,000)
3	<b>Property, Plant and Equipment</b>		
	Land and Building	5,40,000	
	Plant & Machinery	4,80,000	10,20,000
4	<b>Intangible assets</b>		



	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 Rs. 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 & Building and Plant & Machinery are revalued at 85% and 80% of their respective book values.
- (vi) Book debts amounting to Rs. 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 Rs. 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 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 Rs. 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.

## SOLUTION:

### Journal Entries In the books of Purple Ltd.

	Particulars		Debit	Credit
			(₹₹)	(₹₹)
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 Account**

	Particulars	₹		Particulars	₹
To	Goodwill A/c	84,600	By	Equity Share Capital A/c	1,80,000
To	Land & Building A/c	81,000	By	6% Preference Share Capital A/c	1,50,000
To	Plant and Machinery A/c	96,000			
To	Plant and Machinery A/c	96,000			
To	Trade receivables (Book Debts) A/c	14,400			
To	Profit & Loss A/c	30,000			
To	Patents A/c (Bal. fig.)	24,000			
		<b>3,30,000</b>			<b>3,30,000</b>

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

		Particulars	Notes	₹
		<b>Equity and Liabilities</b>		
<b>1</b>		<b>Shareholders' funds</b>		
	a	Share capital	1	11,70,000
	b	Reserves and surplus	2	(2,70,000)
<b>2</b>		<b>Current liabilities</b>		
	a	Short term borrowings (Secured Bank Loan)		4,80,000
	b	Trade Payables		2,20,000
		<b>Total</b>		<b>16,00,000</b>
		<b>Assets</b>		
<b>1</b>		<b>Non-current assets</b>		
	a	Property, plant and equipment	3	8,43,000
	b	Intangible assets	4	12,000
<b>2</b>		<b>Current Assets</b>		
	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
		<b>Total</b>		<b>16,00,000</b>

**Notes to Accounts:**

			₹
<b>1.</b>	<b>Share Capital</b>		
	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
<b>2.</b>	<b>Reserves and Surplus</b>		
	Profit and Loss Account (Dr. balance)		(2,70,000)
<b>3.</b>	<b>Property plant and equipment</b>		

	Land and Building	4,59,000	
	Plant and Machinery	3,84,000	8,43,000
<b>4.</b>	<b>Intangible assets</b>		
	Patent ₹ (36,000 - 24,000)		12,000
<b>5.</b>	<b>Trade Receivables</b>		
	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	$(6/100) \times ₹6,00,000 = ₹36,000$
Rate of return	8% on Preference Shares
Dividend	$(8/100) \times X = ₹36,000$ $X = (36,000/8) \times 100 = 4,50,000$
New Preference Share Capital	₹ 4,50,000
Old Preference Share Capital	₹ 6,00,000
Amount taken to capital Reduction A/C. (6,00,000-4,50,000)	₹1,50,000 Amount taken to Capital Reduction A/c.

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	= $(85/100) \times 5,40,000$	= ₹ 4,59,000
Plant & Machinery	= $(80/100) \times 4,80,000$	= ₹ 3,84,000
Reduced by:		
Land & Building	= $(5,40,000 - 4,59,000)$	= ₹ 81,000
Plant & Machinery	= $(4,80,000 - 3,84,000)$	= ₹ 96,000

**QUESTION 83)**

Repair Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 20X1:



	₹
Property, plant and equipment (Cost ₹ 3,90,000) - estimated at	1,50,000
Cash in hand of the receiver	2,70,000
Charged under debentures	4,20,000
Uncalled capital	1,80,000
Deficiency	7,50,000
6,000 shares of ₹ 60 each, ₹ 30 paid up	1,80,000
First debentures	3,00,000
Second debentures	6,00,000
Unsecured trade payables	4,50,000

A holds the first debentures for Rs. 3,00,000 and second debentures for Rs. 3,00,000. He is also an unsecured creditor for Rs. 90,000. B holds second debentures for Rs.3,00,000 and is an unsecured trade payables for Rs. 60,000. The following scheme of reconstruction is proposed:

1. A is to cancel Rs. 2,10,000 of the total debt owing to him, to bring Rs. 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for Rs. 5,10,000 in satisfaction of all his claims.
2. B is to accept Rs. 90,000 in cash in satisfaction of all claims by him.
3. In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of Rs. 7.50 each, fully paid against their claim for each share of Rs. 60. The balance of 25% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.
4. Uncalled capital is to be called up in full and Rs. 52.50 per share cancelled, thus making the shares of Rs. 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

### SOLUTION:

#### Journal Entries

Particulars		Debit	Credit
First debentures A/c	Dr.	3,00,000	
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	90,000	
To A's A/c			6,90,000
(Being A's total liability ascertained)			
A's A/c	Dr.	2,10,000	
To Capital reduction A/c			2,10,000
(Being cancellation of debt upto ₹ 2,10,000)			
Bank A/c	Dr.	30,000	
To A's A/c			30,000
(Being cash received in course of settlement)			
A's A/c	Dr.	5,10,000	
To First debentures A/c			5,10,000
(Being liability of A, discharged against first debentures)			
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	60,000	
To B's A/c			3,60,000
(Being B's liability ascertained)			
B's A/c	Dr.	3,60,000	
To Bank A/c			90,000
To Capital reduction A/c			2,70,000
(Being B's liability discharged)			
Unsecured trade payables A/c	Dr.	3,00,000	
To Equity share capital A/c			1,12,500
To Loan (Unsecured) A/c			75,000
To Capital reduction A/c			1,12,500
(Being settlement of unsecured creditors)			
Share call A/c	Dr.	1,80,000	
To Share capital A/c			1,80,000
(Being final call money due)			

Bank A/c To Share call A/c (Being final call money received)	Dr.	1,80,000	1,80,000
Share capital A/c (Face value ₹ 60) To Share capital (Face value ₹ 7.50) To Capital reduction A/c (Being share capital reduced to ₹ 7.50 each)	Dr.	3,60,000	45,000 3,15,000
Capital reduction A/c To Profit and loss A/c To Capital Reserve (Being reconstruction surplus used to write off losses and balance transfer to capital reserve)	Dr.	9,07,500	8,70,000 37,500

**Working Notes:**

1.	Settlement of claim of remaining unsecured creditors	₹
	75% of ₹ 3,00,000	2,25,000
	Considering their claim for share of ₹ 60 each	
	2,25,000/60 = 3,750 shares	
	Less: Number of shares to be issued	
	3,750 x 4 = 15,000 shares of ₹ 7.5 each	
	Total value = 15,000 x 7.50	(1,12,500)
	Transferred to Capital reduction A/c	1,12,500

**2. Ascertainment of profit and loss account's debit balance at the time of reconstruction.**

	₹	₹
<b>Asset</b>		
Fixed assets	3,90,000	
Cash	2,70,000	6,60,000
<b>Less: Capital &amp; Liabilities:</b>		
Share capital	1,80,000	
1 <sup>st</sup> Debenture	3,00,000	
2 <sup>nd</sup> Debenture	6,00,000	
Unsecured trade payables	4,50,000	(15,30,000)
Profit and loss A/c (Debit balance)		(8,70,000)

**QUESTION 84)**

The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

Particulars	Amount in Rs.
<b>Share Capital:</b>	
5,00,000 Equity shares of Rs. 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of Rs. 100 each fully paid up	20,00,000
<b>Reserves and Surplus:</b>	
Profit and Loss Account (Dr. balance)	14,60,000
<b>Non-Current Liabilities:</b>	
10% Secured Debentures	16,00,000
<b>Current Liabilities:</b>	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000

Bank Overdraft	1,00,000
Provision for Tax	1,00,000
<b>Non-Current Assets:</b>	
Property, plant and Equipment:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
Intangible Assets:	
Goodwill	11,00,000
Patents	5,00,000
<b>Current Assets:</b>	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000

**Note: Preference dividend is in arrears for last 2 years.**

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover Rs. 1,00,000 and Rs. 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

- (i) All the equity shares to be converted into fully paid equity shares of Rs. 5.00 each.
- (ii) The Preference shares be reduced to Rs. 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.
- (iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay Rs. 1,00,000 and Rs. 60,000 respectively in cash and to receive new 12% debentures for the balance amount.
- (iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.
- (v) Directors also waived 60% of their loans and accepted equity shares for the balance.
- (vi) Capital commitments of Rs. 3.00 lacs were cancelled on payment of Rs. 15,000 as penalty.
- (vii) Directors refunded Rs. 1,00,000 of the fees previously received by them.
- (viii) Reconstruction expenses paid Rs. 15,000.
- (ix) The taxation liability of the company was settled for Rs. 75,000 and was paid immediately.
- (x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account and Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

**SOLUTION****Journal Entries in the Books of Z Ltd.**

		Rs.	Rs.
(i)	Equity Share Capital (Rs. 10 each) A/c	Dr.	50,00,000
	To Equity Share Capital (Rs. 5 each) A/c		25,00,000
	To Reconstruction A/c		25,00,000

	(Being conversion of 5,00,000 equity shares of Rs. 10 each fully paid into same number of fully paid equity shares of Rs. 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (Rs. 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (Rs. 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of Rs. 100 each into same number of 10% preference share of Rs. 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures payable A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being Rs. 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables	Dr.	60,000	
	Interest on debentures payable A/c	Dr.	64,000	
	Bank A/c	Dr.	60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being Rs. 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (Rs. 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 8,000 equity shares of Rs. 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of Rs. 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000
	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	

	To Bank A/c		75,000
	To Reconstruction A/c		25,000
	(Being payment of tax liability in full settlement against provision for tax)		
(xi)	Land and Building A/c	Dr.	2,00,000
	To Reconstruction A/c		2,00,000
	(Being appreciation in value of Land & Building recorded)		
(xii)	Reconstruction A/c	Dr.	49,85,000
	To Goodwill A/c		11,00,000
	To Patent A/c		5,00,000
	To Profit and Loss A/c		14,60,000
	To Plant and Machinery A/c		6,50,000
	To Furniture & Fixture A/c		1,00,000
	To Trade Investment A/c		50,000
	To Inventory A/c		2,50,000
	To Trade Receivables A/c		1,00,000
	To Capital Reserve (bal. fig.)		7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)		

**Bank Account**

		Rs.			Rs.
To	Reconstruction (Y)	1,00,000	By	Balance b/d (overdraft)	1,00,000
To	Reconstruction(Z)	60,000	By	Reconstruction A/c	15,000
To	Reconstruction A/c (Refund of earlier fees by directors)	1,00,000		(Capital commitment penalty paid)	
			By	Reconstruction A/c (reconstruction expenses paid)	15,000
			By	Provision for tax A/c (tax paid)	75,000
			By	Balance c/d	55,000
		<b>2,60,000</b>			<b>2,60,000</b>

**Reconstruction Account**

		Rs.			Rs.
To	Bank (penalty)	15,000	By	Equity Share Capital A/c	25,00,000
To	Bank (Reconstruction expenses)	15,000	By	9% Pref. Share Capital A/c	10,00,000
To	Goodwill	11,00,000	By	Mr. Y (Settlement)	5,78,000
To	Patent	5,00,000	By	Mr. Z (Settlement)	3,82,000
To	P & L A/c	14,60,000	By	Trade Payables A/c	1,70,000
To	P & M	6,50,000	By	Director's loan	60,000
To	Furniture and Fixtures	1,00,000	By	Bank	1,00,000
To	Trade investment	50,000	By	Provision for tax	25,000
To	Inventory	2,50,000	By	Land and Building	2,00,000
To	Trade Receivables	1,00,000			



To	Capital Reserve (bal. fig.)	7,75,000		
		<b>50,15,000</b>		<b>50,15,000</b>

**QUESTION 85)**

The summarised Balance Sheet of Preeti Limited as on 31<sup>st</sup> March 2019, was as follows:



	(Rs.)
<b>Authorized and subscribed capital:</b>	
20,000 Equity shares of Rs. 100 each fully paid	20,00,000
<b>Unsecured loans:</b>	
15% Debentures	6,00,000
Interest payable thereon	90,000
<b>Current Liabilities:</b>	
Trade payables	1,04,000
Provision for income tax	72,000
<b>Property, plant and equipment:</b>	
Machineries	7,00,000
<b>Current Assets:</b>	
Inventory	5,06,000
Trade receivables	4,60,000
Bank	40,000
Profit & loss A/c (Dr.)	11,60,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

- i) Each share be sub-divided into 10 fully paid up equity shares of Rs. 10 each.
- ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
- iii) Out of shares surrendered 20,000 shares of Rs. 10 each shall be converted into 10% Preference shares of Rs. 10 each fully paid up.
- iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of Rs. 2,00,000 which are converted out of shares surrendered.
- v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.
- vi) Balance of Profit and Loss account to be written off.
- vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above.

**SOLUTION:**

Sr. No.	Particulars	Dr.	Cr.
1	Equity Share Capital A/c (Rs.10) <span style="float: right;">Dr.</span> To Share Surrender A/c To Equity Share Capital (Rs. 10) A/c (Sub-division of 20,000 equity shares of Rs. 100 each into 2,00,000 equity shares of Rs. 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)	20,00,000	10,00,000 10,00,000

2	15% Debentures Account Interest payable A/c (proportionate 50%) To Reconstruction A/c (Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)	Dr.  Dr.	3,00,000 45,000	3,45,000
3	Trade payables A/c To Reconstruction A/c (Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)	Dr.	1,04,000	1,04,000
4	Share Surrender A/c To 10% Preference Share Capital A/c To Equity Share Capital A/c To Reconstruction A/c (Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)	Dr.	10,00,000	2,00,000 78,000 7,22,000
5	Reconstruction A/c To Profit & Loss A/c To Capital Reserve A/c 11,000 (Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)	Dr.	11,71,000	11,60,000 11,000

**Note:** Alternative set of correct journal entries may be given for transfer of surrendered shares to trade payables and debenture holders.

### QUESTION 86)

Green Limited had decided to reconstruct the balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the Company on 31.03.20X1 before reconstruction:

		Particulars	Notes	₹
		<b>Equity and Liabilities</b>		
<b>1</b>		<b>Shareholders' funds</b>		
	A	Share capital	1	65,00,000
	B	Reserves and Surplus	2	(20,00,000)
<b>2</b>		<b>Non-current liabilities</b>		
	A	Long-term borrowings	3	15,00,000
<b>3</b>		<b>Current liabilities</b>		
	A	Trade Payables		5,00,000
		<b>Total</b>		<b>65,00,000</b>
		<b>Assets</b>		
<b>1</b>		<b>Non-current assets</b>		
	A	Property, plant and equipment	4	45,00,000
	B	Intangible assets	5	20,00,000
<b>2</b>		<b>Current assets</b>		Nil
		<b>Total</b>		<b>65,00,000</b>

**Notes to accounts**

		₹
<b>1</b>	<b>Share Capital</b>	
	Equity share capital	
	Authorized share capital	
	1,50,000 Equity shares of ₹ 50 each	75,00,000
	Issued, subscribed and paid up capital	
	50,000 Equity Shares of ₹ 50 each	25,00,000
	1,00,000 Equity shares of ₹ 50 each, ₹ 40 paid up	40,00,000
		65,00,000
<b>2</b>	<b>Reserves and Surplus</b>	
	Debit balance of Profit and loss Account	(20,00,000)
		(20,00,000)
<b>3</b>	<b>Long-term borrowings</b>	
	Secured: 12% First debentures	5,00,000
	12% Second debentures	10,00,000
		15,00,000
<b>4</b>	<b>Property, Plant and Equipment</b>	
	Building	10,00,000
	Plant	10,00,000
	Computers	25,00,000
		45,00,000
<b>5</b>	<b>Intangible assets</b>	
	Goodwill	20,00,000
		20,00,000

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X	Mr. Y
	₹	₹
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Trade payables	2,00,000	1,00,000
	12,00,000	6,00,000
Fully paid up ₹ 50 shares	3,00,000	2,00,000
Partly paid up shares (₹ 40 paid up)	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

- Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of ₹ 20 each.
- Mr.X is to cancel ₹7,00,000 of his total debt (other than share amount) and to pay ₹2laks to the company and to receive new 14% First Debentures for the balance amount.
- Mr. Y is to cancel ₹ 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.
- The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

You are required to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company.

**SOLUTION****Green Limited Journal Entries**

	Dr.	Cr.
Bank Account To Equity Share Capital Account (Balance of ₹10 per share on 1,00,000 equity shares called up as per reconstruction scheme)	Dr. 10,00,000	10,00,000
Equity Share capital Account (₹50) To Equity Share Capital Account (₹20) To Capital Reduction Account (Reduction of equity shares of shares of ₹20 each as per reconstruction scheme)	Dr. 75,00,000	30,00,000 45,00,000
12% First Debentures Account 12% Second Debentures Account Trade payables Account To X (The total amount due to x, transferred to his account)	Dr. Dr. Dr. 3,00,000 7,00,000 2,00,000	12,00,000
Bank Account To X (The amount paid by X under the reconstruction scheme)	Dr. 2,00,000	2,00,000
12% First Debentures Account 12% Second Debentures Account Trade payables Account To Y (The total amount due to Y, transferred to his account)	Dr. Dr. Dr. 2,00,000 3,00,000 1,00,000	6,00,000
Y To 14% First Debentures Account To Capital Reduction Account (The amount due to Y discharged by issue of 14% first debentures)	Dr. 6,00,000	3,00,000 3,00,000
X To 14% First Debentures Account To Capital Reduction Account (The cancellation of ₹7,00,000 out of total debt of Mr. X and issue of 14% first debentures for the balance amount as per reconstruction scheme)	Dr. 14,00,000	7,00,000 7,00,000
Capital Reduction Account To Goodwill Account To Profit and Loss Account To Computers Account (The balance amount of capital reduction account utilized in writing off goodwill, profit and loss account, and computers- working Note)	Dr. 55,00,000	20,00,000 20,00,000 15,00,000

**Balance Sheet of Green Limited (and reduced) as on 31st March, 20X1**

	Particulars	Notes	Rs.
	<b>Equity and Liabilities</b>		
<b>1</b>	<b>Shareholders' funds</b>		
A	Share capital	1	30,00,000
<b>2</b>	<b>Non-current liabilities</b>		
A	Long-term borrowings	2	10,00,000
<b>3</b>	<b>Current liabilities</b>		
A	Trade Payables		2,00,000
	<b>Total</b>		<b>42,00,000</b>

		Assets	
<b>1</b>	<b>Non-current assets</b>		
A	Property, Plant Equipment		
	Tangible assets		30,00,000
<b>2</b>	<b>Current assets</b>		
A	Cash and cash equivalents		12,00,000
	<b>Total</b>		<b>42,00,000</b>

## Notes to accounts

			₹
<b>1.</b>	<b>Share Capital</b>		
	Equity share capital		
	Issued, subscribed and paid up		
	1,50,000 equity shares of ₹ 20 each		30,00,000
	<b>Total</b>		<b>30,00,000</b>
<b>2.</b>	<b>Long-term borrowings</b>		
	Secured		
	14% First Debentures		10,00,000
	<b>Total</b>		<b>10,00,000</b>
<b>3.</b>	<b>Tangible assets</b>		
	Building		10,00,000
	Plant		10,00,000
	Computers		10,00,000
	<b>Total</b>		<b>30,00,000</b>

## Working Note:

## Capital Reduction Account

	₹		₹
To Goodwill A/c	20,00,000	By Equity Share Capital A/c	45,00,000
To P & L A/c	20,00,000	By X	7,00,000
To Computers (Bal. Fig.)	15,00,000	By Y	3,00,000
	<b>55,00,000</b>		<b>55,00,000</b>

**QUESTION 87)**

The following is the Balance Sheet of Star Ltd. as on 31<sup>st</sup> March, 2019:



		Rs
<b>A.</b>	<b>EQUITY &amp; LIABILITIES</b>	
	<b>1. Shareholders' Fund:</b>	
	(a) <b>Share Capital:</b>	
	9,000 7% Preference Shares of Rs 100 each fully paid	9,00,000
	10,000 Equity Shares of Rs 100 each fully paid	10,00,000
	(b) <b>Reserve &amp; Surplus:</b>	
	Profit & Loss Account	(2,00,000)
	<b>2. Non-current liabilities:</b>	
	"A" 6% Debentures (Secured on Bombay Works)	3,00,000
	"B" 6% Debentures (Secured on Chennai Works)	3,50,000
	<b>3. Current Liabilities and Provisions:</b>	
	(a) <b>Workmen's Compensation Fund:</b>	
	Bombay Works	10,000

			Chennai Works	5,000
		(b)	Trade Payables	1,25,000
			<b>TOTAL</b>	<b>24,90,000</b>
<b>B.</b>	<b>ASSETS:</b>			
	<b>Non- current Assets:</b>			
	<b>1.</b>	<b>PPE:</b>		
			Bombay Works	9,50,000
			Chennai Works	7,75,000
	<b>2.</b>	<b>Investment:</b>		
			Investments for Workman's Compensation Fund	15,000
	<b>3.</b>	<b>Current Assets:</b>		
		(a)	Inventories	4,50,000
		(b)	Trade Receivables	2,50,000
		(c)	Cash at Bank	50,000
			<b>TOTAL</b>	<b>24,90,000</b>

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

1. Paid up value of 7% Preference Share to be reduced to Rs 80, but the rate of dividend being raised to 9%.
2. Paid up value of Equity Shares to be reduced to Rs 10.
3. The directors to refund Rs 50,000 of the fees previously received by them.
4. Debenture holders forego their interest of Rs 26,000 which is included among the trade payables.
5. The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.
6. "B" 6% Debenture holders agreed to take over the Chennai Works of Rs 4,25,000 and to accept an allotment of 1,500 equity shares of Rs 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of Rs 10 each fully paid at par to Star Ltd.
7. The Chennai Workmen's compensation fund disclosed that there were actual liabilities of Rs 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.
8. Inventory was to be written off by Rs 1,90,000 and a provision for doubtful debts is to be made to the extent of Rs 20,000.
9. Chennai works completely written off.
10. Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

## SOLUTION

In the books of Star Ltd.

### Journal Entries

	Particulars	Amount Rs.	Amount Rs.
(i)	7% Preference share capital (Rs. 100) Dr. To 9% Preference share capital (Rs. 80) To Capital reduction A/c (Being preference shares reduced to Rs. 80 and also rate of dividend raised from 7% to 9%)	9,00,000	7,20,000 1,80,000
(ii)	Equity share capital A/c (Rs. 100 each) Dr. To Equity share capital A/c (Rs. 10 each) To Capital reduction A/c (Being reduction of nominal value of one share of Rs. 100 each to	10,00,000	1,00,000 9,00,000

	Rs. 10 each)			
(iii)	Bank A/c To Capital reduction A/c (Being directors refunded the fee amount)	Dr.	50,000	50,000
(iv)	Trade payables A/c (Interest on debentures) To Capital reduction A/c (Being interest forgone by the debenture holders)	Dr.	26,000	26,000
(v)	No entry required			
(vi) a	'B' 6% Debentures A/c To Debentures holders A/c (Being amount due to Debentures holders)	Dr.	3,50,000	3,50,000
b	Debentures holders A/c To Chennai Works A/c To Equity share capital A/c (Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders)	Dr.	4,40,000	4,25,000 15,000
c	Equity share of Zia Ltd. A/c To Debentures holders A/c (Being 9,000 equity shares of Zia Ltd. Issued by Debentures holders)	Dr.	90,000	90,000
(vii) a	Chennai Works – Workmen Compensation Fund To Capital reduction A/c (Being difference due to reduced amount of actual liability transferred to capital reduction account)	Dr.	4,000	4,000
b	Bank A/c To Investment for Workmen Compensation Fund To Capital reduction A/c (Being investment for Workmen Compensation Fund sold @ 10% profit)	Dr.	15,400	14,000 1,400
c	Trade Payables A/c To Bank A/c (Being part payment made to trade payables)	Dr.	15,400	15,400
(viii)	Capital reduction A/c To Provision for Doubtful Debts A/c To Inventory A/c (Being assets revalued)	Dr.	2,10,000	20,000 1,90,000
(ix)	Capital reduction A/c To Profit & Loss A/c To PPE– Chennai Works (Being assets revalued and losses written off)	Dr.	5,50,000	2,00,000 3,50,000*
(x)	Capital reduction A/c To PPE– Bombay Works To Capital reserve A/c (Being assets revalued and remaining amount transferred to capital reserve account)	Dr.	4,01,400	2,67,600 1,33,800

## ACCOUNTING FOR BRANCHES INCLUDING FOREIGN INCLUDING FOREIGN BRANCHES

### QUESTION 88)

Beta, having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31<sup>st</sup> March, 20X1:

	Head Office (Rs.)	Branch (Rs.)
Opening stock	2,25,000	
Purchases	25,50,000	
Goods sent to branch (Cost to H.O. plus 80%)	9,54,000	
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31<sup>st</sup> March, 20X1.

### SOLUTION

#### Working Note 1: -

#### Head Office

Opening Stock – 2,25,000		
+ Purchases – 25,50,000		
<b>Total – 27,75,000</b>		
<b>Sale @180</b>	<b>GSTB @180</b>	<b>Closing Stock (b/f)</b>
COGS = $27,81,000/180 \times 100$	COGS = $9,54,000/180 \times 100$	7,00,000
= 15,45,000	= 5,30,000	

#### Working Note 2: -

#### Branch

Opening Stock – 0	
+ Purchases – 0	
+ Goods Received from HO – 5,30,000	
<b>Total – 5,30,000</b>	
COGS = $9,50,000/200 \times 100$	<b>Closing Stock (b/f)</b>
= 4,75,000	55,000

#### Branch Trading (Cost Basis)

Goods Received from HO	5,30,000	Sales	9,50,000
Gross Profit	4,75,000	Closing Stock	55,000
	<b>10,05,000</b>		<b>10,05,000</b>



**QUESTION 89)**

Beta, having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31<sup>st</sup> March, 20X1:

	Head Office (Rs.)	Branch (Rs.)
Opening stock	2,25,000	
Purchases	25,50,000	
Goods sent to branch (Cost to H.O. plus 80%)	9,54,000	
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31<sup>st</sup> March, 20X1.

**SOLUTION**

Trading and Profit and Loss A/c

For the year ended 31st March 20X1

	Head office Rs.	Branch Rs.		Head office Rs.	Branch Rs.
To Opening stock	2,25,000	-	By Sales	27,81,000	9,50,000
To Purchases	25,50,000	-	By Goods sent to branch	9,54,000	-
To Goods received from head office	-	9,54,000	By Closing stock (W.N.1 & 2)	7,00,000	99,000
To Gross profit c/d	16,60,000	95,000			
	<b>44,35,000</b>	<b>10,49,000</b>		<b>44,35,000</b>	<b>10,49,000</b>
To Office expenses	90,000	8,500	By Gross profit b/d	16,60,000	95,000
To Selling expenses	72,000	6,300			
To Staff salaries	65,000	12,000			
To Branch Stock Reserve (W.N.3)	44,000	-			
To Net Profit	13,89,000	68,200			
	<b>16,60,000</b>	<b>95,000</b>		<b>16,60,000</b>	<b>95,000</b>

**Working Notes:**

(1)	Calculation of closing stock of head office:	<b>Rs.</b>
	Opening Stock of head office	2,25,000
	Goods purchased by head office	25,50,000
		27,75,000
	Less: Cost of goods sold [37,35,000 x 100/180]	(20,75,000)
		7,00,000
(2)	Calculation of closing stock of branch:	<b>Rs.</b>
	Goods received from head office [At invoice value]	9,54,000
	Less: Invoice value of goods sold [9,50,000 x 180/200]	(8,55,000)

		99,000
(3)	Calculation of unrealized profit in branch stock:	
	Branch stock Rs. 99,000	
	Profit included 80% of cost	
	Hence, unrealized profit would be = Rs. 99,000 x 80/180	Rs. 44,000

**QUESTION 90)**

Walkaway Footwears has its head office at Nagpur and Branch at Patna. It invoiced goods to its Branch at 20% less than the list price which is cost plus 100%, with instruction that cash sales were to be made at invoice price and the credit sales at Catalogue price (i.e. list price).

The following information was available at the branch for the year ended 31<sup>st</sup> March, 2022.

**(Figures in Rs.)**

Stock on 1 <sup>st</sup> April, 2021 (invoice price)	12,000
Debtors on 1 <sup>st</sup> April, 2021	10,000
Goods received from head office (invoice price)	1,32,000
Sales: Cash 46,000	
Credit 1,00,000	1,46,000
Cash received from debtors	85,000
Expenses at branch	17,500
Debtors on 31 <sup>st</sup> March, 2022	25,000
Stock on 31 <sup>st</sup> March, 2022 (invoice price)	17,600
Remittances to head office	1,20,000

You are required to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Branch Debtors Account for the year ended 31<sup>st</sup> March, 2022.

**SOLUTION****In the books of walkaway footwears****Patna Branch Stock Account**

		Particulars	Amount (Rs.)			Particulars	Amount (Rs.)
1.1.21	To	Balance b/d	12,000	31.12.21	By	Bank A/c (Cash sales)	46,000
31.12.21	To	Goods sent to branch A/c	1,32,000				
	To	Branch adjustment A/c (Surplus over invoice price)	20,000		By	Branch debtor's A/c (credit sales)	1,00,000
				31.12.21	By	Shortage in stock A/c	400
					By	Balance c/d	17,600
			<b>1,64,000</b>				<b>1,64,000</b>

**Patna Branch Adjustment Account**

		Particulars	Amount (Rs.)			Particulars	Amount (Rs.)
31.12.21	To	Stock reserve - Rs. 17,600 x 60/160 (closing stock)	6,600	31.12.21	By	Stock reserve - Rs. 12,000 x 60/160 (Opening stock)	4,500
	To	Shortage (400x 60/160)	150		By	Goods sent to branch A/c (Rs. 1,32,000 x 60/160)	49,500
	To	Branch profit & loss A/c (Gross profit)	67,250		By	Branch stock A/c	20,000
			<b>74,000</b>				<b>74,000</b>

## Branch Profit &amp; Loss Account

Particulars		Amount (Rs.)	Particulars		Amount (Rs.)
To	Branch expenses A/c	17,500	By	Branch adjustment A/c (Gross Profit)	67,250
To	Shortage in stock A/c	250			
To	Net profit (transferred to Profit & Loss A/c)	49,500			
		<b>67,250</b>			<b>67,250</b>

## Branch Debtors Account

Particulars		Amount (Rs.)	Particulars		Amount (Rs.)
1.1.21	To Balance b/d	10,000	31.12.21	By Bank A/c	85,000
31.12.21	To Branch stock A/c	1,00,000		By Balance c/d (bal. fig.)	25,000
		<b>1,10,000</b>			<b>1,10,000</b>

**QUESTION 91)**

Vijay & Co. of Jaipur has a branch in Patna to which, goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are paid direct from Head Office and the branch has to remit all cash received into the bank account of Head Office. Branch does not maintain any books of accounts, but sends monthly returns to head office.

Following further details are given for the year ended 31<sup>st</sup> March 2020:

	Amount
Goods received from Head Office at invoice price	8,40,000
Goods returned to Head Office at invoice price	60,000
Cash sales for the year 2019-20	1,85,000
Credit sales for the year 2019-20	6,25,000
Stock at branch as on 01-04-2019 at invoice price	72,000
S. Debtors at Patna branch as on 01-04-2019	96,000
Cash received from debtors	4,38,000
Discount allowed to Debtors	7,500
Goods returned by customers at Patna Branch	14,000
Bad debts written off	5,500
Amount recovered from bad debts previously written off as bad	1,000
Rent, Rates & Taxes at branch	24,000
Salaries & Wages at branch	72,000
Office expenses (at branch)	9,200
Stock at branch as on 31-03-2020 at cost price	1,25,000

Prepare necessary ledger accounts in the books of Head office by following Stock & Debtors method and ascertain branch profit.

**SOLUTION**

## Branch Stock Account

		Rs.			Rs.	Rs.	Rs.
1.4.19	To	Balance b/d (Opening stock)	72,000	31.3.20	By	Sales:	

31.3.20	To	Goods Sent to Branch A/c	8,40,000			Cash		1,85,000	
						Credit	6,25,000		
	To	Branch P&L	94,000			Less: Return	(14,000)	6,11,000	7,96,000
						Goods sent to Branch - returns			60,000
					By	Balance c/d (Closing stock)			1,50,000
			<b>10,06,000</b>						<b>10,06,000</b>
1.4.20	To	Balance b/d	1,50,000						

**Branch Debtors Account**

			Rs.				Rs.
1.4.19	To	Balance b/d	96,000	31.3.20	By	Cash	4,38,000
31.3.20	To	Sales	6,25,000		By	Returns	14,000
					By	Discounts	7,500
					By	Bad debts	5,500
					By	Balance c/d	2,56,000
			<b>7,21,000</b>				<b>7,21,000</b>
1.4.20	To	Balance b/d	2,56,000				

**Branch Expenses Account**

			Rs.				Rs.
31.3.20	To	Salaries & Wages	72,000	31.3.20	By	Branch P&L A/c	1,18,200
	To	Rent, Rates & Taxes	24,000				
	To	Office Expenses	9,200				
	To	Discounts	7,500				
	To	Bad Debts	5,500				
			<b>1,18,200</b>				<b>1,18,200</b>

**Branch Profit & Loss Account for year ended 31.3.20**

			Rs.				Rs.
31.3.20	To	Branch Expenses A/c	1,18,200	31.3.20	By	Branch stock	94,000
	To	Net Profit transferred to			By	Branch Stock Adjustment account	1,17,000
		General P & L A/c	93,800		By	Bad debts recovered	1,000
			<b>2,12,000</b>				<b>2,12,000</b>

**Branch Stock Adjustment Account for year ended 31.3.20**

			Rs.				Rs.
31.3.20	To	Goods sent to branch z60,000x1/6)- Returns	10,000	31.3.20	By	Balance b/d (72,000x1/6)	12,000
	To	Branch P&L A/c	1,17,000		By	Goods sent to branch (8,40,000x1/6)	1,40,000
	To	Balance c/d	25,000				

	(1,50,000x1/6)				
		1,52,000			1,52,000

**QUESTION 92)**

Ayan Ltd. Invoices goods to its branch at cost plus  $33\frac{1}{3}\%$  From the following Particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.



	Rs
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including goods invoiced at Rs. 48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31<sup>st</sup> March, 2018.

**SOLUTION****In the books of Head Office Branch Stock Account**

Particulars	Rs	Particulars	Rs
To Balance b/d	3,60,000	By Bank A/c (cash Sales)	21,60,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)	1,20,000
To Branch Adjustment A/c – balancing fig. (Surplus)***	36,000	By Goods sent to Branch A/c (Returns to H.O.)	1,20,000
		By Branch Adjustment A/c* (Rs. 24,000 x25/100)	6,000
		By Branch P&L A/c * (Cost of Abnormal Loss)	18,000
		By Branch Adjustment A/c** (Invoice price of normal loss)	36,000
		By Balance c/d: In hand	2,88,000
		in transit	48,000
	<b>27,96,000</b>		<b>27,96,000</b>

- ✚ Alternatively, combined posting for the amount of Rs. 24,000 may be passed through Goods pilfered account.
- ✚ Alternatively, it may first be transferred to normal Loss account which may ultimately be closed by transfer to Branch Adjustment account. The final amount of net profit will however remain same.
- ✚ It has been considered that the surplus may be due to sale of goods by branch at price higher than invoice price.

**Branch Stock Adjustment Account**

Particulars	(Rs)	Particulars	(Rs)
To Branch Stock A/c (Loading on Abnormal Loss)	6,000	By Stock Reserve A/c (Rs. 3,60,000 x 25/100)	90,000
To Branch Stock A/c	36,000	By Goods Sent to Branch A/c (Rs.	5,70,000

(Normal Loss)		24,00,000 – Rs. 1,20,000) x 25/100	
To Stock Reserve A/c (Rs. 3,36,000x25/100)	84,000	By Branch Stock A/c (Surplus)	36,000
To Gross Profit t/f to P & L A/c	5,70,000		
	<b>6,96,000</b>		<b>6,96,000</b>

#### Branch Profit and Loss Account

Particulars	Rs	Particulars	Rs
To Branch Stock A/c (Cost of Abnormal Loss)	18,000	By Branch Adjustment A/c (Gross Profit)	5,70,000
To Net Profit t/f to General P & LA/c	5,52,000		
	<b>5,70,000</b>		<b>5,70,000</b>

### QUESTION 93)

Widespread 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 with-holding Rs. 10,000 necessary for meeting immediate requirements of cash. On 31<sup>st</sup> March, 20X1 the assets at the branch were as follows:



	Rs. ('000)
Cash in Hand	10
Trade Debtors	384
Stock, at Invoice Price	1,080
Furniture and Fittings	500

During the accounting year ended 31<sup>st</sup> March, 20X2 the invoice price of goods dispatched by the head office to the branch amounted to Rs. 1 crore 32 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at Rs. 72,000. Other transactions at the branch during the year were as follows:

	(Rs. '000)
Cash Sales	9,700
Credit Sales	3,140
Cash collected by Branch from Credit Customers	2,842
Cash Discount allowed to Debtors	58
Returns by Customers	102
Bad Debts written off	37
Expenses paid by Branch	842

On 1<sup>st</sup> January, 20X2 the branch purchased new furniture for 1 lakh for which payment was made by head office through a cheque.

On 31<sup>st</sup> March, 20X2 branch expenses amounting to Rs. 6,000 were outstanding and cash in hand was again Rs. 10,000. 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 31<sup>st</sup> March, 20X2.

**SOLUTION**

**In the Head Office Books**  
**Branch Account**  
**for the year ended 31st March, 20X2**

	Rs.'000		Rs.'000
To Balance b/d		By Balance b/d	
Cash in hand	10	Stock reserve Rs. 1,080 × 1/6	180
Trade debtors	384	By Goods sent to branch A/c (Returns to H.O.)	72
Stock	1,080	By Goods sent to branch A/c (Loading on net goods sent to branch – 13,128X1/6)	2,188
Furniture and fittings	500		
To Goods sent to branch A/c	13,200	Bank A/c (Remittance from branch to H.O.) (W.N.5)	11,700
To Bank A/c (Payment for furniture)	100	By Balance c/d	
To balance c/d stock reserve 1,470 x 1/6	245	Cash in hand	10
To Outstanding expenses	6	Trade debtors (W.N.3)	485
To Net profit transferred to General P/L account	1,096	Stock (W.N.1)	1,470
		Furniture & fittings (W.N.4)	516
	<b>16,621</b>		<b>16,621</b>

<b>Working Notes:</b>		
<b>1. Invoice price and cost</b>		
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. '000		Rs. '000
To Balance b/d	1,080	By Goods sent to branch	72
To Goods sent to branch	13,200	By Branch Cash	9,700
To Branch debtors	102	By Branch debtors	3,140
		By Balance c/d	1,470
	<b>14,382</b>		<b>14,382</b>

**3. Closing balance of branch debtors****Branch Debtors Account**

	Rs. '000		Rs. '000
To Balance b/d	384	By Branch cash	2,842
To Branch stock	3,140	By Branch expenses discount	58
		By branch stock (Returns)	102
		By Branch expenses (Bad debts)	37
		By Balance b/d	485
	<b>3,524</b>		<b>3,524</b>

## 4. Closing balance of furniture and fittings

## Branch Furniture and Fittings Account

	Rs. '000		Rs. '000
To Balance b/d	500	By depreciation [(500x16%) (100x16%x3/12)]	84
To Bank	100	By Balance c/d	516
	<b>600</b>		<b>600</b>

**Note:** Since the new furniture was purchased on 1st Jan 20X2 depreciation will be for 3 months.

## 5. Remittance by branch to head office

## Branch Cash Account

	Rs. '000		Rs. '000
To Balance b/d	10	By Branch expenses	842
To Branch stock	9,700	By Remittances to H.O. (b.f)	11,700
To Branch debtors	<u>2,842</u>	By Balance b/d	10
	<b>12,552</b>		<b>12,552</b>

**QUESTION 94)**

Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

- (i) Branch paid Rs. 5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.
- (ii) A remittance of Rs. 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.
- (iii) Branch assets accounts retained at head office; depreciation charged for the year Rs. 15,000 not recorded by Branch.
- (iv) Head Office expenses Rs. 75,000 allocated to the Branch, but not yet been recorded by the Branch.
- (v) Head Office collected Rs. 60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.
- (vi) Goods dispatched by the Head office amounting to Rs. 50,000, but not received by the Branch till date of reconciliation.
- (vii) Branch incurred advertisement expenses of Rs. 10,000 on behalf of other Branches, but not recorded in the books of Branch.

Head office made payment of Rs. 16,000 for purchase of goods by branch, but not recorded in branch books.

**SOLUTION**Books of Branch  
Journal Entries

		Amounts Rs		
		Dr.	Cr.	
(i)	Head Office Account To Salaries Account (Being rectification of salary paid on behalf of Head Office)	Dr.	5,000	5,000
(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c To Head Office Account	Dr.	15,000	15,000



	(Being depreciation of assets accounted for)			
(iv)	Expenses Account To Head Office Account (Being allocated expenses of Head Office recorded)	Dr.	75,000	75,000
(v)	Head Office Account To Debtors Account (Being adjustment entry for collection from Branch Debtors directly by Head Office)	Dr.	60,000	60,000
(vi)	Goods in-transit Account To Head Office Account (Being goods sent by Head Office still in-transit)	Dr.	50,000	50,000
(vii)	Head Office Account To expenses Account / To Cash (Being expenditure incurred, wrongly recorded in books)	Dr.	10,000	10,000
(viii)	Purchases account A/c / Creditors To Head Office Account (Being purchases booked)	Dr.	16,000	16,000

**QUESTION 95)**

Show adjustment journal entry in the books of head office at the end of April, 20X1 for incorporation of inter – branch transactions assuming that only head office maintains different branch accounts in its books.

**A. Delhi branch:**

- (1) Received goods from Mumbai – Rs. 35,000 and Rs. 15,000 from Kolkata.
- (2) Sent goods to Chennai – Rs. 25,000, Kolkata – Rs. 20,000.
- (3) Bill Receivable received – Rs. 20,000 from Chennai.
- (4) Bill Acceptances sent to Mumbai – Rs. 25,000, Kolkata – Rs. 10,000.

**B. Mumbai Branch (apart from the above):**

- (1) Received goods from Kolkata – Rs. 15,000, Delhi – Rs. 20,000.
- (2) Cash sent to Delhi – Rs. 15,000, Kolkata – Rs. 7,000.

**C. Chennai Branch (apart from the above):**

- (3) Received goods from Kolkata – Rs. 30,000.
- (4) Acceptances and Cash sent to Kolkata – Rs. 20,000 and Rs.10,000 respectively.

**D. Kolkata Branch (apart from the above):**

- (5) Sent goods to Chennai – Rs. 35,000.
- (6) Paid cash to Chennai – Rs.15,000.
- (7) Acceptances sent to Chennai – Rs.15,000.

**SOLUTION****(a) Journal entry in the books of Head Office**

Date	Particulars	Dr.	Cr.
		Rs.	Rs.
30th April, 20X1	Mumbai Branch Account Chennai Branch Account To Delhi Branch Account To Kolkata Branch Account (Being adjustment entry passed by head office in respect	Dr. Dr.	3,000 70,000 15,000 58,000

	of inter-branch transactions for the month of April 20X1)		
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**Working Note:**

		Delhi	Mumbai	Chennai	Kolkata
		Rs.	Rs.	Rs.	Rs.
A.	Delhi Branch				
1	Received goods	50,000(Dr.)	35,000(Cr.)		15,000(Cr.)
2	Sent goods	45,000(Cr.)		25,000(Dr.)	20,000(Dr.)
3	Received Bills receivable	20,000(Dr.)		20,000(Cr.)	
4	Sent Acceptance	35,000(Cr.)	25,000 (Dr.)		10,000(Dr.)
B.	Mumbai Branch				
5	Received goods	20,000(Cr.)	35,000 (Dr.)		15,000(Cr.)
6	Sent cash		22,000 (Cr.)		
C.	Chennai Branch				
7	Received goods			30,000 (Dr.)	30,000(Cr.)
8	Sent cash and acceptances			30,000(Cr.)	30,000 (Dr.)
D.	Kolkata Branch				
9	Sent goods			35,000(Dr.)	35,000(Cr.)
10	Sent cash			15,000(Dr.)	15,000(Cr.)
11	Sent acceptances			15,000(Dr.)	15,000(Cr.)
		<b>15,000 (Cr.)</b>	<b>3,000(Dr.)</b>	<b>70,000(Dr.)</b>	<b>58,000(Cr.)</b>

**QUESTION 96)**

Ring Bell Ltd. Delhi has a branch at Bombay where a separate set of books is used. The following is the Trail balance extracted on 31<sup>st</sup> Dec.,2010:



Particulars	HO		Branch	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital	-	8,00,000	-	-
Profit & Loss a/c (01/01/2010)	-	25,310	-	-
Profit for 2010	-	82,200	-	31,700
Interim dividend paid	30,000	-	-	-
General Reserve	-	1,00,000	-	-
Fixed Assets	5,30,000	-	95,000	-
Stock	2,22,470	-	50,460	-
Debtors and Creditors	50,500	21,900	19,100	10,400
Cash Balance	62,730	-	6,550	-
HO a/c in branch books	-	-	-	1,29,010
Branch a/c in HO books	1,33,710	-	-	-

The difference between the balance of HO a/c and Branch a/c in both set of books is accounted for as follows:

- (1) Cash remitted by the branch on 31<sup>st</sup> Dec 2010 but received by the HO on 1<sup>st</sup> Jan. 2011- 3,000/-
- (2) Stock Stolen in transit from HO and charged to branch by the HO, but not credited to HO a/c in the branch books as the branch manager declined to admit any liability (not covered by insurance)- 1,700/-.

Give the Branch a/c in the HO books after incorporating the branch Trail balance through journal entries. Also prepare company's Balance Sheet as on 31<sup>st</sup> Dec., 2010.

**SOLUTION**

The Branch Current Account in the Head Office Books and Head Office Current Account in the Branch Books do not show the same balances. Therefore, in order to reconcile them, the following journal entries will be passed in the Head Office books:

**Journal Entries**

		Dr.	Cr.
20X1		Rs.	Rs.
Dec., 31	Cash in Transit A/c To Branch Current A/c (Cash sent by the Branch on 31 <sup>st</sup> Dec., 20X1 but received at H.O. on 1st Jan., 20X2)	Dr. 3,000	3,000
	Loss by theft A/c To Branch Current A/c (Stock lost in transit from H.O. to Branch)	Dr. 1,700	1,700

In order to incorporate, in the H.O. books, the given Branch trial balance which has been drawn up after preparing the Branch Profit & Loss Account, the following journal entries will be necessary:

**Journal Entries**

20X1			Rs.	Rs.
Dec. 31	Branch Current Account To Profit & Loss Account (Branch Profit for the year)	Dr.	31,700	31,700
	Branch Fixed Assets Branch Stock Branch Debtors Branch Cash To Branch Current Account (Branch assets brought into H.O. Books)	Dr. Dr. Dr. Dr.	95,000 50,460 19,100 6,550	1,71,110
	Branch Current A/c To Branch Creditors (Branch creditors brought into H.O. Books)	Dr.	10,400	10,400

**Branch Current Account**

	Rs.		Rs.
To Balance b/d	1,33,710	By Cash in transit	3,000
To Profit & Loss A/c	31,700	By Loss of theft	1,700
To Branch Creditors	10,400	By Sundry Branch Assets	1,71,110
	<b>1,75,810</b>		<b>1,75,810</b>

**Profit and Loss Account for 20X1**

	Rs.		Rs.
To Loss by Theft	1,700	By Balance b/d	25,310
To Balance c/d	1,07,510	By Year's Profit: H.O.	52,200
		Branch	31,700
	<b>1,09,210</b>		<b>1,09,210</b>

**Question 97)**

Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2020 the Branch Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors Balance	62,000	Debtors Balance	2,24,000
Head Office	1,88,000	Building Extension A/c	
		Closed by transfer to H.O. A/c	-
		Cash at Bank	26,000
	<b>2,50,000</b>		<b>2,50,000</b>

During the six months ending on 30-09-2020, the following transactions took place at Noida:

	Rs.		Rs.
Sales	2,78,000	Manager's salary	16,400
Purchases	64,500	Collections from debtors	2,57,000
Wages Paid	24,000	Discounts allowed	16,000
Salaries (inclusive of advance of Rs. 5,000)	15,600	Discount earned	4,600
General Expenses	7,800	Cash paid to creditors	88,500
Fire Insurance (Paid for one year)	11,200	Building Account (further payment)	14,000
Remittance to H.O.	52,900	Cash in Hand	5,600
		Cash at Bank	47,000

Set out the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2020. Also give journal entries in the Noida books.

**SOLUTION****Journal Entries in the Books of Noida Branch**

Particulars		Debit (Rs.)	Credit (Rs.)
Salary Advance A/c To Salaries A/c (Being the amount paid as advance adjusted by debit to Salary Advance A/c)	Dr.	5,000	5,000
Prepaid Insurance A/c (11,200 X 6/12) To Fire Insurance A/c (Being the six months premium transferred to the Prepaid Insurance A/c)	Dr.	5,600	5,600
Head Office A/c To Purchases A/c To Wages A/c To Salaries A/c (15,600 – 5,000) To General Expenses A/c To Fire Insurance A/c (11,200 X 6/12) To Manager's Salary A/c To Discount Allowed A/c (Being the transfer of various revenue accounts to the HO)	Dr.	1,44,900	64,500 24,000 10,600 7,800 5,600 16,400 16,000

A/c for closing the accounts)			
Sales A/c	Dr.	2,78,000	
Discount Earned A/c	Dr.	4,600	
To Head Office A/c			2,82,600
(Being the transfer of various revenue accounts to HO)			
Head Office A/c	Dr.	14,000	
To Building A/c			14,000
(Being the transfer of amounts spent on building extension to HO A/c)			

**Head Office Account**

2020	Particulars	Amount (Rs.)	2020	Particulars	Amount (Rs.)
Sept 30	To Cash Remittance	52,900	April 1	By Balance b/d	1,88,000
	To Sundries* (Revenue)	1,44,900		By Sundries* (Revenue)	2,82,600
	To Building A/c	14,000			
	To Balance c/d	2,58,800			
	<b>Total</b>	<b>4,70,600</b>		<b>Total</b>	<b>4,70,600</b>

\* Instead of using Sundries (Revenue) A/c, the concerned revenue accounts can be posted in the ledger.

**Balance Sheet of Noida Branch As at 30th Sept 2020**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	33,400	Debtors	2,29,000
Head Office A/c	2,58,800	Salary Advance	5,000
		Prepaid Insurance	5,600
		Building Extension A/c transferred to HO	
		Cash in Hand	5,600
		Cash at Bank	47,000
<b>Total</b>	<b>2,92,200</b>	<b>Total</b>	<b>2,92,200</b>

**Working Notes**

**Cash and Bank Account**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	26,000	By Wages	24,000
To Collection from debtors	2,57,000	By Salaries	15,600
		By Insurance	11,200
		By General Expenses	7,800
		By HO A/c	52,900
		By Manager's Salary	16,400
		By Creditors	88,500
		By Building A/c	14,000
		By Balance c/d	
		- Cash in Hand	5,600
		- Cash at bank	47,000

Total	2,83,000	Total	2,83,000
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**Debtors Account**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	2,24,000	By Cash Collection	2,57,000
To Sales A/c	2,78,000	By Discount (Allowed)	16,000
		By Balance c/d	2,29,000
<b>Total</b>	<b>5,02,000</b>	<b>Total</b>	<b>5,02,000</b>

**Creditors Account**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Cash A/c	88,500	By Balance b/d	62,000
To Discount (Earned)	4,600	By Purchases	64,500
To Balance c/d	33,400		
<b>Total</b>	<b>1,26,500</b>	<b>Total</b>	<b>1,26,500</b>

**Note:**

Since the date of payment of fire insurance has not been mentioned in the question, it is assumed that it was paid on 01 April 2020.

Alternative answer considering otherwise also possible.

**QUESTION 98)**

KP manufactures a range of goods which it sells to wholesale customers only from its head office. In addition, the H.O. transfers goods to a newly opened branch at factory cost plus 15%. The branch then sells these goods to the general public on only cash basis.

The selling price to wholesale customers is designed to give a factory profit which amounts to 30% of the sales value. The selling price to the general public is designed to give a gross margin (i.e., selling price less cost of goods from H.O.) of 30% of the sales value.

KP operates from rented premises and leases all other types of fixed assets. The rent and hire charges for these are included in the overhead costs shown in the trial balances.

From the information given below, you are required to prepare for the year ended 31<sup>st</sup> Dec., 20X1 in columnar form.

(a) A Profit & Loss account for (i) H.O. (ii) the branch (iii) the entire business.

(b) Balance Sheet as on 31st Dec., 20X1 for the entire business.

	H.O.		Branch	
	Rs.	Rs.	Rs.	Rs.
Raw materials purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 1-1-20X1				
Raw materials	1,800			
Finished goods	13,000		9,200	
Debtors	37,000			
Cash	22,000		1,000	
Administrative Salaries	13,900		4,000	
Salesmen Salaries	22,500		6,200	
Other administrative &				
selling overheads	12,500		2,300	
Inter-unit accounts	5,000			2,000

Capital		50,000		
Sundry Creditors		13,000		
Provision for unrealized profit in stock		1,200		
Sales		2,00,000		65,200
Goods sent to Branch		46,000		
Goods received from H.O.			44,500	
	<b>3,10,200</b>	<b>3,10,200</b>	<b>67,200</b>	<b>67,200</b>

**Notes:**

- (8) On 28<sup>th</sup> Dec., 20X1 the branch remitted Rs. 1,500 to the H.O. and this has not yet been recorded in the H.O. books. Also, on the same date, the H.O. dispatched goods to the branch invoiced at Rs. 1,500 and these too have not yet been entered into the branch books. It is the company's policy to adjust items in transit in the books of the recipient.
- (9) The stock of raw materials held at the H.O. on 31<sup>st</sup> Dec., 20X1 was valued at Rs. 2,300.
- (10) You are advised that:
- There were no stock losses incurred at the H.O. or at the branch.
  - It is KP's practice to value finished goods stock at the H.O. at factory cost.
  - There were no opening or closing stock of work-in-progress.
- (11) Branch employees are entitled to a bonus of Rs. 156 under a bilateral agreement.

**SOLUTION****In the books of KP****Trading and Profit & Loss Account for the year ended 31<sup>st</sup> Dec., 20X1**

	H.O.	Branch	Total		H.O.	Branch	Total
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Material consumed (W.N.1)	34,500	-	34,500	By Sales	2,00,000	65,200	2,65,200
To Wages	1,08,500	-	1,08,500	By Goods Sent to Branch	46,000	-	-
To Factory Overheads	39,000	-	39,000				
To Opening stock of finished goods	13,000	9,200	22,200	By Closing stock including transit (W.N.2)	15,000	9,560	24,560
To Goods from H.O.		46,000					
To Gross Profit c/d (W.N.3)	66,000	19,560	85,560				
	<b>2,61,000</b>	<b>74,760</b>	<b>2,89,760</b>		<b>2,61,000</b>	<b>74,760</b>	<b>2,89,760</b>
To Admn. Salaries	13,900	4,000	17,900	By Gross Profit b/d	66,000	19,560	85,560
To Salesmen Salaries	22,500	6,200	28,700				
To Other Admn. & Selling Overheads	12,500	2,300	14,800				
To Stock Reserve (W.N.4)	47	-	47				
To Bonus to Staff	-	156	156				
To Net Profit	<b>17,053</b>	<b>6,904</b>	<b>23,957</b>				
	<b>66,000</b>	<b>19,560</b>	<b>85,560</b>		<b>66,000</b>	<b>19,560</b>	<b>85,560</b>

**Balance Sheet as on 31<sup>st</sup> Dec., 20X1**

	H.O.	Branch	Total		H.O.	Branch	Total
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Capital	50,000	-	50,000	Fixed Assets	-	-	-

Profit: H.O.	17,053	23,957		23,957	Current Assets:			
Branch	6,904							
					Raw material	2,300		2,300
Trade Creditors		13,000		13,000	Finished Goods (Less Stock Res.)	15,000	9,560	23,313*
Bonus Payable			156	156	Debtors	37,000	-	37,000
H.O. Account*			10,404		Cash (including transit item)	23,500	1,000	24,500
Stock Reserve (W.N.4)		1,247			Branch A/c	10,404*		
		<b>88,204</b>	<b>10,560</b>	<b>87,113</b>		<b>88,204</b>	<b>10,560</b>	<b>87,113</b>

\*9,560 × 100/115 i.e., (8,313 + 15,000) = Rs.23,313

\*\* (5,000 + 6,904) – 1500 = Rs. 10,404.

**Working Notes:**

**(1) Material Consumed**

Opening raw material + Raw Material Purchased – Closing raw material

= 1,800 + 35,000 - 2,300 = 34,500

**(2) Closing stock at head office**

(a) Calculation of total factor cost = Material consumed + Wages + Factory overhead

= 34,500 + 1,08,500 + 39,000 = 1,95,000

(b) Cost (factory cost) of goods sold = Sales – Gross profit

= 2,00,000 – 2,00,000 × 70% = 1,40,000

(c) Stock transferred to branch = 46,000 × 100/115 = 40,000

(d) Closing stock = 1,95,000 – 1,40,000 – 40,000 = 15,000

**(3) Gross profit of Branch = Sales × Gross profit ratio**

= 65,200 × 30% = 19,560

**(4) Closing stock reserve = 9,560 × 15/115 = 1,246**

Charge to profit and loss = 1,247 – 1,200 = 47

**QUESTION 99)**

The Washington branch of XYZ Mumbai sent the following trial balance as on 31st December, 20X1:



	\$	\$
Head office A/c	–	22,800
Sales	–	84,000
Debtors and creditors	4,800	3,400
Machinery	24,000	–
Cash at bank	1,200	–
Stock, 1 January, 20X1	11,200	–
Goods from H.O.	64,000	–
Expenses	5,000	–
	<b>1,10,200</b>	<b>1,10,200</b>

In the books of head office, the Branch A/c stood as follows:

**Washington Branch A/c**

		Rs.			Rs.
To	Balance b/d	8,10,000	By	Cash	28,76,000
To	Goods sent to branch	29,26,000	By	Balance c/d	8,60,000



		<b>37,36,000</b>			<b>37,36,000</b>
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Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31<sup>st</sup> January, 2007, when \$ 1.00 = Rs.40.

Rates of exchange were:

1 <sup>th</sup> January, 20X1	\$ 1.00	=	Rs. 46
31 <sup>st</sup> December, 20X1	\$ 1.00	=	Rs.48
Average	\$ 1.00	=	Rs. 47

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to:

- (i) Prepare the Branch Trading & Profit & Loss A/c in dollars.
- (ii) Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office.

## SOLUTION

(i)

**In the Books of Head Office**  
**Branch Trading and Profit & Loss A/c (in Dollars)**  
**for the year ended 31<sup>st</sup> December, 20X1**

Opening stock	11200	By sales	84000
Goods from H.O.	64000	By closing stock	8000
Gross profit c/d	16800		
	<b>92000</b>		<b>92000</b>
Expenses	5,000	By Gross Profit b/d	16,800
To deprecation (24000X 10%)	2400		
To manager commission	470		
To net profit C/d	8930		
	<b>16800</b>		<b>16800</b>

(i) (a)

**Converted Branch Trial Balance (into Indian Currency)**

Particulars	Rate per \$	Dr. (Rs.)	Cr. (Rs.)
Machinery	40	9,60,000	-
Stock January 1, 20X1	46	5,15,200	-
Goods from head office	Actual	29,26,000	-
Sales	47	-	39,48,000
Expenses	47	2,35,000	-
Debtors & creditors	48	2,30,400	1,63,200
Cash at bank	48	57,600	-
Head office A/c	Actual	-	8,60,000
Difference in exchange rate (b.f.)		47,000	-
		<b>49,71,200</b>	<b>49,71,200</b>
Closing stock \$ 8,000 (W.N. 2)	48		Rs. 3,84,000

(b) Branch Trading and Profit & Loss A/c for the year ended 31<sup>st</sup> December, 20X1

	Rs.		Rs.
To Opening stock	5,15,200	By Sales	39,48,000
To Goods from head office	29,26,000	By Closing stock (W.N.2)	3,84,000
To Gross profit c/d	8,90,800		
	43,32,000		43,32,000
To Expenses	2,35,000	By Gross profit b/d	8,90,800
To Depreciation @ 10% on Rs. 9,60,000	96,000		
To Exchange difference	47,000		
To Manager's commission (W.N.1)	22,560		
To Net Profit c/d	4,90,240		
	8,90,800		8,90,800

(c)

Branch Account

To Balance b/d	8,60,000	By Machinery	9,60,000	
To Net profit	4,90,240	Less:		
To Creditors	1,63,200	By Depreciation	(96,000)	8,64,000
To Outstanding		By Closing stock		3,84,000
To commission	22,560	By Debtors		2,30,400
		By Cash at bank		57,600
	15,36,000			15,36,000

Working Notes:

1. Calculation of manager's commission @ 5% on profit

i.e.,	5% of \$[16,800 – (5,000 + 2,400)]
Or	5% × \$9,400 = \$ 470
Manager's commission in Rupees = \$ 470 x Rs. 48 = Rs. 22,560	

2. Calculation of closing stock

	\$
Opening stock	11,200
Add: Goods from head office	64,000
	75,200
Less: Cost of goods sold (at invoice price) 84000X100/125	(67,200)
Closing stock	8,000
Closing stock in Rupees = \$8,000 x Rs. 48 = Rs.3,84,000.	

Note: Manager is entitled to commission on profits earned at the end of the year.

**QUESTION 100)**

M & S Co. of Lucknow has a Branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.



	Lucknow office (Rs. In thousands)		Canberra Branch (Aust. Dollars in thousands)	
	Dr.	Cr.	Dr.	Cr.

Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2018	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	<b>4,880</b>	<b>4,880</b>	<b>390</b>	<b>390</b>

The following information is also available:

(i) Stock as at 31<sup>st</sup> March, 2019

Lucknow Rs. 1,50,000

Canberra A\$ 3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at 5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A \$ = Rs. 50
Closing rate	1 A \$ = Rs. 53
Average rate	1 A \$ = Rs. 51.00
For Fixed Assets	1 A \$ = Rs. 46.00

Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately.

## SOLUTION

### M & S Co. Ltd.

#### Canberra, Australia Branch Trial Balance As on 31st March 2019

	(\$ 'thousands)			(Rs.' thousands)	
	Dr.	Cr.	Conversion rate per \$	Dr.	Cr.
Plant & Machinery (cost)	200		Rs. 46	9,200	
Plant & Machinery Dep. Reserve		130	Rs. 46		5,980
Trade receivable/payable	60	30	Rs. 53	3,180	1,590
Stock (1.4.2018)	20		Rs. 50	1,000	
Cash & Bank Balances	10		Rs. 53	530	

Purchase / Sales	20	123	Rs. 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		Rs. 51	2,295	
Rent	12		Rs. 51	612	
Office expenses	18		Rs. 51	918	
Commission Receipts		100	Rs. 51		5,100
H.O. Current A/c		7	Actual		120
				<b>18,855</b>	<b>19,063</b>
Foreign Exchange Loss (bal. fig.)				208	
	<b>390</b>	<b>390</b>		<b>19,063</b>	<b>19,063</b>
<b>Closing stock</b>	<b>3.125</b>		<b>53</b>	<b>165.625</b>	

### Trading and Profit & Loss Account for the year ended 31st March, 2019

(Rs.'000)									
		H.O.	Branch	Total			H.O.	Branch	Total
To	Opening Stock	100	1,000.000	1,100.000	By	Sales	520	6,273.000	6,793.000
To	Purchases	240	1,020.000	1,260.000	By	Goods sent to Branch	100	–	100.000
To	Goods received from Head Office	–	100.000	100.000	By	Closing Stock	150	165.625	315.625
To	Wages & Salaries	75	2,295.000	2,370.000					
To	Gross profit c/d	355	2,023.625	2,378.625					
		<b>770</b>	<b>6,438.625</b>	<b>7,208.625</b>			<b>770</b>	<b>6,438.625</b>	<b>7,208.625</b>
To	Rent	–	612.000	612.000	By	Gross profit b/d	355	2,023.625	2,378.625
To	Office expenses	25	918.000	943.000	By	Commission receipts	256	5,100.000	5,356.000
To	Provision for doubtful debts @ 5%	14	159.000	173.000					
To	Depreciation (W. N.)	460	644.000	1,104.000					
To	Balance c/d	112	4,790.625	4,902.625					
		<b>611</b>	<b>7,123.625</b>	<b>7,734.625</b>			<b>611</b>	<b>7,123.625</b>	<b>7,734.625</b>
To	Managing Partner's Salary			30.000	By	Balance b/d			4,902.625
To	Exchange Loss			208.000	By	Branch stock reserve			4.000
To	Balance c/d			4,668.625					
				<b>4,906.625</b>					<b>4,906.625</b>

#### Working Note:

#### Calculation of Depreciation

	H.O Rs. '000	Branch Rs. '000
Building – Cost	1,000	
Less: Dep. Reserve	(200)	
	<u>800</u>	
Depreciation @ 10% (A)	<u>80</u>	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	<u>1,900</u>	<u>3,220</u>
Depreciation @ 20% (B)	<u>380</u>	<u>644</u>
<b>Total Depreciation (A+B)</b>	<b>460</b>	<b>644</b>

**Note:** As the closing stock of Branch does not consist any stock transferred from M&S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&LA/c.

## **AS 1 - DISCLOSURE OF ACCOUNTING POLICIES**

### **QUESTION 101)**

Jagannath Ltd. had made a rights issue of shares in 2012. In the offer document to its members, it had projected a surplus of ₹40 crores during the accounting year to end on 31st March, 2014. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹10 crores. The board in consultation with the managing director, decided on the following:

- (i) Value year-end inventory at works cost (₹50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹30 crores).
- (ii) Provide depreciation for the year on straight line basis on account of substantial additions in gross block during the year, instead of on the reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at ₹27 crores is lower than the amount of ₹45 crores which would have been provided had the old method been followed, by ₹18 crores.
- (iii) Not to provide for “after sales expenses” during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of “matching of costs against revenue” and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to ₹600 crores.
- (iv) Provide for permanent fall in the value of investments - which fall had taken place over the past five years - the provision being ₹10 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2013-2014.

### **Answer**

As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

### **Notes on Accounts:**

- (i) During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital-intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at ₹50 crores and the profit for the year is increased by ₹20 crores.
- (ii) In view of the heavy capital-intensive method of production introduced during the year, the company has decided to change the method of providing depreciation from reducing balance method to straight line method. As a result of this change, depreciation has been provided at ₹27 crores which is lower than the charge which would have been made had the old method and the old rates been applied, by

₹18 crores. To that extent, the profit for the year is increased.

(iii) So far, the company has been providing 2% of sales for meeting “after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by ₹12 crores than would have been the case if the old policy were to continue. The company has decided to provide ₹10 crores for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by ₹10 crores.

### **QUESTION 102)**

You are required to comment on the following cases as per the provisions of Accounting Standard-1 ‘Disclosure of Accounting Policies’:

- (1) Bee Limited has not complied with AS-2 "Valuation of inventories" and the same is disclosed in the Notes on Accounts. Management is of the view that the financial statements give a true and fair view as non-compliance with AS-2 is disclosed.
- (2) Cee Limited sold its Office Building for ₹ 10,00,000 on 1st March, 2023. The buyer has paid the full amount and taken possession of the building. The book value of the Office Building is ₹ 4,00,000. On 31st 2023, documentation and legal formalities are pending. The company has not recorded the disposal and the amount received is shown as an advance.
- (3) Dee Limited has prepared its accounts on cash basis and the same is not disclosed.
- (4) Jee Limited disclosed significant accounting policies adopted in the preparation of financial statements, in the Directors' Report.

### **Solution**

- (1) As per AS-I disclosure of accounting policies is not a remedy for wrong or inappropriate treatment in accounting. In the given case the financial statement does not give a true and fair view as they are not in compliance with AS-2.
- (2) Considering the substance over form as per AS-I, documentation and legal formalities represent the form of the transaction, although the legal title has not been transferred, the economic reality and substance are that the rights and beneficial interest in the Office Building have been transferred. Therefore, recording of acquisition/ disposal (by the transferee and transferor respectively) would in substance represent the transaction entered into.
- (3) Accrual is a fundamental accounting assumption. If it is not followed by the company, the facts should be disclosed under AS-I. Hence the company should disclose the fact that the cash basis of accounting has been followed in the notes on accounts.
- (4) The practice followed by the company is not correct. It should be disclosed as part of financial statements (The director’s report is not part of financial statements).

## AS 2 – VALUATION OF INVESTORIES

### QUESTION 103)

Alpha Ltd. sells flavored milk to customers; some of the customers consume the milk in the shop run by Alpha Limited. While leaving the shop, the consumers leave the empty bottles in the shop and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders.

Keeping this in view:

Decide whether the inventory of empty bottles is an asset of the company;

If so, whether the inventory of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS 2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

### SOLUTION

As per the 'Framework on Presentation and Preparation of Financial Statements':

Tangible objects or intangible rights carrying probable future benefits, owned by an enterprise are called assets.

Alpha Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale.

Therefore, empty bottles are assets for the company.

As per AS 2, inventories are assets held for sale in the ordinary course of business.

Inventory of empty bottles existing on the Balance Sheet date is the inventory and Alpha Ltd. has detailed controlled recording and accounting procedure which duly signify its materiality.

Thus, inventory of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

### QUESTION 104)

The closing inventory at cost of a company amounted to Rs. 2,84,700. The following items were included at cost in the total:

- (a) 400 coats, which had cost Rs. 80 each and normally sold for Rs. 150 each. Owing to a defect in manufacture, they were all sold after the balance sheet date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.
- (b) 800 skirts, which had cost Rs. 20 each. These too were found to be defective. Remedial work in April cost Rs. 5 per skirt, and selling expenses for the batch totaled Rs. 800. They were sold for Rs. 28 each.

What should the inventory value be according to AS 2 after considering the above items?

### Answer:

#### Valuation of Closing Stock

Particulars	Rs.	Rs.
Closing Stock at cost		2,84,700



<b>Less: adjustment required for 400 defected coats</b>		3,500
Cost of 400 coats (400 x 80)	32,000	
Net Realisable Value [400 x (75 – 5% of Rs. 75)]	28,500	
(400 coats should be measured at NRV which is lower i.e. 28,500 therefore adjustment of 3500 is required)		
<b>Value of Closing Stock</b>		<b>2,81,200</b>

**Note:** There is no adjustment for skirts because for skirts were sold at above cost.

### QUESTION 105)

In a manufacturing process of Mars Ltd, one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process are here under:



Item	Unit	Amount	Output	Closing Stock 31-3-20X1
Raw material	14,500	1,50,000	MP I-5,000 units	250
Wages	-	90,000	MP II - 4,000 units	100
Fixed overhead	-	65,000	BP- 2,000 units	-
Variable overhead	-	50,000	-	-

Average market price of MP1 and MP2 is Rs. 60 per unit and Rs. 50 per unit respectively, by-product is sold @ Rs. 20 per unit. There is a profit of Rs. 5,000 on sale of by-product after incurring separate processing charges of Rs. 8,000 and packing charges of Rs. 2,000, Rs. 5,000 was realised from sale of scrap.

#### Required:

Calculate the value of closing stock of MP1 and MP2 as on 31-03-20X1.

#### Solution

As per Ind 2 '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 NRV of By-product BP

Selling price of by-product	2,000 units x 20 per unit	40,000
Less: Separate processing charges of by-product BP		(8,000)
Packing charges		(2,000)
<b>Net realizable value of by-product BP</b>		<b>30,000</b>

#### 2) Calculation of cost of conversion for allocation between joint products MP1 and MP2

Raw material		1,50,000
Wages		90,000
Fixed overhead		65,000
Variable overhead		50,000
Less: NRV of by-product BP (See Calculation 1)	30,000	
Sale value of scrap	5,000	(35,000)
<b>Joint cost to be allocated between MP1 and MP2</b>		<b>3,20,000</b>

**3) Determination of “basis for allocation” and allocation of joint cost to MP1 and MP2**

	MP 1	MP 2
Output in units (a)	5,000	4,000
Sales price per unit (b)	60	50
Sales value (a x b)	3,00,000	2,00,000
Ratio of allocation	3	2
Joint cost of Rs. 3,20,000 allocated in the ratio of 3:2 (c)	1,92,000	1,28,000
<b>Cost per unit [C/A]</b>	<b>38.4</b>	<b>32</b>

**4) Determination of Value of Closing stock of MP 1 & MP 2**

Particulars	MP 1	MP 2
Closing stock in units	250 units	100 units
Cost per unit	38.4	32
Value of closing stock	9,600	3,200

**QUESTION 106)**

A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realizable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers. You are required to advise the company on the valuation of the inventories in line with the provisions of AS 2.

**SOLUTION**

Accounting Standard 2 “Valuation of Inventories” states that inventories should be valued at lower of historical cost and net realizable value. The standard states, “at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods are often valued at net realizable value at certain stages of production.”

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing inventory of finished goods (Fancy terry towel) should have been valued at lower of cost and net realizable value and not at net realizable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing inventory of inventories of finished goods is not correct.

**QUESTION 107)**

Particulars		Kg.	Rs
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500

Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was Rs. 20 per kg and the replacement cost for the raw material was Rs. 9.50 per kg on the closing day. You are required to calculate the closing inventory as on that date.

## SOLUTION

### Calculation of cost for closing inventory

Particulars	Rs
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $75,000 \times 10,200 / 15,000$	51,000
Cost of Production	<u>2,29,500</u>
Cost of closing inventory per unit (2,29,500/10,200)	Rs 22.50
Net Realisable Value per unit	Rs 20.00

Since net realisable value is less than cost, closing inventory will be valued at Rs. 20.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. Rs. 9.50.

Therefore, value of closing inventory: Finished Goods (1,200 x 20) Rs. 24,000

Raw Materials (900 x 9.50) =Rs. 8,550

Total =Rs. 32,550

## AS 11 – EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

### QUESTION 108)

A Ltd. has borrowed USD 10,000 in foreign currency on April 1, 20X1 at 5% p.a. annual interest and acquired a depreciable asset. The exchange rates are as under:

01/04/20X1 1 US\$ = ₹ 48.00

31/03/20X2 1 US\$ = ₹ 51.00

You are required to pass the journal entries in the following cases:

- (i) Option under Para 46A is not availed.
  - (ii) Option under Para 46A is availed.
  - (iii) The loan was taken to finance the operations of the entity (and not to procure a depreciable asset).
- In all cases, assume interest accrued on 31 March 20X2 is paid on the same date.

### Solution

#### Journal Entries in the Books of A Ltd.

#### (i) Option under Para 46A is not availed

Date	Particulars		₹ (Dr.)	₹ (Cr.)
20X1				
Apr. 01	Bank Account (10,000 x 48) Dr.		4,80,000	
	To Foreign Loan Account			4,80,000
Mar 31	Finance Cost (USD 10,000 x 5% x ₹51) Dr.		25,500	
	To Bank Account			25,500
Mar 31	Foreign Exchange Difference Account (P/L) Dr.		30,000	
	To Foreign Loan Account [10,000 x (51-48)]			30,000

In this case, since the option under Para 46A is **NOT** availed, the Exchange Loss of ₹ 30,000 is recognised as an expense in the Statement of Profit and Loss for the year ending 31 March 20X2.

#### (ii) Option under Para 46A is availed

Date	Particulars		₹ (Dr.)	₹ (Cr.)
20X1				
Apr. 01	Bank Account (10,000 x 48) Dr.		4,80,000	
	To Foreign Loan Account			4,80,000
Mar 31	Finance Cost (USD 10,000 x 5% x ₹51) Dr.		25,500	
	To Bank Account			25,500
Mar 31	Foreign Exchange Difference Account (P/L) Dr.		30,000	
	To Foreign Loan Account [10,000 x (51-48)]			30,000
Mar 31	Property Plant & Equipment A/c Dr.		30,000	
	To Foreign Exchange Difference A/c			30,000

In this case, since the option under Para 46A is availed, the Exchange Loss of ₹ 30,000 is capitalized in the cost of Property, Plant and Equipment, which will indirectly get recognized in the Profit & Loss A/c by way of increased depreciation over the remaining useful life of the asset.

**(iii) Option under Para 46A is availed**

Date	Particulars		₹ (Dr.)	₹ (Cr.)
20X1				
Apr. 01	Bank Account (10,000 x 48) Dr.		4,80,000	
	To Foreign Loan Account			4,80,000
Mar 31	Finance Cost (USD 10,000 x 5% x ₹51) Dr.		25,500	
	To Bank Account			25,500
Mar 31	Foreign Exchange Difference Account (P/L) Dr.		30,000	
	To Foreign Loan Account [10,000 x (51-48)]			30,000
Mar 31	Foreign Currency Monetary Item Translation Difference A/c (FCMITDA) Dr.		30,000	
	To Foreign Exchange Difference A/c			30,000

In this case, since the option under Para 46A is availed, the Exchange Loss of ₹ 30,000 is accumulated in the FCMITD A/c, which will be subsequently spread over and debited to P&L A/c over the tenure of the loan.

**QUESTION 109)**

- (i) ABC Ltd. an Indian Company obtained long term loan from WWW private Ltd., a U.S. company amounting to Rs. 30,00,000. It was recorded at US \$1 = Rs. 60.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date (31.03.2018) was US \$1 = Rs. 62.00.
- (ii) Trade receivable includes amount receivable from Preksha Ltd., Rs. 10,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$1 = Rs. 59.00. The exchange rate on balance sheet date (31.03.2018) was US \$1 = Rs. 62.00.

You are required to calculate the amount of exchange difference and also explain the accounting treatment needed in the above two cases as per AS 11 in the books of ABC Ltd.

**SOLUTION****Amount of Exchange difference and its Accounting Treatment**

	Long term Loan	Foreign Currency Rate	Rs
(i)	Initial recognition US \$ 50,000 Rs. (30,00,000/60)	1 US \$ = Rs. 60	30,00,000
	Rate on Balance sheet date	1 US \$ = Rs. 62	
	Exchange Difference Loss US \$ 50,000 x Rs. (62 – 60)		1,00,000
	Treatment: Credit Loan A/c and Debit FCMITD A/c or Profit and Loss A/c by Rs. 1,00,000		
	Trade receivables		
(ii)	Initial recognition US \$ 16,949.152* (Rs. 10,00,000/59)	1 US \$ = Rs. 59	10,00,000
	Rate on Balance sheet date	1 US \$ = Rs. 62	
	Exchange Difference Gain US \$ 16,949.152* x Rs. (62-59)		50,847.456*
	Treatment: Credit Profit and Loss A/c by Rs. 50,847.456*		
	And Debit Trade Receivables		

Thus, Exchange Difference on Long term loan amounting Rs. 1,00,000 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on trade receivables amounting Rs. 50,847.456 is required to be transferred to Profit and Loss A/c.

**QUESTION 110)**

Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.03.2020.

- (i) Debtors include amount due from Mr. SRs. 9,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$ 1 = Rs. 72.00

US \$ 1 = Rs. 73.50 on 31st March 2020

US \$ 1 = Rs. 72.50 on 1st April 2019

- (ii) Long term loan taken on 1st April 2019 from a US Company amounting to Rs. 75,00,000. Rs. 5,00,000 was repaid on 31st December 2019 recorded at US \$ 1 = Rs. 70.50. Interest has been paid as and when debited by the US Company.

US \$ 1 = Rs. 73.50 on 31st March 2020

US \$ 1 = Rs. 72.50 on 1st April 2019

**SOLUTION**

As per AS 11 “The Effects of Changes in Foreign Exchange Rates”, exchange differences arising on the settlement of monetary items or on reporting an enterprise’s monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

However, at the option of an entity, exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a non-depreciable capital asset can be accumulated in a “Foreign Currency Monetary Item Translation Difference Account” in the enterprise’s financial statements and amortized over the balance period of such long-term asset/liability, by recognition as income or expense in each of such periods.

	Foreign Currency Rate	Rs.
Debtors		
Initial recognition US \$12,500 (9,00,000/72)	1 US \$ = Rs. 72	9,00,000
Rate on Balance sheet date	1 US \$ = Rs. 73.50	
Exchange Difference Gain US \$ 12,500 X (73.50/72)		18,750
Treatment: Credit Profit and Loss A/c by Rs. 18,750		
Long term Loan		
Initial recognition US \$ 1,03,448.28 (75,00,000/72.50)	1 US \$ = Rs. 73.50	75,00,000
Rate on Balance sheet date	1 US \$ = Rs. 73.50	
Exchange Difference Loss after adjustment of exchange gain on repayment of Rs. 5,00,000		
Rs. 67,987.48 [82,171.88 (US \$ 96,356.08 X Rs. 73.5 less Rs. 70,00,000) less profit 14,184.40 [US \$ 7,092.2 (5,00,000/70.5) X Rs. 2]] NET LOSS		67,987.48*
Treatment: Credit Loan A/c and Debit FCMITD A/C or Profit and Loss A/c by Rs. 67,987.48		

Thus, Exchange Difference on Long term loan amounting Rs. 67,987.48 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on debtors amounting Rs. 18,750 is required to be transferred to Profit and Loss A/c.

NOTE 1: \*Exchange Difference Loss (net of adjustment of exchange gain on repayment of Rs. 5,00,000) has been calculated in the above solution. Alternative considering otherwise also possible.

NOTE 2: Date of sales transaction of Rs. 9 lakhs has not been given in the question and hence it has been assumed that the transaction took place during the year ended 31 March 2020.

### **QUESTION 111)**

Power Track Ltd. purchased a plant for US\$ 50,000 on 31st October, 2016 payable after 6 months. The company entered into a forward contract for 6 months @Rs. 64.25 per Dollar. On 31st October, 2016, the exchange rate was Rs. 61.50 per Dollar.

You are required to calculate the amount of the profit or loss on forward contract to be recognized in the books of the company for the year ended 31st March, 2017.

### **SOLUTION**

#### **Calculation of profit or loss to be recognized in the books of Power Track Limited**

Forward contract rate	64.25
Less: Spot rate	(61.50)
Loss on forward contract	2.75
Forward Contract Amount	\$ 50,000
Total loss on entering into forward contract = (\$ 50,000 × Rs. 2.75)	Rs. 1,37,500
Contract period	6 months
Loss for the period 1st November, 2016 to 31st March, 2017 i.e., 5 months falling in the year 2016-2017	5 months
Hence, Loss for 5 months will be Rs. 1,37,500 = 65	Rs. 1,14,583

Thus, the loss amounting to Rs. 1,14,583 for the period is to be recognized in the year ended 31st March, 2017.

### **QUESTION 112)**

Mr. A bought a forward contract for three months of US\$ 1,00,000 on 1st December at 1 US\$ = Rs 47.10 when exchange rate was US\$ 1 = Rs 47.02. On 31st December when he closed his books exchange rate was US\$ 1 = Rs 47.15. On 31st January, he decided to sell the contract at Rs 47.18 per dollar. Show how the profits from contract will be recognised in the books.

### **SOLUTION**

Since the forward contract was for speculation purpose the premium on contract i.e. the difference between the spot rate and contract rate will not be recorded in the books. Only when the contract is sold the difference between the contract rate and sale rate will be recorded in the Profit & Loss Account.

Sale Rate	Rs 47.18
Less: Contract Rate	(Rs 47.10)
Premium on Contract	<u>Rs 0.08</u>
Contract Amount	US\$ 1,00,000
<b>Total Profit (1,00,000 x 0.08)</b>	<b>Rs 8,000</b>



## **AS 12 – ACCOUNTING FOR GOVERNMENT GRANTS**

### **QUESTION 113)**

How would you treat the following in the accounts in accordance with AS 12 'Government Grants'?

- (i) Rs. 35 Lakhs received from the Local Authority for providing medical facilities to the employees.
- (ii) Rs. 100 Lakhs received as Subsidy from the Central Government for setting up a unit in a notified backward area.
- (iii) Rs. 10 Lakhs Grant received from the Central Government on installation of anti-pollution equipment.

### **SOLUTION**

- (i) Rs. 35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, Rs. 35 lakhs may be deducted in reporting the related expense i.e., employee benefit expenses.
- (ii) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of Rs 100 lakhs should be credited to capital reserve.

- (iii) Rs 10 lakhs grant received for installation anti-pollution equipment is a grant related to specific fixed asset. Two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

Thus, Rs 10 lakhs may either be deducted from the cost of equipment or treated as deferred income to be recognized on a systematic basis in profit & Loss A/c over the useful life of equipment.

### **QUESTION 114)**

A Ltd. purchased a machinery for Rs 40 lakhs. (Useful life 4 years and residual value Rs 8 lakhs) Government grant received is Rs 16 lakhs.

Show the Journal Entry to be passed at the time of refund of grant in the third year and the value of the fixed assets, if:

- (1) the grant is credited to Fixed Assets A/c.

(2) the grant is credited to Deferred Grant A/c.

## SOLUTION

### IN THE BOOKS OF A LTD.

#### Journal Entries (at the time of refund of grant)

(1) If the grant is credited to Fixed Assets Account:

		Rs	Rs
I.	Fixed Assets A/c To Bank A/c (Being grant refunded) The amount of refund should be Rs 16 Lakhs	Dr. 16 lakhs	16 lakhs

The balance of fixed assets after two years depreciation will be Rs 16 lakhs (W.N.1) and after refund of grant it will become (Rs 16 lakhs + Rs 16 lakhs) = Rs 32 lakhs on which depreciation will be charged for remaining two years. Depreciation =  $(32-8)/2 = \text{Rs } 12 \text{ lakhs p.a.}$  will be charged for next two years.

(2) If the grant is credited to Deferred Grant Account:

As per para 14 of AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years (Rs 16 lakhs / 4 years) = Rs 4 lakhs p.a. x 2 years = Rs 8 lakhs were credited to Profit and Loss Account and Rs 8 lakhs was the balance of Deferred Grant Account after two years.

Therefore, on refund in the 3rd year, following entry will be passed:

		Rs	Rs
I.	Deferred Grant A/c Profit & Loss A/c To Bank A/c (Being Government grant refunded)	Dr. Dr. 8 lakhs 8 lakhs	16 lakhs

Deferred grant account will become Nil. The fixed assets will continue to be shown in the books at Rs 24 lakhs (W.N.2) and depreciation will continue to be charged at Rs 8 lakhs per annum for the remaining two years.

### Working Notes:

i. **Balance of Fixed Assets after two years but before refund (under first alternative)**

Fixed assets initially recorded in the books = Rs 40 lakhs – Rs 16 lakhs = Rs 24 lakhs

Depreciation p.a. =  $(\text{Rs } 24 \text{ lakhs} - \text{Rs } 8 \text{ lakhs})/4 \text{ years} = \text{Rs } 4 \text{ lakhs per year}$

Value of fixed assets after two years but before refund of grant = Rs 24 lakhs – (Rs 4 lakhs x 2 years) = Rs 16 lakhs

ii. **Balance of Fixed Assets after two years but before refund (under second alternative)**

Fixed assets initially recorded in the books = Rs 40 lakhs

Depreciation p.a. =  $(\text{Rs } 40 \text{ lakhs} - \text{Rs } 8 \text{ lakhs})/4 \text{ years} = \text{Rs } 8 \text{ lakhs per year}$

Book value of fixed assets after two years = Rs 40 lakhs – (Rs 8 lakhs x 2 years)

= Rs 24 lakhs

**Note:** It is assumed that the question requires the value of fixed assets is to be given after refund of government grant.

### **QUESTION 115)**

On 1st April 2021, Eleanor Limited purchased a manufacturing Plant for ₹ 60 lakhs, which has an estimated useful life of 10 years with a salvage value of ₹ 10 lakhs. On purchase of the Plant, a grant of ₹ 20 lakhs was received from the government.

You are required to calculate the amount of depreciation as per AS-12 for the financial year 2022-23 in the following cases:

- (i) If the grant amount is deducted from the value of Plant.
  - (ii) If the grant is treated as deferred income.
  - (iii) If the grant amount is deducted from the value of Plant, but at the end of the year 2022-2023 grant is refunded to the extent of ₹ 4 lakhs, due to non-compliance of certain conditions.
  - (iv) If the grant is treated as the promoter's contribution.
- (Assume depreciation on the basis of Straight-Line Method.)

### **SOLUTION**

#### **Calculation of depreciation as per AS 12 for the financial year 2022-23:**

- (i) If the grant amount is deducted from the value of Plant, then the amount of depreciation will be ₹ 3,00,000 p.a.  $(₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000) / 10$  year.
- (ii) If the grant is treated as deferred income, then amount of depreciation will be ₹ 5,00,000 p.a.  $(₹ 60,00,000 - ₹ 10,00,000) / 10$  year.
- (iii) If the grant amount is deducted from the value of plant, but at the end of the year 2022-23 grant is refunded to the extent of ₹ 4 lakh then the amount of depreciation will be ₹ 3,00,000 p.a.  $(₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000) / 10$  year for year 2021-22 and for the year 2022-23 Depreciation will be ₹ 3,00,000 calculated as follows,  $(₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000 - ₹ 3,00,000) / 10$  years.

**Note:** It is assumed that the depreciation for the year has been charged on the book value on the plant before making adjustment for grant. Alternatively, if it is considered otherwise then the depreciation will be charged after making adjustment for grant. In that case depreciation for the year 2022-23 will be as ₹ 3,44,444 calculated as follows,  $(₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000 + 4,00,000 - ₹ 3,00,000) / 9$  years

- (iv) If the grant is treated as promoter's contribution, then the amount of depreciation will be ₹ 5,00,000 p.a.  $(₹ 60,00,000 - ₹ 10,00,000) / 10$  year.

#### **Note:**

It is assumed that the depreciation for the year has been charged on the book value on the plant before making adjustment for grant. Alternatively, if it is considered otherwise then the depreciation will be charged after making adjustment for grant. In that case depreciation for the year 2022-23 will be as:

Cost of Plant	60,00,000
Less: Salvage Value	10,00,000
Less: Grant	20,00,000
Add: Grant Refundable	4,00,000

	<b>34,00,000</b>
Less: Depreciation for 2021-22	3,00,000
	<b>31,00,000</b>
Useful Life (years)	9
<b>Depreciation for 2022-23</b>	<b>3,44,4444</b>

**QUESTION 116)**

Hygiene Ltd. had received a grant of Rs. 50 lakhs in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. The company, however, failed to comply with the said conditions and consequently was required to refund the said amount in 2020. The company debited the said amount to its machinery account in 2020 on payment of the same. It also reworked the depreciation for the said machinery from the date of its purchase and passed necessary adjusting entries in the year 2020 to incorporate the retrospective impact of the same. State whether the treatment done by the company is correct or not.

ABC Ltd. received two acres of land received for set up of plant. It also received Rs.2 lakhs received for purchase of machinery of Rs. 10 lakhs. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis. How should ABC Ltd. recognize these government grants in its books of accounts?

**SOLUTION**

As per the facts of the case, Hygiene Ltd. had received a grant of Rs. 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. However, the amount of grant has to be refunded since it failed to comply with the prescribed conditions. In such circumstances, AS 12, "Accounting for Government Grants", requires that the amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. The Standard further makes it clear that in the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Accordingly, the accounting treatment given by Hygiene Ltd. of increasing the value of the plant and machinery is quite proper. However, the accounting treatment in respect of depreciation given by the company of adjustment of depreciation with retrospective effect is improper and constitutes violation of AS 12.

ABC Ltd. should recognize the grants in the following **manner**:

- As per AS 12, government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value. Accordingly, land should be recognised at nominal value in the balance sheet.
- The standard provides option to treat the grant either as a deduction from the gross value of the asset or to treat it as deferred income as per provisions of the standard. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Accordingly, the grant of Rs. 2 lakhs is deducted from the cost

of the machinery. Machinery will be recognised in the books at Rs. 10 lakhs – Rs. 2 lakhs = Rs. 8 lakhs and depreciation will be charged on it as follows:

$\text{Rs. } 8 \text{ lakhs} / 5 \text{ years} = \text{Rs. } 1.60 \text{ lakhs per year.}$

Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged. Rs. 2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, Rs. 40,000 [Rs. 2 lakhs / 5 years] should be credited to profit and loss each year over the period of 5 years.

## AS 9 – REVENUE RECOGNITION

### **QUESTION 117)**

Indicate in each case whether revenue can be recognized and when it will be recognized as per **AS-9**.

- (1) Trade discount and volume rebate received.
- (2) Where goods are sold to distributors or others for resale.
- (3) Where seller concurrently agrees to repurchase the same goods at a later date.
- (4) Insurance agency commission for rendering services.
- (5) On 11-03-2019 cloths worth Rs 50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request, clothes were delivered on 12-04-2019.

### **SOLUTION**

- (1) Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.
- (2) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.
- (3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.
- (4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.
- (5) On 11.03.2019, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers.

Revenue should be recognized for year ended 31st March, 2019 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.

### **QUESTION 118)**

For the year ended 31st March 20X1, KY Enterprises has entered into the following transactions.

On 31 March 20X1, KY supplied two machines to its customer ST. Both machines were accepted by ST on 31 March 20X1. Machine 1 was a machine that was routinely supplied by KY to many customers and the installation process was very simple.

Machine 1 was installed on 2 April 20X1 by ST's employees.

Machine 2 being more specialised in nature requires an installation process which is more complicated, requiring significant assistance from KY. Machine 2 was installed between 2 and 5 April 20X1. Details of costs and sales prices are as follows:

--	--	--

Sale Price	3,20,000	3,00,000
Cost of production	1,60,000	1,50,000
Installation fee	Nil	10,000

How should above transactions be recognized by KY Enterprises for the year ended 31st March 20X1?

### **SOLUTION**

**Machine 1:** As the installation process is simple, revenue from Machine 1 will be recognized on 31 March 20X1.

Revenue (Machine 1)	₹ 3,20,000
Cost of Goods Sold	₹ 1,60,000
Profit during the period	₹ 1,60,000

Since the question specifies that the machine is already accepted by ST on 31 March 20X1, the revenue arising from sale of the machine needs to be recognized for the year ending 31 March 20X1. This is because acceptance of the machine indicates that the risks and rewards pursuant to the ownership are transferred to ST.

**Machine 2:** Installation process for Machine 2 is more complicated, requiring significant assistance from KY Ltd. However, question specifies that the machine is already accepted by ST on 31 March 20X1. Assuming that there is no further approval/acceptance required from the buyer for the Machine sold, revenue from sale of Machine 2 can be recognized for the year ending 31 March 20X1.

Revenue (Machine 2)	₹ 3,00,000
Cost of Goods Sold	₹ 1,50,000
Profit during the period	₹ 1,50,000

However, installation fee which is for rendering installation services cannot be recognized until the installation is complete. Since the machine is pending installation, the revenue in respect of installation charges ₹ 10,000 needs to be recognized on 5 April 20X1 once the installation process gets completed.

### **QUESTION 119)**

Zigato runs a food-delivery business. As per the arrangement, Zigato allows customers to order food from local restaurants and is responsible the delivery of the food within stipulated time. During a particular year, it collects the money on orders made online as under:

Total price for the food item	-	₹ 200 lakhs
Delivery charges	-	₹ 60 lakhs
GST	-	₹ 40 lakhs
Total	-	₹ 300 lakhs

Zigato has received ₹ 300 lakhs for the above orders from customers and the orders were delivered to the customer in stipulated time.

How much revenue should be recognised by restaurants and how much revenue should be recognised by Zigato for the year?

### **Solution**

The risks and rewards associated with the food item are not with Zigato. When a customer has ordered a food item, whether the item will be prepared or not is the responsibility of the restaurant and not Zigato.



Similarly, the responsibility to deliver the food item is with Zigato and the restaurant does not undertake responsibility for the same.

Therefore, the restaurant undertakes the principal's responsibility to prepare the food and ensure its quality. Zigato, on the other hand, is only responsible to deliver the food. Thus, Zigato is acting as an agent. Hence, it can only recognize revenue relating to that activity (which it does in the ordinary course of business). The revenue for Zigato, therefore, is ₹ 60 lakhs, whereas, the revenue for restaurants will be ₹ 200 lakhs.

It may be noted that the GST of ₹ 40 lakhs is a liability payable to the Government (third party), hence it does not form part of revenue.

### **QUESTION 120)**

Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2014 and ₹ 60,000 on 10.4.2014 for the March 2014 issue. Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014?



### **SOLUTION:**

As per para 12 of AS 9 "Revenue Recognition", In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished.

In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is seen by public and hence revenue is recognized on that date. In this case, it is 15.03.2014, the date of publication of the magazine.

Hence, ₹ 3,00,000 (₹ 2,40,000 + ₹ 60,000) is recognized as income in March, 2014. The terms of payment are not relevant for considering the date on which revenue is to be recognized. ₹ 60,000 is treated as amount due from advertisers as on 31.03.2014 and ₹ 2,40,000 will be treated as payment received against the sale.

However, if the publication is delayed till 02.04.2014 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of ₹ 3,00,000 will be recognized for the year ended 31.03.2015 after the magazine is published on 02.04.2014. The amount received from sale of advertising space on 10.03.2014 of ₹ 2,40,000 will be considered as an advance from advertisers for the year ended 31st March, 2014.

### **QUESTION 121)**

During the year ended 31st March 20X1, ZX Enterprises has recognized ₹ 100 lakhs on accrual basis income from dividend on units of mutual funds held by it. The dividends on mutual funds were declared on 15th June, 20X1. The dividend was proposed on 10th April, 20X1.

Whether the above treatment is as per the relevant Accounting Standard?

### **Solution**

Dividends from investments in shares are not recognized in the statement of profit and loss **until a right to**



**receive payment is established.** In the given situation, the dividend is proposed on 10th April, 20X1, while it is declared on 15th June, 20X1. Thus, the right to receive the payment of dividend gets established on 15th June, 20X1.

The recognition of ₹ 100 lakhs on accrual basis in the financial year 20X0-20X1 **is not correct** as per AS 9 'Revenue Recognition'.

## AS 26 "INTANGIBLE ASSETS"

### **QUESTION 122)**

During 20X1-X2, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:



Particular	Rs.
Completion of detailed program and design (Phase 1)	50,000
Coding and Testing (Phase 2)	40,000
Other coding costs (Phase 3&4)	63,000
Testing costs (Phase 3&4)	18,000
Product masters for training materials (Phase 5)	19,500
Packing the products (1,500 units) (Phase 6)	16,500

After completion of phase 2, it was established that the product is technically feasible for the market. You are required to state how the above referred cost to be recognized in the books of accounts.

### **SOLUTION:**

As per AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility / asset recognition criteria has been established for the product. Technological feasibility / asset recognition criteria have been established upon completion of detailed program design, coding and testing. In this case, Rs. 90,000 would be recorded as an expense (Rs. 50,000 for completion of detailed program design and Rs. 40,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost  $(63,000+18,000+19,500)=Rs.1,00,500$ . Packing cost Rs.16,500 should be recognized as expenses and charged to P&LA/c.

### **QUESTION 123)**

A company acquired a patent at a cost of Rs 160 lakhs for a period of 5 years and the product life cycle is also 5 years. The company capitalized the cost and started amortising the asset at Rs. 16 lakhs per year based on the economic benefits derived from the product manufactured under the patent. After 2 years it was found that the product life cycle may continue for another 5 years from then (the patent is renewable and the company can get it renewed after 5 years). The net cash flows from the product during these 5 years were expected to be Rs. 50 lakhs, Rs. 30 lakhs, Rs. 60 lakhs, Rs. 70 lakhs and Rs. 40 lakhs. Find out the amortization cost of the patent for each of the years.

### **SOLUTION:**

Company amortized Rs 16,00,000 per annum for the first two years. Hence, Amortization for the first two years  $(Rs\ 16,00,000 \times 2) = Rs\ 32,00,000$ .

Remaining carrying cost after two years = Rs 1,60,00,000 – Rs 32,00,000  
= Rs 1,28,00,000

Since after two years it was found that the product life cycle may continue for another 5 years, hence the remaining carrying cost Rs 128 lakhs will be amortized during next 5 years in the ratio of net cash arising from the sale of the products of Fast Limited.

The amortization cost of the patents may be computed as follows:

Year	Net cash flows Rs	Amortization Ratio	Amortization Amount Rs
I	-	0.1	16,00,000
II	-	0.1	16,00,000
III	50,00,000	0.2	25,60,000
IV	30,00,000	0.12	15,36,000
V	60,00,000	0.24	30,72,000
VI	70,00,000	0.28	35,84,000
VII	40,00,000	0.16	20,48,000
<b>Total</b>	<b>250,00,000</b>	<b>1.000</b>	<b>160,00,000</b>

### QUESTION 124)

Vishnu Ltd. is engaged in research on a new process design for its product- It had incurred an expenditure of Rs. 265.37 lakhs on research upto 31<sup>st</sup>March, 2003. The development of the process began on 1st April, 2003 and the Development Phase Expenditure was Rs. 180 lakhs upto 31<sup>st</sup>March, 2004. From 1<sup>st</sup>April, 2004 the Company will implement the new process design which will result in a after-tax cost saving of Rs. 40 lakhs per annum for the next five years. The Company's Cost of Capital is 10%. At what cost should the asset be recorded and what is its amortisation amount?



### SOLUTION

**Research Expenditure:** As per Para 41 of AS-26, the expenditure on research Rs. 265.37 lakhs should be expensed in the year in which it is incurred. It is presumed that the entire expenditure of Rs. 265.37 lakhs is incurred in financial year 2002-2003. Hence, it should be written off as an expense in that year itself.

**Development Expenditure:** As per para 44 of AS-26, the expenditure on development can be treated as an asset only if all the conditions listed in that paragraph are satisfied. It is presumed that the company has duly complied with this requirement.

**Cost of internally generated intangible asset:** Para 53 specifies the items which can be included in the cost of an internally generated intangible asset, while Para 54 specifies the exclusions there from. It is presumed that the expenditure of Rs.180 lakhs is determined in accordance with Para 53 and 54 of AS-26.

**Discounting Future Cash Flows:** As per Para 30 of AS-26, fair value of an intangible asset can be estimated by discounting estimated future net cash flows. Even if this paragraph is primarily related to estimation of fair value of an intangible asset acquired in the course of amalgamation in the nature of purchase, the concept can be extended for internally generated intangible asset also.

Cost savings from the new process design for five = Rs. 40 lakhs per year

Company's Cost of Capital = 10%

Annuity Factor at 10% for five years = 3.7908

(from the annuity tables)

Present value of future cash flows = Rs. 40 x 3.7908 = Rs. 151.63 lakhs

**Carrying Amount of the Asset:** Since the Present Value of Future Cash Flows is only Rs. 151.63 lakhs, (which is lower than the cost of Rs.180 lakhs), it is prudent to recognise an impairment loss of Rs. 180.00 lakhs - Rs. 151.63 lakhs = Rs. 28.37 lakhs in the financial year 2003-2004.

**Amortisation Period and Amount:** The Company can amortise Rs. 151.63 lakhs over a five-year period by charging Rs. 30.33 lakhs per annum from the financial year 2004-2005 onwards.

### **QUESTION 125)**

Honey Ltd. is in the process of developing a new production method. During the financial year ended 31st March, 2021, total expenditure incurred on development of this production method was Rs. 98,00,000. On 1st Jan, 2021, the production method met the criteria as an intangible asset and expenditure incurred till this date was Rs. 68,00,000. Further expenditure incurred on the new method was Rs. 72,00,000 for the year ended 31st March, 2022 and recoverable amount of the know how embodied in the new method for this financial year is Rs. 52,00,000.

**You are required to calculate:**

- (1) The carrying amount of the Intangible asset on 31<sup>st</sup>March, 2021.
- (2) The expenditure to be shown in Statement of Profit and Loss for the year ended 31st March, 2022.
- (3) The carrying amount of the Intangible asset on 31st March, 2022.

### **SOLUTION**

**As per AS 26 'Intangible Assets'**

- (i) Carrying value of intangible asset as on 31.03.2021

At the end of financial year, on 31st March 2021, the production process will be recognized (i.e., carrying amount) as an intangible asset at a cost of Rs. 30 (98-68) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1<sup>st</sup>January, 2021).

- (ii) **Expenditure to be charged to Profit and Loss account for the year ended 31.03.2022**

	(Rs. in lacs)
Carrying Amount as on 31.03.2021	30
Expenditure during 2021-2022	72
Book Value	102
Recoverable Amount	(52)
Impairment loss	50

Rs. 50 lakhs to be charged to Profit and loss account for the year ending 31.03.2022.

- (iii) **Carrying value of intangible asset as on 31.03.2022**

	(Rs. in lacs)
Book Value	102
Less: Impairment loss	(50)
Carrying amount as on 31.03.2022	52

**QUESTION 126)**

Naresh Ltd. had the following transactions during the financial year 2019 -2020:

- (i) Naresh Ltd. acquired running business of Sunil Ltd. for Rs. 10,80,000 on 15th May, 2019. The fair value of Sunil Ltd.'s net assets was Rs. 5,16,000. Naresh Ltd. is of the view that due to popularity of Sunil Ltd.'s product in the market, its goodwill exists.
- (ii) Naresh Ltd. had taken a franchise on July 2019 to operate a restaurant from Sankalp Ltd. for Rs. 1,80,000 and at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were Rs. 60,000 during the financial year 2019-2020.
- (iii) On 20th August, 2019, Naresh Ltd, incurred costs of Rs. 2,40,000 to register the patent for its product. Naresh Ltd. expects the patent's economic life to be 8 years.



Naresh Ltd. follows an accounting policy to amortize all intangibles on straight line basis over the maximum period permitted by accounting standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business to be amortized over 5 years (SLM) as per AS 14.

Prepare a schedule showing the intangible assets section in Naresh Ltd. Balance Sheet at 31st March, 2020.

**SOLUTION:**

Naresh Ltd.

Balance Sheet (Extract relating to intangible asset) as on 31<sup>st</sup> March 2020

	Note No.	Rs.
Assets		
(1) Non-current assets		
Intangible assets	1	8,11,200

**Notes to Accounts (Extract)**

		Rs.	Rs.
1	Intangible assets		
	Goodwill (Refer to note 1)	4,51,200	
	Franchise (Refer to Note 2)	1,50,000	
	Patents (Refer to Note 3)	2,10,000	8,11,200

**Working Notes:**

		Rs.
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	10,80,000
	Less: Fair value of net assets acquired	(5,16,000)
	Goodwill	5,64,000
	Less: Amortisation as per AS 14 ie. over 5 years (as per SLM)	(1,12,800)
	Balance to be shown in the balance sheet	4,51,200
(2)	Franchise	1,80,000
	Less: Amortisation (over 6 years)	(30,000)

	Balance to be shown in the balance sheet	1,50,000
(3)	Patent	2,40,000
	Less: Amortisation (over 8 years as per SLM)	(30,000)
	Balance to be shown in the balance sheet	2,10,000

**QUESTION 127)**

As per provisions of **AS-26**, how would you deal to the following situations:

- (1) Rs 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.
- (2) During the year 2018-19, a company spent Rs 7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.
- (3) A company spent Rs 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize Rs 25,00,000 by disclosing it as a prior period item.
- (4) A company with a turnover of Rs 200 crores and an annual advertising budget of Rs 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of Rs 20 crore from the new product.

The company had debited to its Profit & Loss Account the total expenditure of Rs 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

**ANSWER:**

As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

- (i) In the given case, the legal expenses to defend the patent of a product amounting Rs 23,00,000 should not be capitalized and be charged to Profit and Loss Statement.
- (ii) The company is required to expense the entire amount of Rs 7,00,000 in the Profit and Loss account for the year ended 31<sup>st</sup> March, 2019 because no benefit will arise in the future.
- (iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus, the company cannot capitalize the amount of Rs 25,00,000 and it should be recognized as expense
- (iv) Expenditure of Rs 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

## AS 24 “DISCONTINUING OPERATION”

### QUESTION 128)

A consumer goods producer has changed the product line as follows:



	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 20X6 to this effect. The company follows calendar year as its accounting year.

You required advising the company whether it should be treated as discontinuing operation or not as per AS 24?

### ANSWER:

As per AS 24 ‘Discontinuing Operations’, a discontinuing operation is a component of an enterprise:

- (i) that the enterprise, pursuant to a **single plan**, is:
  - (1) disposing of substantially in its entirety,
  - (2) disposing of piecemeal, or
  - (3) terminating through abandonment; and
- (ii) that represents a separate **major line** of business or geographical area of operations; and
- (iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

- (i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
- (ii) The enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

**QUESTION 129)**

Arzoo Ltd. is in the business of manufacture of passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the passenger car segment to the commercial vehicles segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan, it has planned that it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner. These plans have not approved from the Board of Directors and the new factory for manufacture of commercial vehicles has not yet started. You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

**ANSWER:**

Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

- (1) Gradual or evolutionary phasing out of a product line or class of service;
- (2) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;
- (3) Shifting of some production or marketing activities for a particular line of business from one location to another; and
- (4) Closing of a facility to achieve productivity improvements or other cost savings.

In view of the above, mere gradual phasing out in itself cannot be considered as discontinuing operation. The companies' strategic plan also has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e., commercial vehicle production line in a new factory has not started.

and made an announcement of the plan.



## AS 17 "SEGMENT REPORTING"

### QUESTION 130)

An enterprise operates through segments, namely, A, B, C, D, E, F, G and H. The relevant information about these segments is given in the following table:

(Amount in Rs. '000)

	A	B	C	D	E	F	G	H	Total (Seg.)	Total (Entp.)
<b>Seg. Revn</b>										
(a) Ext		255	15	10	15	50	20	35	400	
(b) Inter-Seg	100	60	30	5	-	-	5	-	200	
(c) Total	100	315	45	15	15	50	25	35	600	400
<b>Seg. Result</b>	5	-90	15	-5	8	-5	5	7		
<b>Seg. Assets</b>	15	47	5	11	3	5	5	9	100	

### Identify Reportable Segments

#### SOLVE HERE:

- (1) Total Revenue of Enterprise = 600; Minimum 10% limit = 60, Segment A & B both have Revenue more than 60
- (2) Total Assets of Enterprise = 100; Minimum 10% limit = 10; Segment A, B & D are fulfilling the minimum limit Condition.
- (3) Total Results: -
  - Profitable segment = 40
  - Loss making segment = 100
  - Higher = 100 (in absolute terms)
  - Minimum 10% limit = 10; Segment B & C are Fulfilling the minimum criteria.
  - As per the above analysis, Segment A, B, C & D are Reportable Segments as per Para 27.
- (4) However Total external revenue of reportable segments should be at least 75% of Total External Revenue of Enterprise. That means it should be 280 (400 x 75%).
- (5) Therefore, we have to include one more segment in the list of reportable segments so that minimum 280 of revenue should be reported.
- (6) Segment F with 50 Revenue can be included in the list of Reportable Segments even though it doesn't fulfill Para 27 criteria.
- (7) Conclusion – Segment A, B, C, D & F are Reportable.

**QUESTION 131)**

M/s Nathan Limited has three segments namely P, Q and R. The assets of the company are Rs 15 crores. Segment P has 4 crores, Segment Q has 6 crores and Segment R has 5 crores. Deferred tax assets included in the assets of each segment are P - Rs 1 crore, Q - Rs 0.90 crores and R - Rs 0.80 crores. The accountant contends all these three segments are reportable segments. Comment.

**SOLUTION:**

**According to AS 17 “Segment Reporting”, segment Assets do not include income tax assets.**

Therefore, the revised total assets are 12.3 crores [Rs 15 – (Rs 1 + 0.9 + 0.8)].

Details of Segment wise assets

Segment P holds total assets of Rs 3 crores (Rs 4 crores – Rs 1 crores);

Segment Q holds Rs 5.1 crores (Rs 6 crores – 0.9 crores);

Segment R holds Rs 4.2 crores (Rs 5 crores – Rs 0.8 crores).

Thus, all the three segments hold more than 10% of the total assets, all segments are reportable segments.

Hence, the contention of the Accountant that all three segments are reportable segments is correct.

**QUESTION 132)**

Prepare a segmental report for publication in Diversifiers Ltd. from the following details of the company's three divisions and the head office:

	Rs. ('000)
Forging Shop Division	
Sales to Bright Bar Division	4,575
Other Domestic Sales	90
Export Sales	6,135
	10,800
Bright Bar Division	
Sales to Fitting Division	45
Export Sales to Rwanda	300
	345
Fitting Division	
Export Sales to Maldives	270

Particulars	HeadOffice Rs.('000)	Forging Shop Division Rs. ('000)	Bright Bar Division Rs. ('000)	Fitting Division Rs. ('000)
Pre-tax operating result		240	30	(12)
Head office cost reallocated		72	36	36
Interest costs		6	8	2
Fixed assets	75	300	60	180
Net current assets	72	180	60	135
Long-term liabilities	57	30	15	180

**SOLUTION:****Diversifiers Ltd. Segmental Report****(Rs. '000)**

Particulars	Divisions			InterSegment Eliminations	Consolidated Total
	Forging shop	Bright Bar	Fitting		
Segment Revenue					
Sales:					
Domestic	90	-	-	-	90
Export	6,135	300	270	-	6,705
External Sales	6,225	300	270	-	6,795
Inter-Segment Sales	4,575	45	-	4,620	-
Total Revenue	10,800	345	270	4,620	6,795
Segment Result (Given)	240	30	(12)		258
Head Office Expenses					(144)
Operating Profit					114
Interest Expense					(16)
Profit Before Tax					98
Information in Relation to Assets and Liabilities:					
Fixed Assets	300	60	180	-	540
Net Current Assets	180	60	135	-	375
Segment assets	480	120	315	-	915
Unallocated Corporate Assets (75 + 72)	-	-	-	-	147
Total assets					1,062
Segment liabilities	30	15	180	-	225
Unallocated corporate liabilities					57
Total liabilities					282

**Sales Revenue by Geographical Market**

	Home Sales	Export Sales (by forging shop division)	Export to Rwanda	Export to Maldives	(Rs. '000) Consolidated Total
Externalsales	90	6,135	300	270	6,795

## **FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**

**QUESTION 133)**

Balance sheet of a trader on 31<sup>st</sup> March, 20X1 is given below:

Particulars	Rs
<b>Assets</b>	
<u>Non-current assets</u>	
Property, Plant and Equipment	65,000
<u>Current assets</u>	
Inventories	30,000
<u>Financial assets</u>	
Trade receivables	20,000
Other Assets	10,000
Bank Balance	5,000
<b>Total</b>	<b>1,30,000</b>
<b>Equity and Liabilities</b>	
<u>Equity</u>	
Share capital	60,000
Other Equity - Profit and Loss Account	25,000
<u>Non-current liabilities</u>	
10% Loan	35,000
<u>Current liabilities</u>	
<u>Financial liabilities</u>	
Trade payables	10,000
<b>Total</b>	<b>1,30,000</b>

**Additional information:**

- (a) The remaining life of Property, Plant and Equipment is 5 years. The pattern of use of the asset is even. The net realisable value of Property, Plant and Equipment on 31.03.20X2 was Rs. 60,000.
- (b) The trader's purchases and sales in 20X1-20X2 amounted to Rs. 4 lakh and Rs. 4.5 lakh respectively.
- (c) The cost and net realisable value of inventories on 31.03.20X2 were Rs. 32,000 and Rs. 40,000 respectively.
- (d) Employee benefit expenses for the year amounted to Rs. 14,900 (including interest of Rs. 3,500 on 10% Loan for the year).
- (e) Other Assets is written off equally over 4 years.
- (f) Trade receivables on 31.03.20X2 is Rs. 25,000, of which Rs. 2,000 is doubtful. Collection of another Rs. 4,000 depends on successful re-installation of certain product supplied to the customer.
- (g) Closing Trade Payable is Rs. 12,000 which is likely to be settled at 5% discount.
- (h) Bank balance on 31.03.20X2 is Rs. 37,100.
- (i) There is an early repayment penalty for the loan Rs. 2,500.

The Profit and Loss Accounts and Balance Sheets of the trader are shown below in two cases

(j) Assuming going concern (ii) not assuming going concern.

**SOLUTION:****Profit and Loss Account for the year ended 31<sup>st</sup>March, 20X2**

	Case (i) Rs	Case (ii) Rs
Revenue from operations – Sales	4,50,000	4,50,000
Other Incomes	-	600
<b>TOTAL INCOMES (A)</b>	<b>4,50,000</b>	<b>4,50,600</b>
<b>Expenses :</b>		
Purchases	4,00,000	4,00,000
Changes in inventories	(2,000)	(10,000)
Employee benefit expenses	11,400	11,400
Finance cost (including penalty)	3,500	6,000
Depreciation and amortisation expenses (including w/off)	15,500	15,000
Other expenses - Provision for doubtful debts	2,000	6,000
<b>Total Expenses (B)</b>	<b>4,30,400</b>	<b>4,28,400</b>
Profit for the period (A-B)	19,600	22,200
Opening Reserves & Surplus	25,000	25,000
<b>Closing Reserves and Suplus</b>	<b>44,600</b>	<b>47,200</b>

**Balance Sheet as at 31<sup>st</sup>March, 20X2**

	Case (i) Rs	Case (ii) Rs
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, Plant and Equipment	52,000	60,000
<b>Current Asset</b>		
Inventories	32,000	40,000
<b>Financial assets</b>		
Trade receivables (less provision)	23,000	19,000
Other Assets	7,500	Nil
Cash and cash equivalents (after interest paid on loan)	37,100	37,100
<b>Total</b>	<b>1,56,100</b>	<b>1,56,100</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Shareholders Fund</b>		
Share Capital	60,000	60,000
Reserves and Surplus	44,600	47,200
<b>Non-current liabilities</b>		
10% Loan	35,000	37,500
<b>Current liabilities</b>		
Trade payables	12,000	11,400
<b>Total</b>	<b>1,56,100</b>	<b>1,56,100</b>

**QUESTION 134)****Historical Cost Capital Maintenance**

A trader commenced business on 01/01/20X1 with Rs. 12,000 represented by 6,000 units of a certain product at Rs. 2 per unit. During the year 20X1 he sold these units at Rs. 3 per unit and had withdrawn Rs. 6,000. Thus:

Opening Equity = Rs. 12,000 represented by 6,000 units at Rs. 2 per unit.

Closing Equity = Rs. 12,000 (Rs. 18,000 – Rs. 6,000) represented entirely by cash.

Retained Profit = Rs. 12,000 – Rs. 12,000 = Nil

The trader can start year 20X3 by purchasing 6,000 units at Rs. 2 per unit once again for selling them at Rs. 3 per unit. The whole process can repeat endlessly if there is no change in purchase price of the product.

**QUESTION 135)****Financial Capital Maintenance**

In the previous **example 8**, suppose that the average price indices at the beginning and at the end of year are 100 and 120 respectively.

Opening Equity = Rs. 12,000 represented by 6,000 units at Rs. 2 per unit.

Opening equity at closing price = (Rs. 12,000 / 100) x 120 = Rs. 14,400 (6,000 x Rs. 2.40)

Closing Equity at closing price = Rs. 12,000 (Rs. 18,000 – Rs. 6,000) represented entirely by cash.

Retained Profit = Rs. 12,000 – Rs. 14,400 = (-) Rs. 2,400

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund Rs. 12,000 is not sufficient to buy 6,000 units again at increased price Rs. 2.40 per unit. In fact, he should have restricted his drawings to Rs. 3,600 (Rs. 6,000 – Rs. 2,400).

Had the trader withdrawn Rs. 3,600 instead of Rs. 6,000, he would have left with Rs. 14,400, the fund required to buy 6,000 units at Rs. 2.40 per unit.

**QUESTION 136)****Physical Capital Maintenance**

In the previous **example 8**, suppose that the price of the product at the end of year is 2.50 per unit. In other words, the specific price index applicable to the product is 125.

Current cost of opening stock = (Rs. 12,000 / 100) x 125 = 6,000 x Rs. 2.50 = Rs. 15,000

Current cost of closing cash = Rs. 12,000 (Rs. 18,000 – Rs. 6,000)

Opening equity at closing current costs = Rs. 15,000

Closing equity at closing current costs = Rs. 12,000

Retained Profit = Rs. 12,000 – Rs. 15,000 = (Rs. 3,000)

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund Rs. 12,000 is not sufficient to buy 6,000 units again at increased price Rs. 2.50 per unit. The drawings should have been restricted to Rs. 3,000 (Rs. 6,000 – Rs. 3,000).

Had the trader withdrawn Rs. 3,000 instead of Rs. 6,000, he would have left with Rs. 15,000, the fund required to buy 6,000 units at Rs. 2.50 per unit.

**Capital maintenance can be computed under all three bases as shown below:**

**Financial Capital Maintenance at historical costs**

	Rs	Rs
Closing capital (At historical cost)		12,000
Less: Capital to be maintained		
Opening capital (At historical cost)	12,000	
Introduction (At historical cost)	Nil	(12,000)
Retained profit		Nil

**Financial Capital Maintenance at current purchasing power**

	Rs	Rs
Closing capital (At closing price)		12,000
Less: Capital to be maintained		
Opening capital (At closing price)	14,400	
Introduction (At closing price)	Nil	(14,400)
Retained profit		(2,400)

**Physical Capital Maintenance**

	Rs	Rs
Closing capital (At current cost)		12,000
Less: Capital to be maintained		
Opening capital (At current cost)	15,000	
Introduction (At current cost)	Nil	(15,000)
Retained profit		(3,000)

**QUESTION 137)**

Opening Balance Sheet of Mr. A is showing the aggregate value of assets, liabilities and equity Rs. 8 lakhs, Rs. 3 lakh and Rs. 5 lakhs respectively. During accounting period, Mr. A has the following transactions:

- 1) Earned 10% dividend on 2,000 equity shares held of Rs. 100 each
- 2) Paid Rs. 50,000 to creditors for settlement of Rs. 70,000
- 3) Rent of the premises is outstanding Rs. 10,000
- 4) Mr. A withdrew Rs. 9,000 for his personal use.

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



**Solution**

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

	Transactions	Assets Rs. Lakhs (a)	Liabilities Rs. Lakhs (b)	Equity Rs. lakhs (c) + (a - b)
	Opening	8.00	3.00	5.00
1)	Dividend earned	8.20	3.00	5.20
2)	Settlement of Creditors	7.70	2.30	5.40
3)	Rent Outstanding	7.70	2.40	5.30
4)	Drawings	7.61	2.40	5.21

## AMALGAMATION

### Question 138)

(Accounting for Transferee Books – Purchase Method)

Balance Sheet as on 31/3/24

Particulars	Transferee	Transferor
Equity Share Capital (10/-)	12,00,000	8,00,000
9% Preference Share Capital (10/-)	8,00,000	-
8% Preference Share Capital (10/-)	-	6,00,000
General Reserve	5,00,000	3,00,000
Profit & Loss A/c	3,50,000	2,50,000
Export Profit Reserve	-	50,000
7% Debenture (100/-)	7,50,000	-
6% Debenture (100/-)	-	6,00,000
Creditors	4,00,000	4,00,000
	<b>40,00,000</b>	<b>30,00,000</b>
PPE	13,00,000	9,00,000
Investments	9,00,000	7,00,000
Inventory	10,00,000	7,00,000
Trade Receivables	5,00,000	6,00,000
Cash & Bank Balance	3,00,000	2,00,000
	<b>40,00,000</b>	<b>30,00,000</b>

- (1) 8% Preference Shareholders shall be given New 9% Preference Shares at 20% Increase in value (Shares to be issued at Par)
- (2) Purchased Consideration to Equity Share Holder shall be discharged as under:  
Cash = 3,00,000  
Equity Shares of Transferee in 5:4
- (3) Market Value per share of Transferee is 28/-
- (4) Market Value of PPE & Investments of Transferor are 11,50,000 & 6,20,000
- (5) Trade Receivable shall be subject to a Provision on Doubtful Debts @2%
- (6) 6% Debenture Holder will get new 7% Debenture at an adequate amount. So that Interest Amount would be same
- (7) EPR to be maintained for 2 Years more years.
- (8) There is unrecorded Liabilities of Transferor towards creditor for goods of ₹ 30,000 which is also assumed by Transferee.  
Required:
  - (a) Calculate Preference Share.
  - (b) Pass Journal entries in the Books of Transferee.
  - (c) Prepare Balance Sheet after takeover of Transferee.

Assume Amalgamation in the nature of Purchase.

### SOLUTION:

**Working Note: – 1 Calculation of Purchase Consideration**

Payment to	Payment in	Working	Amount
Equity Shareholders	Cash	-	3,00,000



Equity Shareholders	Equity shares of Transferee	80,000 X 5/4	28,00,000
Preference Shareholder	9% Preference Shares	6,00,000 + 20%	7,20,000
<b>Total</b>			<b>38,20,000</b>

**Working Note-2 Settlement of 6% Debentures**

- 6% Debenture of Transferor = 6,00,000
- Interest Amount @ 6% = 36,000/-
- New Debenture Interest Rate 7%
- Therefore, New Debenture Value = 36,000 ÷ 7%
- 7% Debenture = 5,14,286/- (Payable Value)

**Important Facts (Not a Part of Solution in Exam)**

- All Assets and Liabilities to be Recorded.
- Assets to be recorded at Market Value if given.
- Provision for doubtful debts to be credited separately.
- Export Profit Reserve (EPR) is not a liability therefore will not come under 2<sup>nd</sup> Entry of Assets/Liabilities taken over.

**Journal entries (Books of Transferee)**

Business Purchase A/c	Dr.	38,20,000	
To Liability of Transferor A/c			38,20,000
(Being Business taken over)			
PPE A/c	Dr.	11,50,000	
Invest A/c	Dr.	6,20,000	
Inventory A/c	Dr.	6,00,000	
Trade Receivable	Dr.	6,00,000	
Cash & Bank	Dr.	2,00,000	
Goodwill A/c Dr. (BF)		16,06,286	
To Provision for DD A/c			12,000
To Creditors A/c			4,30,000
To Debenture Holder of Transferor A/c			5,14,286
To Business Purchase A/c			38,20,000
(Being Assets & Liabilities are recognised & Goodwill recorded)			
Liquidator of Transferor A/c	Dr.	38,20,000	
To 9% Preference Share Capital			7,20,000
To Cash A/c			3,00,000
To Equity Share Capital A/c			10,00,000
To Securities Premium A/c			18,00,000
(Being Purchase Consideration Discharged)			
Debenture Holder of Transferor A/c	Dr.	5,14,286	
To 7% Debenture A/c			5,14,286
(Being Outstanding Debenture are issued New with 7% Interest)			
Amalgamation Adjustable Reserve	Dr.	50,000	
To Expenses Profit Reserve			50,000
(Being EPR maintained)			

**Balance Sheet (after Amalgamation)**

<b>Shareholders Fund</b>		
(I) Share Capital	1	37,20,000
(II) Reserve & Surplus	2	26,50,000
<b>Non-Current Liabilities</b>		

(l) Long Term Borrowings	3	12,64,286
<b>Current Liability</b>		
(i) Trade Payable	4	8,30,000
		<b>84,64,286</b>
<b>Assets</b>		
<b>Non-current Assets:</b>		
(a) PPE Tangible & Intangible	5	40,56,286
(b) Investment	6	15,20,000
<b>Current Assets:</b>		
(a) Inventory	7	16,00,000
(b) Trade Receivable	8	10,88,000
(c) Cash & Cash equity	9	2,00,000
<b>Total</b>		<b>84,64.286</b>

**Notes to Accounts:**

<b>Share Capital</b>		
(a) Equity Share Capital of 10/- each + Issue of Purchase consideration	12,00,000 10,00,000	22,00,000
(b) 9% Purchased Share Capital of 10/- each + Issue of Purchase Consideration	8,00,000 72,00,000	15,20,000
		<b>37,20,000</b>
<b>Reserve &amp; surplus</b>		<b>26,50,000</b>
General Reserve	5,00,000	
Profit & Loss	3,50,000	
Securities Premium	18,00,000	
EPR	50,000	
(-) AAR	(50,000)	
<b>Long TERM Borrowings</b>		<b>12,64,286</b>
(a) 7 % Debenture + New Issue of 7% Debentures	7,50,000 5,14,286	
<b>Trade Payable</b>		<b>8,30,000</b>
Creditor of Transferee	4,00,000	
Creditors Recorded Transferor	4,30,000	
<b>PPE</b>		
(a) Tangible	13,00,000	24,00,000
Transferee	11,00,000	
Transferor		
(b) Intangible		
Goodwill		16,06,286
		<b>40,56,286</b>
<b>Investments</b>		
Transferee	9,00,000	
Transferor	6,20,000	15,20,000
<b>Inventory</b>		
Transferee	10,00,000	
Transferor	6,00,000	16,00,000
<b>Trade Receivable</b>		
Transferee	5,00,000	
Transferor	6,00,000	
(-) Provision	(12,000)	10,88,000

<b>Cash &amp; Bank</b>		<b>2,00,000</b>
Transferee	3,00,000	
Transferor	2,00,000	
(-) Purchase Consideration	(3,00,000)	

**Question 139)**

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.)
<b>(1) Equity and Liabilities</b>			
1. Shareholders' 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
<b>Total</b>		<b>22,75,000</b>	<b>11,45,000</b>
<b>(2) Assets</b>			
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
<b>Total</b>		<b>22,75,000</b>	<b>11,45,000</b>

**Notes to Accounts:**

Note No.	Particulars	Truth Limited (Rs.)	Myth Limited (Rs.)
<b>1</b>	<b>Share Capital</b>		
	Equity shares of Rs. 10 each	10,00,000	4,00,000
<b>2</b>	<b>Reserves &amp; Surplus</b>		
	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
		<b>11,35,000</b>	<b>4,13,000</b>
<b>3</b>	<b>Non- Current Liabilities</b>		
	14% Debentures	---	1,50,000
<b>4</b>	<b>Current Liabilities</b>		
	Trade Payables	90,000	1,42,000
	Other Current Liabilities	50,000	40,000
		<b>1,40,000</b>	<b>1,82,000</b>
<b>5</b>	<b>Current Assets</b>		
	Inventory	2,15,000	85,000
	Trade Receivables	2,02,500	1,75,000
	Cash and Cash equivalents	95,000	1,05,000
		<b>5,12,500</b>	<b>3,65,000</b>

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 Limited (Rs.)	Myth Limited (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

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.

## SOLUTION

### Balance Sheet of Truth Ltd. (after amalgamation with Myth Ltd.) as at 1.4.2021

Particulars	Note No.	(Rs.)
<b>I. Equity and liabilities</b>		
<b>(1) Shareholder's funds</b>		
(a) Share capital	1	13,13,750
(b) Reserves and surplus	2	20,76,250
<b>(2) Non-current liabilities</b>		
12% Debentures	3	1,75,000
<b>(3) Current liabilities</b>		
(a) Trade payables	4	2,32,000
(b) Other current liabilities	5	90,000
<b>Total</b>		<b>38,87,000</b>
<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
(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
<b>(2) Current assets</b>		
(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
<b>Total</b>		<b>38,87,000</b>

## Notes to Accounts

	(Rs.)	(Rs.)
<b>1. Share Capital</b>		
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)		
<b>2. Reserves and surplus</b>		
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
<b>3.</b>	<b>Long Term Borrowings</b>		
	12% Debentures issued to Myth Ltd.		1,75,000
<b>4.</b>	<b>Trade payables</b>		
	Trade payables	90,000	
	Add: Taken over	1,42,000	2,32,000
<b>5</b>	<b>Other Current Liabilities</b>		
	Truth Ltd.	50,000	
	Myth Ltd.	40,000	90,000
<b>6.</b>	<b>Property, Plant &amp; Equipment</b>		
	Truth Ltd.	15,75,000	
	Myth Ltd.	6,80,000	22,55,000
<b>7.</b>	<b>Investment</b>		
	Truth Ltd.	1,87,500	
	Myth Ltd.	1,00,000	2,87,500

**Working Notes:****(1) Valuation of Goodwill****(i) Capital Employed**

	Truth Ltd.		Myth Ltd.	
	Rs.	Rs.	Rs.	Rs.
Assets as per Balance Sheet		22,75,000		11,45,000
Less: Non-trade Investment		(1,50,000)		(80,000)
Less: Liabilities:		21,25,000		10,65,000
14% Debentures	-		1,50,000	
Trade payables	90,000		1,42,000	
Other current liabilities	50,000	(1,40,000)	40,000	(3,32,000)
<b>Capital Employed</b>		<b>19,85,000</b>		<b>7,33,000</b>

**(ii) Average Profit before Tax**

	Truth Ltd.		Myth Ltd.	
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	[(6,93,000 / 18) x 100]	38,50,000	[(2,16,000 / 18) x 100]	12,00,000
Less: Capital Employed [From (i) above]		(19,85,000)		(7,33,000)
<b>Goodwill</b>		<b>18,65,000</b>		<b>4,67,000</b>

\* For Truth Ltd. =  $1,87,500 \times 80\% \times 20\% = 30,000$ ; and  
 Myth Ltd. =  $1,00,000 \times 80\% \times 15\% = 12,000$

**(2) Intrinsic Value per Share**

	Truth Ltd.		Myth Ltd.	
		Rs.		Rs.
Goodwill [W.N. 1]	18,65,000		4,67,000	
Other Assets	22,75,000	41,40,000	11,45,000	16,12,000
Less: Liabilities				
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		12,55,000 / 40,000
		<b>= Rs. 40</b>		<b>= Rs. 31.375</b>

\*\*  $1,50,000 \times 14\% / 12\% = 1,75,000$

**(3) Purchase Consideration & manner of its discharge**

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

**Question 140)**

The following are the Balance Sheets of Aakash Limited and Ganga Limited as at March 31, 2021:

Particulars	Note No.	Aakash Limited (Rs.)	Ganga Limited (Rs.)
<b>I. Equity and Liabilities:</b>			
<b>(1) Shareholder's Funds:</b>			
(a) Share Capital	1	80,00,000	20,00,000
(b) Reserves and Surplus	2	(3,24,00,000)	56,00,000
<b>(2) Non-Current Liabilities:</b>			
(a) Secured Loans	3	3,20,00,000	1,60,00,000
(b) Unsecured Loans	4	1,72,00,000	-
<b>(3) Current Liabilities:</b>			
(a) Trade Payables		56,00,000	36,00,000
(b) Other Current Liabilities	5	2,04,00,000	56,00,000
<b>Total</b>		<b>5,08,00,000</b>	<b>3,28,00,000</b>
<b>II. Assets:</b>			
<b>(1) Non-Current Assets:</b>			
Property, Plant & Equipment		68,00,000	1,36,00,000

<b>(2) Current Assets:</b>			
(a) Inventories		3,68,00,000	-
(b) Other Current Assets		72,00,000	1,92,00,000
<b>Total</b>		<b>5,08,00,000</b>	<b>3,28,00,000</b>

**Notes to Accounts:**

		<b>Aakash Limited (Rs.)</b>	<b>Ganga Limited (Rs.)</b>
<b>1. Share Capital</b>			
	Authorized, Issued, Subscribed & Paid up:		
	6,00,000 Equity Shares of Rs. 10 each	60,00,000	-
	20,000 Preference Shares of Rs. 100 each	20,00,000	-
	2,00,000 Equity Shares of Rs. 10 each	-	20,00,000
		<b>80,00,000</b>	<b>20,00,000</b>
<b>2. Reserves and Surplus</b>			
	General Reserve	8,00,000	56,00,000
	Surplus	(3,32,00,000)	-
		<b>(3,24,00,000)</b>	<b>56,00,000</b>
<b>3. Secured Loans</b>			
	(Secured Loans of Aakash Limited are secured against pledge of Inventories)	3,20,00,000	1,60,00,000
<b>4. Unsecured Loans</b>		<b>1,72,00,000</b>	-
<b>5. Other Current Liabilities</b>			
	Statutory Liabilities	1,44,00,000	20,00,000
	Liability to Employees	60,00,000	36,00,000
		<b>2,04,00,000</b>	<b>56,00,000</b>

Both the companies go into liquidation and a new company 'Aakash Ganga Limited' is formed to take over their business. The following information is given:

- (i) All Current Assets of two companies, except pledged inventory are taken over by Aakash Ganga Limited. The realizable value of all the Current Assets (including pledged inventory) is 80% of book value in case of Aakash Limited and 70% for Ganga Limited.
- (ii) Property, Plant and Equipment of both the companies are taken over at book value by AakashGanga Limited.
- (iii) Secured Loans include Rs. 32,00,000 accrued interest in case of Ganga Limited.
- (iv) 4,00,000 Equity Shares of Rs. 10 each are allotted by AakashGanga Limited at par against cash payment of entire face value to the shareholders of Aakash Limited and Ganga Limited in the ratio of shares held by them in Aakash Limited and Ganga Limited.

Preference Shareholders in Aakash Limited are issued Equity Shares in AakashGanga Ltd. worth Rs.

- (v) 4,00,000 in lieu of their present holdings.
- (vi) Secured Loan agree to continue the balance amount of their loans to AakashGanga Limited after adjusting realizable value of pledged asset in case of Aakash Limited and after waiving 50% of interest due in the case of Ganga Limited.
- (vii) Unsecured Loans are taken over by AakashGanga Limited at 25% of loan amounts.
- (viii) Employees are issued fully paid Equity Shares in AakashGanga Limited in full settlement of their dues.
- (ix) Statutory Liabilities are taken over by AakashGanga Limited at full value and Trade Payables are taken over

at 80% of the book value.

You are required to prepare the opening Balance Sheet of AakashGanga Limited as at 1.4.2021.

### SOLUTION

#### Balance sheet of AakashGanga Ltd. as at 1st April, 2021

Particulars	Note No.	(Rs.)
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholders' Funds</b>		
(a) Share Capital	1	1,40,00,000
<b>(2) Non-Current Liabilities</b>		
(a) Long term borrowings	2	2,12,60,000
<b>(3) Current Liabilities</b>		
(a) Trade Payables	3	73,60,000
(b) Other current liabilities	4	1,64,00,000
<b>Total</b>		<b>5,90,20,000</b>
<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
(a) Property, Plant & Equipment	5	2,04,00,000
(b) Intangible assets	6	1,54,20,000
<b>(2) Current assets</b>		
(a) Cash and cash equivalents		40,00,000
(b) Other current assets	7	1,92,00,000
<b>Total</b>		<b>5,90,20,000</b>

### Notes to Accounts

		(Rs.)
<b>1. Share Capital</b>		
Issued, subscribed & paid up:		
14,00,000 equity shares of Rs. 10 each, fully paid up (W.N.4)		1,40,00,000
(Of the above 10,00,000 shares have been issued for consideration other than cash)		
<b>2. Long Term borrowings</b>		
Secured Loans		
Aakash Limited 25,60,000		
Ganga Limited 1,44,00,000	1,69,60,000	
Unsecured Loans	43,00,000	2,12,60,000
<b>3. Trade Payables (W.N.1)</b>		
Aakash Limited	44,80,000	
Ganga Limited	28,80,000	73,60,000
<b>4. Other current liabilities</b>		
Statutory Liabilities		
Aakash Limited	1,44,00,000	
Ganga Limited	20,00,000	1,64,00,000
<b>5. Property, Plant &amp; Equipment</b>		
Aakash Limited	68,00,000	
Ganga Limited	1,36,00,000	2,04,00,000



6.	<b>Intangible assets</b>		
	Goodwill (W.N.3)		1,54,20,000
7.	<b>Other Current Assets</b>		
	Aakash Limited	57,60,000	
	Ganga Limited	1,34,40,000	1,92,00,000

**Working Notes:****1. Value of total liabilities taken over by Aakash Ganga Ltd. (Rs.)**

	Aakash Limited		Ganga Limited	
<b>Current liabilities</b>				
Statutory liabilities	1,44,00,000		20,00,000	
Liability to employees	60,00,000		36,00,000	
Trade payables @ 80%	44,80,000	2,48,80,000	28,80,000	84,80,000
<b>Secured loans</b>				
Given in Balance Sheet	3,20,00,000		1,60,00,000	
Interest waived	-		16,00,000	1,44,00,000
Value of Inventory (80% of Rs. 3,68,00,000)	2,94,40,000	25,60,000		
Unsecured Loans (25% of Rs.1,72,00,000)		43,00,000		-
		<b>3,17,40,000</b>		<b>2,28,80,000</b>

**2. Assets taken over by Aakash Ganga Ltd. (Rs.)**

	Aakash Limited	Ganga Limited
	Rs.	Rs.
Property, Plant & Equipment	68,00,000	1,36,00,000
Current Assets (80% and 70% respectively of book value)	57,60,000	1,34,40,000
	<b>1,25,60,000</b>	<b>2,70,40,000</b>

**3. Goodwill / Capital Reserve on amalgamation (Rs.)**

Liabilities taken over (W.N. 1)		3,17,40,000	2,28,80,000
Equity shares to be issued to Preference Shareholders		4,00,000	-
	A	3,21,40,000	2,28,80,000
Less: Total assets taken over (W.N. 2)	B	(1,25,60,000)	(2,70,40,000)
	A-B	1,95,80,000	(41,60,000)
		Goodwill	Capital Reserve
<b>Net Goodwill (1,95,80,000- 41,60,000)</b>		<b>1,54,20,000</b>	

**4. Equity shares issued by Aakash Ganga Ltd.**

(i)	For Cash		40,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	96,00,000	
(iii)	To Preference shareholders	4,00,000	1,00,00,000
			1,40,00,000

	<b>No. of shares @ Rs. 10</b>
	<b>14,00,000</b>

**Question 141)**

A Limited and B Limited are carrying on business of same nature. On 31 st March, 2021 the information given by both these companies is as follows:

	A Ltd. (Rs.)	B Ltd. (Rs.)
Share Capital		
- Equity Shares 10 each (Fully Paid)	12,00,000	7,20,000
- 10% Preference Shares of Rs. 100 each	6,00,000	-
- 8% Preference Shares of Rs. 100 each	-	5,00,000
General Reserve	3,00,000	2,50,000
Investment Allowance Reserve	-	60,000
Security Premium	2,40,000	-
Export Profit Reserve	1,80,000	1,20,000
Profit & Loss Account	2,16,000	1,92,000
9% Debentures (Rs. 10 each)	3,00,000	2,00,000
Secured Loan	-	3,60,000
Sundry Creditors	3,12,000	2,04,000
Bills Payable	75,000	1,00,000
Other Current Liabilities	50,000	75,000
Land and Building	10,80,000	8,40,000
Plant and Machinery	6,00,000	5,60,000
Office Equipment	3,45,000	2,10,000
Investments	96,000	3,00,000
Stock in Trade	6,30,000	4,20,000
Sundry Debtors	4,90,000	3,20,000
Bills Receivables	60,000	70,000
Cash at Bank	1,72,000	61,000

A Limited take over B Limited on the above date, both companies agreeing on a scheme of Amalgamation on the following terms:

- A Limited will issue 80,000 Equity Shares of Rs. 10 each at par to the Equity Shareholders of B Limited.
- A Limited will issue 10% Preference Shares of Rs. 100 each to discharge the Preference Shareholders of B Limited at 15% premium in such a way that the existing dividend quantum of the preference shareholders of B Limited will not get affected. Accordingly, Rs. 5,00,000 pref. shares are discharged at Rs. 5,75,000 (5,00,000X 115%) by issue of 4,000 preference shares of Rs. 100 each at premium of Rs. 43.75 each.
- The Debentures of B Limited will be converted into equivalent number of Debentures of A Limited.
- All the Bills Receivable of A Limited were accepted by B Limited.
- A contingent liability of B Limited amounting to Rs. 72,000 to be treated as actual liability in trade payables.
- Expenses of Amalgamation amounted to Rs. 12,000 were borne by A Limited.

You are required to pass opening Journal Entries in the books of A Limited and prepare the opening Balance Sheet of A Limited as on 1st April, 2021 after amalgamation, assuming that the amalgamation is in the nature of Merger.

**SOLUTION****Journal Entries in the books of A Ltd.**

Particulars		Debit	Credit
		Rs.	Rs.
Business purchase A/c (W.N.1)	Dr.	13,75,000	

To Liquidator of B Ltd.			13,75,000
(Being business of B Ltd. taken over)			
Land & Building A/c	Dr.	8,40,000	
Plant and machinery A/c	Dr.	5,60,000	
Office equipment A/c	Dr.	2,10,000	
Investments A/c	Dr.	3,00,000	
Inventory A/c	Dr.	4,20,000	
Debtors A/c	Dr.	3,20,000	
Bills receivables A/c	Dr.	70,000	
Bank A/c	Dr.	61,000	
To General reserve A/c (W.N.2) (2,50,000-1,55,000)			95,000
To Export profit reserve A/c			1,20,000
To Investment allowance reserve A/c			60,000
To Profit and loss A/c			1,20,000
To Liability for 9% Debentures A/c (Rs. 100 each)			2,00,000
To Secured Loan			3,60,000
To Trade creditors A/c			2,76,000
To Bills payables A/c			1,00,000
To Other current liabilities A/c			75,000
To Business purchase A/c			13,75,000
(Being assets and liabilities taken over)			
Liquidator of B Ltd.	Dr.	13,75,000	
To Equity share capital A/c			8,00,000
To 10% Preference share capital A/c			4,00,000
To Securities premium A/c			1,75,000
(Being purchase consideration discharged)			
General Reserve* A/c	Dr.	12,000	
To Cash at bank			12,000
(Being expenses of amalgamation paid)			
Liability for 9% Debentures in B Ltd. A/c	Dr.	2,00,000	
To 9% Debentures A/c			2,00,000
(Being debentures in B Ltd. discharged by issuing own 9% debentures)			
Bills payables A/c	Dr.	60,000	
To Bill receivables A/c (Cancellation of mutual owing on account of bills of exchange)			60,000

\*Alternatively, profit & loss A/c may be debited in place of general reserve A/c.

#### Opening Balance Sheet of A Ltd. (after absorption) as at 1st April, 2021

	Particulars	Notes	Rs.
	<b>Equity and Liabilities</b>		
<b>1</b>	<b>Shareholders' funds</b>		
a	Share capital	1	30,00,000
b	Reserves and Surplus	2	14,94,000
<b>2</b>	<b>Non-current liabilities</b>		

a	Long-term borrowings	3	8,60,000
<b>3</b>	<b>Current liabilities</b>		
a	Trade Payables	4	7,03,000
b	Other current liabilities	5	1,25,000
	<b>Total</b>		<b>61,82,000</b>
	<b>Assets</b>		
<b>1</b>	<b>Non-current assets</b>		
a	PPE	6	36,35,000
b	Investments	7	3,96,000
<b>2</b>	<b>Current assets</b>		
a	Inventories	8	10,50,000
b	Trade receivables	9	8,80,000
c	Cash and cash equivalents	10	2,21,000
	<b>Total</b>		<b>61,82,000</b>

**Notes to accounts**

			Rs.
<b>1</b>	<b>Share Capital</b>		
	Equity share capital		
	2,00,000 Equity shares of Rs. 10 each (Out of above, 80,000 shares were issued for consideration other than cash)		20,00,000
	Preference share capital		
	10,000 10% Preference shares of Rs. 100 each (Out of above, 4,000 shares were issued for consideration other than cash)		10,00,000
	<b>Total</b>		<b>30,00,000</b>
<b>2</b>	<b>Reserves and Surplus</b>		
	General Reserve		
	Opening balance	3,00,000	
	Add: Adjustment under scheme of amalgamation	95,000	
	Less: Amalgamation expense paid	(12,000)	3,83,000
	Securities premium (2,40,000+1,75,000)		4,15,000
	Export profit reserve		
	Opening balance	1,80,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,00,000
	Investment allowance reserve		60,000
	Profit and loss account		
	Opening balance	2,16,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,36,000
	<b>Total</b>		<b>14,94,000</b>
<b>3</b>	<b>Long-term borrowings</b>		
	Secured		
	9% Debentures	3,00,000	
	Add: Adjustment under scheme of amalgamation	2,00,000	
	Secured loan	3,60,000	8,60,000
<b>4</b>	<b>Trade payables</b>		

	Creditors: Opening balance	3,12,000	
	Add: Adjustment under scheme of amalgamation	2,76,000	5,88,000
	Bills Payables: Opening balance	75,000	
	Add: Adjustment under scheme of amalgamation	1,00,000	
	Less: Cancellation of mutual owing upon amalgamation	(60,000)	1,15,000
			<b>7,03,000</b>
<b>5</b>	<b>Other current liabilities</b>		
	Opening balance	50,000	
	Add: Adjustment under scheme of amalgamation	75,000	1,25,000
<b>6</b>	<b>PPE</b>		
	Land & Building- Opening balance	10,80,000	
	Add: Adjustment under scheme of amalgamation	8,40,000	19,20,000
	Plant and machinery- Opening balance	6,00,000	
	Add: Adjustment under scheme of amalgamation	5,60,000	11,60,000
	Office equipment- Opening balance	3,45,000	
	Add: Adjustment under scheme of amalgamation	2,10,000	5,55,000
	<b>Total</b>		<b>36,35,000</b>
<b>7</b>	<b>Investments</b>		
	Opening balance	96,000	
	Add: Adjustment under scheme of amalgamation	3,00,000	3,96,000
<b>8</b>	<b>Inventories</b>		
	Opening balance	6,30,000	
	Add: Adjustment under scheme of amalgamation	4,20,000	10,50,000
<b>9</b>	<b>Trade receivables</b>		
	Debtors: Opening balance	4,90,000	
	Add: Adjustment under scheme of amalgamation	3,20,000	8,10,000
	Bills Payables: Opening balance	60,000	
	Add: Adjustment under scheme of amalgamation	70,000	
	Less: Cancellation of mutual owing upon amalgamation	(60,000)	70,000
	<b>Total</b>		<b>8,80,000</b>
<b>10</b>	<b>Cash and cash equivalents</b>		
	Opening balance	1,72,000	
	Add: Adjustment under scheme of amalgamation	61,000	
	Less: Amalgamation expense paid	(12,000)	<b>2,21,000</b>

**Working Notes:****1. Calculation of purchase consideration**

	Rs.
Equity shareholders of B Ltd. (80,000 x Rs. 10)	8,00,000
Preference shareholders of B Ltd. (5,00,000 x 115%)	5,75,000
Purchase consideration would be	13,75,000

**2. Amount to be adjusted from general reserve**

The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve.

Thus, General reserve will be adjusted as follows:

	Rs.
Purchase consideration	13,75,000

Less: Share capital issued (Rs. 7,20,000 + Rs. 5,00,000)	(12,20,000)
Amount to be adjusted from general reserve	1,55,000

### 3. Calculation of balances of Profit & Loss and Sundry Creditors of B Limited to be taken over by A Limited

	P&L (Rs.)	Creditors (Rs.)
Balance as per Balance Sheet of B Limited	1,92,000	2,04,000
Less / Add: Contingent Trade Payable treated as Actual Liability	(72,000)	72,000
Taken by A Limited	1,20,000	2,76,000

#### Question 142)

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
<b>Equity &amp; liabilities:</b>			<b>Assets:</b>		
<b>Shareholders Fund</b>			<b>Non-current Assets:</b>		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (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	-
	<b>18,60,000</b>	<b>25,20,000</b>		<b>18,60,000</b>	<b>25,20,000</b>

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:

- Calculate the number of shares issued to P Ltd. and Q Ltd; and
- Prepare required journal entries in the books of PQ Ltd.; and Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries

#### SOLUTION

##### (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

	<b>14,40,000</b>
--	------------------

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. Amount (Rs)	Cr. Amount (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. and Q Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	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)			
Fixed assets 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 (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 A/c		18,00,000	
To Equity share capital account			7,20,000
To Securities premium			10,80,000

(Equity share capital issued to raise working capital)

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

Particulars		Notes	Rs
<b>Equity and Liabilities</b>			
<b>1</b>	<b>Shareholders' funds</b>		
a	Share capital	1	21,60,000
b	Reserves and Surplus	2	32,40,000
<b>2</b>	<b>Current liabilities</b>		
a	Trade payables (2,40,000 + 5,40,000)		7,80,000
<b>Total</b>			<b>61,80,000</b>
<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>		
a	Fixed assets		
	Tangible assets (7,20,000 + 10,80,000)		18,00,000
	Intangible assets (goodwill)	4	5,40,000
<b>2</b>	<b>Current assets</b>		
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	3	15,60,000
<b>Total</b>			<b>61,80,000</b>

**Notes to accounts**

		Rs
<b>1</b>	<b>Share Capital</b>	
	Issued, subscribed and paid-up share capital 2,16,000 Equity shares of Rs10 each (Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)	21,60,000
<b>2</b>	<b>Reserves and Surplus</b>	
	Securities premium (@Rs 15 for 2,16,000 shares)	32,40,000
<b>3</b>	<b>Cash and cash equivalents</b>	
	Cash at Bank	15,60,000
<b>4</b>	<b>Intangible Assets</b>	
	Goodwill	5,40,000

**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]			
<b>Goodwill</b>			<b>5,40,000</b>

**2. Calculation of Net assets**

	P Ltd. Rs	Q Ltd. Rs
Assets		



Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	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
<b>Net assets or Purchase consideration</b>	<b>21,60,000</b>	<b>14,40,000</b>

**3. New authorized capital**

= Rs 14,40,000 + Rs 12,00 000 = Rs 26,40,000

**4. Cash and Cash equivalents**

	Rs
P Ltd. Balance	3,00,000
Cash received from Fresh issue (72,000 X Rs 25)	18,00,000
	21,00,000
Less: Bank Overdraft	5,40,000
	<b>15,60,000</b>

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

**Question 143)**

The financial position of X Ltd. and Y Ltd. as on 31st March, 2018 was as under:



	X Ltd. (Rs)	Y Ltd. (Rs)
<b>Equity and Liabilities</b>		
Equity Shares of Rs 10 each	30,00,000	9,00,000
9% Preference Shares of Rs 100 each	3,00,000	-
10% Preference Shares of Rs 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
<b>Total</b>	<b>40,50,000</b>	<b>17,10,000</b>
<b>Assets</b>		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
<b>Total</b>	<b>40,50,000</b>	<b>17,10,000</b>

X Ltd. absorbs Y Ltd. on the following terms:

- (i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.
- (ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016-17: Rs 90,000; 2015-16: Rs 78,000 and 2014-15: Rs 72,000). The profits of 2014 -15 included credit of an insurance claim of Rs 25,000 (fire occurred in 2013-14 and loss by fire Rs 30,000 was booked in Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to Rs 10,000.
- (iii) Land & Buildings are valued at Rs 5,00,000 and the Plant & Machinery at Rs 4,00,000.

- (iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.  
 (v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to Rs 15,000 and such asset was also taken over by X Ltd.  
 (vi) The trade payables of Y Ltd. included Rs 20,000 payable to X Ltd.  
 (vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

**You are required to**

- (i) Prepare Realisation A/c in the books of Y Ltd.  
 (ii) Show journal entries in the books of X Ltd.

Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2018.

**SOLUTION****In the Books of Y Ltd. Realisation Account**

	Rs			Rs
To Sundry Assets:			By Retirement Gratuity Fund	60,000
Goodwill	75,000			
Land & Building	3,00,000		By Trade payables	2,40,000
Plant & Machinery	4,50,000		By X Ltd. (Purchase	15,90,000
Inventory	5,25,000		Consideration)	
Trade receivables	3,00,000			
Bank	60,000	17,10,000		
To Preference Shareholders (Premium on Redemption)		30,000		
To Equity Shareholders (Profit on Realisation)		1,50,000		
		<b>18,90,000</b>		<b>18,90,000</b>

**In the Books of X Ltd. Journal Entries**

		Dr. Rs	Cr. Rs
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. Account (Being business of Y Ltd. taken over)			15,90,000
Goodwill Account	Dr.	1,50,000	
Land & Building Account	Dr.	5,00,000	
Plant & Machinery Account	Dr.	4,00,000	
Inventory Account	Dr.	4,72,500	
Trade receivables Account	Dr.	3,00,000	
Bank Account	Dr.	60,000	
Unrecorded assets Account	Dr.	15,000	
To Retirement Gratuity Fund Account			60,000
To Trade payables Account			2,40,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c (Being Assets and Liabilities taken over as per agreed valuation).			15,90,000
Liquidators of Y Ltd. A/c	Dr.	15,90,000	
To 9% Preference Share Capital A/c			3,30,000
To Equity Share Capital A/c			12,00,000
To Securities Premium A/c (Being Purchase Consideration satisfied as above).			60,000

## Balance Sheet of X Ltd. (after absorption) as at 31st March, 2018

Particulars		Notes	Rs
<b>Equity and Liabilities</b>			
1	Shareholders' funds		
A	Share capital	1	48,30,000
B	Reserves and Surplus	2	2,70,000
2	<b>Non-current liabilities</b>		
A	Long-term provisions	3	2,10,000
3	<b>Current liabilities</b>		
A	Trade Payables	4	6,10,000
B	Short term provision	5	7,500
Total			59,27,500
<b>Assets</b>			
1	<b>Non-current assets</b>		
A	Fixed assets		
Tangible assets			6
			33,00,000
Intangible assets			7
			3,00,000
2	<b>Current assets</b>		
A	Inventories	8	12,22,500
B	Trade receivables	9	8,80,000
C	Other current Assets	10	15,000
D	Cash and cash equivalents	11	2,10,000
<b>Total</b>			<b>59,27,500</b>

## Notes to accounts

		Rs
1	<b>Share Capital</b>	
Equity share capital		
4,20,000 Equity Shares of Rs. 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)		42,00,000
Preference share capital		
6,300 9% Preference Shares of Rs. 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)		6,30,000
Total		48,30,000
2	<b>Reserves and Surplus</b>	
Securities Premium		60,000
General Reserve		2,10,000
Total		2,70,000
3	<b>Long-term provisions</b>	
Retirement Gratuity fund		2,10,000
4	<b>Trade payables</b> (3,90,000 + 2,40,000 - 20,000*) * Mutual Owings eliminated.	6,10,000
5	<b>Short term Provisions</b>	
Provision for Doubtful Debts		7,500
6	<b>Tangible assets</b>	
Land & Buildings		14,00,000
Plant & Machinery		19,00,000
<b>Total</b>		<b>33,00,000</b>
7	<b>Intangible assets</b>	
Goodwill (1,50,000 + 1,50,000)		3,00,000

8	Inventories (7,50,000 + 4,72,500)	12,22,500
9	Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	Other current Assets	15,000
11	Cash and cash equivalents (1,50,000 + 60,000)	2,10,000

**Working Notes:****1. Computation of goodwill**

Rs

Profit of 2016-17	90,000
Profit of 2015-16 adjusted Rs 78,000 + 10,000)	88,000
Profit of 2014-15 adjusted (Rs 72,000 – 25,000)	47,000
	2,25,000
<b>Average profit</b>	<b>75,000</b>

Goodwill to be valued at 2 times of average profits = Rs 75,000 x 2 = RS 1,50,000

**2.**

<b>Purchase Consideration:</b>	<b>Rs</b>
Goodwill	1,50,000
Land & Building	5,00,000
Plant & Machinery	4,00,000
Inventory	4,72,500
Trade receivables	3,00,000
Unrecorded assets	15,000
Cash at Bank	60,000
	18,97,500
Less: Liabilities:	
Retirement Gratuity 60,000	
Trade payables 2,40,000	(3,07,500)
Provision for doubtful debts 7,500	
Net Assets/ Purchase Consideration	15,90,000
To be satisfied as under:	
10% Preference Shareholders of Y Ltd.	3,00,000
Add: 10% Premium	30,000
9% Preference Shares of X Ltd.	3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000	
equity Shares of X Ltd. at 5% Premium	12,60,000
<b>Total</b>	<b>15,90,000</b>

**Question 144)**Mohan Ltd. gives you the following information as on 31<sup>st</sup> March, 2020:

	<b>Rs.</b>
<b>Share capital:</b>	
Equity shares of Rs. 10 each	3,00,000
6,000, 9% cumulative preference shares of Rs. 10 each	60,000
Profit and Loss Account (Dr. balance)	1,70,000
10% Debentures of Rs. 100 each	2,00,000
Interest payable on Debentures	20,000
Trade Payables	1,50,000
Property, Plant and Equipment	3,40,000
Goodwill	10,000
Inventory	80,000



Trade Receivables	1,10,000
Bank Balance	20,000

A new company Ravi Ltd. is formed with authorised share capital of Rs. 4,00,000 divided into 40,000 Equity Shares of Rs. 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

- i)
- Mohan Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.
  - The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.
  - Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.
  - Equity shareholders are issued one share at par for every three shares held in Mohan Ltd.
- ii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. The Property, plant and equipment is taken over at Rs. 3,08,400.
- iii) Remaining equity shares of the new company are issued to public at par fully paid up.
- iv) Expenses of Rs. 5,000 to be met from bank balance of Mohan Ltd. This is to be adjusted from the bank balance of Mohan Ltd. before acquisition by Ravi Ltd.

You are required to prepare:

- Realisation account and Equity Shareholders' account in the books of Mohan Ltd.
- Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

## SOLUTION

### In the books of Mohan Ltd.

i)

#### Realisation Account

	Rs.		Rs.
To Goodwill	10,000	By 10% Debentures	2,00,000
To Property, plant and Equipment	3,40,000	By Interest accrued on	20,000
To Inventory	80,000	By Trade payables	1,50,000
To Trade receivables	1,10,000	By Ravi Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To Bank (20,000 - 5,000)	15,000	By Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000
To Preference shareholders A/c (W.N.2)	5,400		
	<b>5,60,400</b>		<b>5,60,400</b>

ii)

#### Equity shareholders' Account

	Rs.		Rs.
To Profit & loss A/c	1,70,000	By Equity Share capital	3,00,000
To Expenses*	5,000		
To Equity shares in Ravi Ltd.	1,00,000		
To Realization A/c	25,000		
	<b>3,00,000</b>		<b>3,00,000</b>

\*Alternatively, expenses may be routed through Realization account.

### In the books of Ravi Ltd.

i) **Bank Account**

	Rs.		Rs.
To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 3)	94,600		
	<b>1,09,600</b>		<b>1,09,600</b>

ii) **Balance Sheet as at 31<sup>st</sup> March, 2020**

Particulars	Note No.	Rs.
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
Share Capital	1	4,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	2,00,000
<b>Total</b>		<b>6,00,000</b>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Property, plant and equipment		3,08,400
(2) Current assets		
(a) Inventories		72,000
(b) Trade receivables		1,10,000
(c) Cash and cash equivalents		1,09,600
<b>Total</b>		<b>6,00,000</b>

**Notes to Accounts**

	Rs.
1 Share Capital Authorised share capital 40,000 equity shares of Rs. 10 each Issued and Subscribed 40,000 shares of Rs. 10 each fully paid up (Out of the above, 30,540 (W.N.3) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	4,00,000    4,00,000
2 Long Term Borrowings 10% Debentures	2,00,000

**Working Notes:****1. Calculation of Purchase consideration**

	Rs.
<b>Payment to preference shareholders</b>	
6,000 equity shares @ Rs. 10	60,000
For arrears of dividend: (6,000 x Rs. 10) x 9%	5,400
<b>Payment to equity shareholders</b>	
(30,000 shares x 1/3) @ Rs. 10	1,00,000
Total purchase consideration	1,65,400

**2. Preference shareholders' Account in books of Mohan Ltd.**

	Rs.		Rs.
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000
		By Realization A/c (Bal. fig.)	5,400
	<b>65,400</b>		<b>65,400</b>

### 3. Calculation of number of Equity shares issued to public

	Number of shares	
Authorized equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Mohan Ltd.	12,000	
Preference shareholders of Mohan Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Mohan Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

## CONSOLIDATED OF FINANCIAL STATEMENTS

### QUESTION 145)

On 31<sup>st</sup> March, 2015, P Ltd. acquired 1,05,000 shares of Q Ltd. for Rs. 12,00,000. The position of Q Ltd. on that date was as under:



	Rs.
Property, plant and equipment	10,50,000
Current Assets	6,45,000
1,50,000 equity shares of Rs. 10 each fully paid	15,00,000
Pre-incorporation profits	30,000
Profit and Loss Account	60,000
Trade payables	1,05,000

P Ltd. and Q Ltd. give the following information on 31<sup>st</sup> March, 2021:

	P Ltd.	Q Ltd.
	Rs.	Rs.
Equity shares of Rs. 10 each fully paid (before bonus issue)	45,00,000	15,00,000
Securities Premium	9,00,000	–
Pre-incorporation profits	–	30,000
General Reserve	60,00,000	19,05,000
Profit and Loss Account	15,75,000	4,20,000
Trade payables	5,55,000	2,10,000
Property, plant and equipment	79,20,000	23,10,000
Investment: 1,05,000 Equity shares in Q Ltd. at cost	12,00,000	–
Current Assets	44,10,000	17,55,000

**Directors of Q Ltd. made bonus issue on 31.3.2021 in the ratio of one equity share of Rs. 10 each fully paid for every two equity shares held on that date. Bonus shares were issued out of post-acquisition profits by using General Reserve.**

**Calculate as on 31st March, 2021**

- (i) Cost of Control/Capital Reserve;
- (ii) Minority Interest;
- (iii) Consolidated Profit and Loss Account in each of the following cases:
  1. Before issue of bonus shares.

Immediately after issue of bonus shares.

### SOLUTION

#### Shareholding pattern

Particulars	Number of Shares	% of holding
P Ltd.		
(i) Purchased on 31.03.2015	1,05,000	
(ii) Bonus Issue (1,05,000/2)	52,500	
<b>Total</b>	<b>1,57,500</b>	<b>70%</b>



a. Minority Interest	67,500	30%
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Calculations of (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account as on 31st March, 2021:

. Before issue of bonus shares

(i)	Cost of control/capital reserve	Rs.	Rs.
	Investment in Q Ltd.		12,00,000
	Less: Face value of investments	10,50,000	
	Capital profits (W.N.)	63,000	(11,13,000)
	Cost of control		<b>87,000</b>
(ii)	Minority Interest		Rs.
	Share Capital		4,50,000
	Capital profits (W.N.)		27,000
	Revenue profits (W.N.)		6,79,500
			<b>11,56,500</b>
(iii)	Consolidated profit and loss account – P Ltd.		Rs.
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		15,85,500
			<b>31,60,500</b>
(i)	Cost of control/capital reserve	Rs.	Rs.
	Investment in Q Ltd.		12,00,000
	Less: Face value of investments	10,50,000	
	Capital profits (W.N.)	63,000	(11,13,000)
	Cost of control		<b>87,000</b>
(ii)	Minority Interest		Rs.
	Share Capital		4,50,000
	Capital profits (W.N.)		27,000
	Revenue profits (W.N.)		6,79,500
			<b>11,56,500</b>
(iii)	Consolidated profit and loss account – P Ltd.		Rs.
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		15,85,500
			<b>31,60,500</b>

b. Immediately after issue of bonus shares

(i)	Cost of control/capital reserve	Rs.	Rs.
	Face value of investments (Rs. 10,50,000 + Rs. 5,25,000)	15,75,000	
	Capital Profits (W.N.)	63,000	16,38,000
	Less: Investment in Q Ltd.		(12,00,000)
	Capital reserve		<b>4,38,000</b>
(ii)	Minority Interest		Rs.
	Share Capital (Rs. 4,50,000 + Rs. 2,25,000)		6,75,000
	Capital Profits (W.N.)		27,000
	Revenue Profits (W.N.)		4,54,500
			<b>11,56,500</b>
(iii)	Consolidated Profit and Loss Account – P Ltd.		Rs.
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		10,60,500

			26,35,500
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Working Note:

## Analysis of Profits of Q Ltd.

	Capital Profits	Revenue Profits	
	(Before and after issue of bonus shares) Rs.	Before Bonus Issue Rs.	After Bonus Issue Rs.
Pre-incorporation profits	30,000		
Profit and loss account on 31.3.2015	60,000		
General reserve*	90,000	19,05,000	19,05,000
Less: Bonus shares			(7,50,000)
			<b>11,55,000</b>

Profit for period of 1st April, 2015 to 31 <sup>st</sup> March, 2021 (Rs. 4,20,000 – Rs. 60,000)		3,60,000	3,60,000
		22,65,000	15,15,000
P Ltd.'s share (70%)	63,000	15,85,500	10,60,500
Minority's share (30%)	27,000	6,79,500	4,54,500

\*Share of P Ltd. in General reserve has been adjusted in Consolidated Profit and Loss Account.

**QUESTION 146)**

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2010 at cost of ₹10,00,000 when B Ltd. had an equity share capital of ₹10,00,000 & reserves & surplus of ₹80,000. In the four consecutive years, B Ltd. fared badly & suffered losses of ₹2,50,000, ₹4,00,000, ₹ 5,00,000 & ₹1,20,000 respectively. Thereafter in 2014- 15, B Ltd. experienced turnaround & registered an annual profit of ₹ 50,000. In the next two years i.e., 2015-16 & 2016-17, B Ltd. recorded annual profits of ₹1,00,000 & ₹1,50,000 respectively. Show the minority interests & cost of control at the end of each year for the purpose of consolidation.

**SOLUTION**

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly, the minority interests will be computed as follows:

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by A Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 2010		3,24,000 (W.N.)	-			
2010-11	(2,50,000)	(75,000)	1,75,000			2,44,000
Balance		2,49,000				(W.N.)
2011-12	(4,00,000)	(1,20,000)	2,80,000			2,44,000
Balance		1,29,000				
2012-13	(5,00,000)	(1,50,000)	(3,50,000)			2,44,000

		(21,000)				
	Loss of minority borne by Holding Co	21,000	(21,000)	21,000	21,000	
Balance		Nil	(3,71,000)			
2013-14	(1,20,000)	(36,000)	(84,000)			2,44,000
	Loss of minority borne by Holding Co.	36,000	(36,000)	36,000	57,000	
Balance		Nil	(1,20,000)			
2014-15	50,000	15,000	35,000			2,44,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(15,000)	15,000	(15,000)	42,000	
Balance		Nil	50,000			
2015-16	1,00,000	30,000	70,000			
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(30,000)	30,000	(30,000)	12,000	2,44,000
Balance		Nil	1,00,000			
2016-17	1,50,000	45,000	1,05,000	(12,000)	Nil	2,44,000
		(12,000)	(12,000)			
		33,000	1,17,000			

Calculation of Minority interest and Cost of control on 1.4.2010

<b>Working Note:</b>		<b>Share of Holding Co.</b>	<b>Minority interest</b>
	<b>100%</b>	<b>70%</b>	<b>30%</b>
	( ₹ )	( ₹ )	( ₹ )
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	56,000	24,000
		7,56,000	3,24,000
Less: Cost of investment		(10,00,000)	
<b>Goodwill</b>		<b>2,44,000</b>	

### QUESTION 147)

H Limited acquired 64000 Equity Shares of Rs. 10 each in S Ltd. as on 1st October, 2019. The Balance Sheets of the two companies as on 31st March, 2020 were as under:



<b>Particulars</b>	<b>H Ltd. (Rs.)</b>	<b>S Ltd. (Rs.)</b>
<b>Equities and Liabilities:</b>		
Equity Share Capital: Shares of Rs. 10 each	20,00,000	8,00,000
General Reserve (1st April, 2019)	9,60,000	4,20,000
Profit & Loss Account	2,28,800	3,28,000
Preliminary Expenses (1st April, 2019)	-	(20,000)
Bank Overdraft	3,00,000	-
Bills Payable	-	52,000

Trade Payables	1,66,400	80,000
<b>Total</b>	<b>36,55,200</b>	<b>16,60,000</b>
<b>Assets:</b>		
Land and Building	7,20,000	7,60,000
Plant & Machinery	9,60,000	5,40,000
Investment in Equity Shares of S Ltd.	12,27,200	-
Inventories	4,56,000	1,68,000
Trade Receivables	1,76,000	1,60,000
Bills Receivable	59,200	-
Cash in Hand	56,800	32,000
<b>Total</b>	<b>36,55,200</b>	<b>16,60,000</b>

**Additional Information:**

- The Profit & Loss Account of S Ltd. showed credit balance of Rs. 1,20,000 on 1st April, 2019. S Ltd. paid a dividend of 10% out of the same on 1st November, 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.
  - The Plant & Machinery of S Ltd. which stood at Rs. 6,00,000 on 1st April, 2019 was considered worth Rs. 5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.
- Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2020 as per Schedule III of the Companies Act, 2013.

**SOLUTION**

**Consolidated Balance Sheet of H Ltd. and its subsidiary, S Ltd.  
as at 31<sup>st</sup> March, 2020**

Particulars	Note No.	(Rs.)
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	13,07,200
(2) Minority Interest (W.N 4)		2,96,400
(3) Current Liabilities		
(a) Trade Payables	3	2,96,400
(b) Short term borrowings		3,00,000
<b>Total</b>		<b>42,02,000</b>
<b>II. Assets</b>		
(1) Non-current assets		
(i) Property, Plant and Equipment	4	29,34,000
(ii) Intangible assets (W.N.5)		1,60,000
(2) Current assets		
(a) Inventories	5	6,24,000
(b) Trade receivables	6	3,95,200
(c) Cash & Cash equivalents (Cash)	7	88,800
<b>Total</b>		<b>42,02,000</b>

**Notes to Accounts**

		Rs.	Rs.
<b>1.</b>	<b>Share Capital</b>		
	2,00,000 Equity shares of Rs. 10 each		20,00,000
<b>2.</b>	<b>Reserves and Surplus</b>		
	Reserves	9,60,000	
	Profit & Loss		

	H Ltd.	2,28,800		
	S Ltd. (As per W.N. 3)	1,18,400	3,47,200	13,07,200
<b>3.</b>	<b>Trade Payables</b>			
	H Ltd.		1,66,400	
	S Ltd. (80,000+52,000)		1,32,000	2,98,400
<b>4.</b>	<b>Property, Plant and Equipment</b>			
	Land and building			
	H Ltd.	7,20,000		
	S Ltd.	7,60,000	14,80,000	
	Plant & Machinery			
	H Ltd.	9,60,000		
	S Ltd. (As per W.N. 7)	4,94,000	14,54,000	29,34,000
<b>5.</b>	<b>Inventories</b>			
	H Ltd.		4,56,000	
	S Ltd.		1,68,000	6,24,000
<b>6.</b>	<b>Trade Receivables</b>			
	H Ltd.	1,76,000		
	S Ltd.	1,60,000	3,36,000	
	Bills receivable: H Ltd.		59,200	3,95,200
<b>7.</b>	<b>Cash &amp; Cash equivalents</b>			
	Cash			
	H Ltd.		56,800	
	S Ltd.		32,000	88,800

**Working Notes:****1. Share holding pattern**

Total Shares of S Ltd 80,000 shares

Shares held by H Ltd 64,000 shares i.e., 80 %;

Minority Shareholding 16,000 shares i.e., 20 %

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

	Rs.	Rs.
Reserve on 1st October, 2019 (Assumed there is no movement in reserves during the year and hence balance as on 1st October, 2019 is same as of 31st March 2020)		4,20,000
Profit & Loss Account Balance on 1st April, 2019	1,20,000	
Less: Dividend paid	(80,000)	40,000
Profit for year:		
Total Rs. 3,28,000		
Less: Rs. 40,000 (opening balance)		
Rs. 2,88,000		
Proportionate up to 1st October, 2019 on time basis (Rs. 2,88,000/2)		1,44,000
Reduction in value of Plant & Machinery (WN 6)		(50,000)
		5,54,000
Less: Preliminary expenses written off		(20,000)
Total Capital Profit		5,34,000
Holding company's share (5,34,000 X 80%)		4,27,200
<b>Minority Interest (5,34,000 X 20%)</b>		<b>1,06,800</b>

**Note:** Preliminary expenses as on 1st April, 2019 amounting Rs. 20,000 have been written off.

**a. Revenue profits of S Ltd.**

Profit after 1st October, 2019 (3,28,000 - 40,000)/2		1,44,000
Less 10% depreciation on Rs.5,20,000 for 6 months	(26,000)	
Add: Depreciation already charged for 2nd half year on 6,00,000	30,000	4,000
		1,48,000
Holding company's share (1,48,000 X 80%)		1,18,400
<b>Minority Interest (1,48,000 X 20%)</b>		<b>29,600</b>

**b. Minority interest**

Par value of 16,000 shares (8,00,000 X 20%)	1,60,000
Add: 1/5 Capital Profits [WN 2]	1,06,800
1/5 Revenue Profits [WN 3]	29,600
	<b>2,96,400</b>

**c. Cost of Control**

Amount paid for 64,000 shares		12,27,200
Less:		
Par value of shares (8,00,000 X 80%)	6,40,000	
Capital Profits – share of H Ltd. [WN 2]	4,27,200	(10,67,200)
<b>Cost of Control or Goodwill</b>		<b>1,60,000</b>

**d. Calculation of revaluation loss on Plant and Machinery of S Ltd. on 1<sup>st</sup> October, 2019**

	Rs.
Value of plant and machinery as on 1 <sup>st</sup> April, 2019	6,00,000
Less: Depreciation for the six months	(30,000)
Value of plant and machinery as on 1 <sup>st</sup> October, 2019	5,70,000
Less: Plant and machinery valued by H Ltd. on 1 <sup>st</sup> October, 2019	(5,20,000)
<b>Revaluation Loss</b>	<b>50,000</b>

**e. Value of plant & Machinery of S Ltd. On 31<sup>st</sup> March, 2020**

Value of machinery on 1 <sup>st</sup> October, 2019	5,20,000
Less: depreciation for next six month	(26,000)
	<b>4,94,000</b>

**QUESTION 148)**

On 31st March, 2022, H Ltd. and S Ltd. give the following information:

	H Ltd. (Rs. in 000's)	S Ltd. (Rs. in 000's)
Equity Share Capital – Authorised	5,000	3,000
Issued and subscribed in Equity Shares of Rs. 10 each fully paid	4,000	2,400
General Reserve	928	690
Profit and Loss Account (Cr. Balance)	1,305	810
Trade payables	611	507



Provision for Taxation	220	180
Other Provisions	65	17
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	-
Inventory	983	786
Trade receivables	820	778
Cash and Bank Balances	410	102
Sundry Advances (Dr. balances)	260	190

Following Additional Information is available:

- (a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2021. On that date the following balances stood in the books of S Ltd.:
- General Reserve Rs. 1,500 thousand; Profit and Loss Account Rs. 633 thousand.
- (b) On 14th July, 2021 S Ltd. declared a dividend of 20% out of pre-acquisition profits. H Ltd. credited the dividend received to its Profit and Loss Account.
- (c) On 1st November, 2021, S Ltd. issued 3 fully paid Equity Shares of Rs. 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.
- (d) On 31st March, 2021, the Inventory of S Ltd. included goods purchased for Rs. 50 thousand from H Ltd., which had made a profit of 25% on cost.
- (e) Details of Trade payables and Trade receivables:

	H Ltd. (Rs. in 000's)	S Ltd. (Rs. in 000's)
<b>Trade payables</b>		
<b>Bills Payable</b>	124	80
<b>Sundry creditors</b>	487	427
	611	507
<b>Trade receivables</b>		
<b>Debtors</b>	700	683
<b>Bills Receivables</b>	120	95
	820	778

Prepare a consolidated Balance Sheet as at 31st March, 2022

### Solution

#### Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2022

Particulars	Note No.	(Rs. in 000's)
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	4,000
(b) Reserves and Surplus	2	3,063
(2) Minority Interest (W.N.6)		1,560
<b>(3) Current Liabilities</b>		
Trade payables	3	1,118
Short term provisions	4	482
<b>Total</b>		<b>10,223</b>
<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
PPE	5	5,904

(2)	Current assets		
(a)	Inventories	6	1,759
(b)	Trade receivables	7	1,598
(c)	Cash and cash equivalents	8	512
(d)	Short term loans and advances	9	450
	<b>Total</b>		<b>10,223</b>

## Notes to Accounts

		(Rs. in 000's)	(Rs. in 000's)
<b>1.</b>	<b>Share Capital</b>		
	Authorised share capital		
	5 lakhs equity shares of Rs. 10 each		5,000
	Issued, Subscribed and Paid up		
	4 lakhs equity shares of Rs. 10 each fully paid		4,000
<b>2.</b>	<b>Reserves and surplus</b>		
	Capital Reserve (Note 5)	679.8	
	General Reserve	928	
	Profit and Loss Account:		
	H Ltd. Rs. 1,305		
	Add: Share in S Ltd Rs. 340.20		
	Rs.		
	1,645.20		
	Less: Dividend wrongly credited Rs. (180)		
	Rs.		
	1,465.20		
	Less: Unrealised profit (50 X 1/5) Rs. (10)	1,455.20	3,063
<b>3.</b>	<b>Trade payables</b>		
	H Ltd.	611	
	S Ltd.	507	1,118
<b>4.</b>	<b>Short-term provisions</b>		
	Provision for Taxation H Ltd. Rs. 220		
	S Ltd. Rs. 180	400	
	Other Provisions H Ltd Rs. 65		
	S Ltd. Rs. 17	82	482
<b>5.</b>	<b>PPE</b>		
	Plant and Machinery		
	H Ltd. Rs. 2,541		
	S Ltd. Rs. 2,450	4,991	
	Furniture and fittings		
	H Ltd. Rs. 615		
	S Ltd. Rs. 298	913	5,904
<b>6.</b>	<b>Inventories</b>		
	Inventory H Ltd. Rs. 983		
	S Ltd. Rs. 786	1,769	
	Less: Unrealised profit (Rs. 50 x 1/5)	(10)	1,759
<b>7.</b>	<b>Trade receivables</b>		
	H Ltd.	820	



	S Ltd.	778	1,598
<b>8.</b>	<b>Cash and cash equivalents</b>		
	Cash and Bank Balances H Ltd	410	
	S Ltd.	102	512
<b>9.</b>	<b>Short term loans and advances</b>		
	Sundry Advances H Ltd.	260	
	S Ltd.	190	450

**Working Notes:****Share holding pattern**

Particulars	Number of Shares	% of holding
a. S Ltd.		
(i) Purchased on 01.04.2021	90,000	
(ii) Bonus Issue (90,000/5 x 3)	54,000	
Total	1,44,000	60% (1,44,000 / 2,40,000 * 100)
b. Minority Interest	96,000	40%

\*2,40,000 is after issue of bonus shares as per balance sheet as at 31.3.2022

**1. S Ltd. General Reserve**

		(Rs. in 000)			(Rs. in 000)
To	Bonus to equity shareholders (2,400/8 x 3)	900	By	Balance b/d	1,500
To	Balance c/d	690	By	Profit and Loss A/c (Balancing figure)	90
		<b>1,590</b>			<b>1,590</b>

**2. S Ltd.'s Profit and Loss Account**

		(Rs. in 000)			(Rs. in 000)
To	General Reserve	90	By	Balance b/d	633
To	Dividend paid on 14.7.2021 (1,500/100 x 20)	300	By	Net Profit for the year (Bal. fig.)	567*
To	Balance c/d	810			
		<b>1,200</b>			<b>1,200</b>

\* Out of Rs. 5,67,000 profit for the year, Rs. 90,000 has been transferred to reserves by S Ltd.

**3. Distribution of Revenue Profits**

	Rs. in '000
Revenue Profit as above	567.00
Share of H Ltd. (60%)	340.20
Share of Minority shareholders (567- 340.20)	226.80

**4. Computation of Capital Profits**

	Rs. in 000	Rs. in 000
General Reserve on the date of acquisition		1,500
Less: Bonus issue of shares		(900)
		600
Profit and Loss Account balance on the date of acquisition	633	

Less: Dividends paid	(300)	333
		933
Share of H Ltd. (60%)		559.80
Share of Minority shareholders		373.20

**5. Computation of Capital Reserve**

Rs. in '000		
60% of share capital of S Ltd.		1,440
Add: Share of H Ltd. in the capital profits as in W.N. (4)		559.80
		1,999.80
Less: Investments in S Ltd.	1,500	
Less: Dividends received out of pre- acquisition profits Rs. 300/100 x 60	(180)	(1,320)
		<b>679.80</b>

**6. Calculation of Minority Interest**

Rs. in '000	
40% of share capital of S Ltd.	960.00
Add: Share of Revenue Profits (Note 3)	226.80
Share of Capital Profits (Note 4)	373.20
	<b>1,560.00</b>

**QUESTION 149)**

**The Summarised Balance Sheet of X Ltd. and its subsidiary Y Ltd.  
as on 31st March, 2017 are as follows:**



Particulars	Amounts as at 31st March, 2017	
	X Ltd. (Rs in lakhs)	Y Ltd. (Rs in lakhs)
<b>LIABILITIES</b>		
Share Capital:		
Authorised	20,000	8,000
Issues and subscribed:		
Equity share of Rs. 10 each, fully paid up	15,000	6,000
15% preference shares of Rs. 10 each, fully paid up	4,000	1,000
General Reserves	2,500	1,450
Profit & Loss Account	2,750	1,250
Trade payables	1,646	1,027
	<b>25,896</b>	<b>10,727</b>
<b>ASSETS</b>		
Land & Building	3,550	1,510
Plant & Machinery	5,275	3,600
Furniture & Fittings	1,945	655
Investment in Y Ltd.: 450 Lakh Equity share in Y Ltd. purchased on 1st April, 2016		6,800
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balance	1,174	560
	<b>25,896</b>	<b>10,727</b>

**The following information is also given to you:**

- (a) 10% dividend on Equity shares was declared by Y Ltd. on 31st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.
- (b) Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was Rs 650 Lakhs.
- (c) General Reserve of Y Ltd. stood at same Rs 1,450 Lakhs as on 1st April, 2016.
- (d) Y Ltd.'s Plant & machinery showed a balance of Rs 4,000 Lakh on 1st April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by Rs 1,000 Lakh.
- (e) Included in Trade Payables of Y Ltd. are Rs 50 Lakh for goods supplied by X Ltd.
- (f) On 31st March, 2017, Y's Ltd. inventory included goods for Rs 150 lakhs which it had purchased from X Ltd. X Ltd. sold goods to Y Ltd. at cost plus 25%.

You are required to prepare a Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 giving working notes.

### SOLUTION

#### Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017

Particulars		Note No.	Rs in lakhs
<b>I</b>	<b>Equity and Liabilities</b>		
1.	<b>Shareholders' Funds</b>		
(a)	Share Capital	1	19,000
(b)	Reserves and Surplus	2	5,620
2.	<b>Minority interest</b>	3	3,400
3.	<b>Current Liabilities</b>		
(a)	Trade payables	4	2,623
<b>Total</b>			<b>30,643</b>
<b>II</b>	<b>Assets</b>		
1	<b>Non-Current Assets</b>		
Fixed Assets			
(i)	Tangible Assets	5	17,435
2	<b>Current Assets</b>		
(a)	Inventories	6	6,632
(b)	Trade Receivables	7	4,842
(c)	Cash and Cash equivalents	8	1,734
<b>Total</b>			<b>30,643</b>

#### Notes to Accounts

		Rs in lakhs	
<b>1.</b>	<b>Share Capital</b>		
	Issued, Subscribed and Paid up (1,500 lakh Equity Shares of Rs 10 each fully paid up)		15,000
	400 lakh Preference Shares of Rs 10 each fully paid up		4,000
			19,000
<b>2.</b>	<b>Reserves and Surplus</b>		
	Credit Balance of Profit & Loss Account	2,750	
	Less: Capital Receipt wrongly credited (Dividend @ 10% on Rs 4500 Lakh Equity Shares)	450	
		2,300	
	Add: Share in Y Ltd. Revenue Profit (Working Note i)		825
		3,125	
	Less: Unrealised Profit (Working Note iv)	30	3,095
	Capital Reserve (Working Note iii)		25
	General Reserve	2,500	2,525

			5,620
<b>3.</b>	<b>Minority interest</b>		
	100 Lakh Preference Shares of Rs 10 fully paid up	1,000	
	150 Lakh Equity Shares of Rs10 each fully paid up	1,500	2,500
	Share in Revenue Profits (Working Note i)	275	
	Share in Capital Profit (working Note ii)	625	900
			3,400
<b>4.</b>	<b>Trade payables</b>		
	X Ltd.	1,646	
	Y Ltd.	1,027	
		2,673	
	Less: Mutual owing	50	2,623
<b>5.</b>	<b>Tangible Assets</b>		
	Land & Building		
	X Ltd.	3,550	
	Y Ltd	1,510	5,060
	Plant & Machinery		
	X Ltd.	5,275	
	Y Ltd (Working note v)	4,500	9,775
	Furniture & Fixtures		
	X Ltd.	1,945	
	Y Ltd	655	2,600
			17,435
<b>6.</b>	<b>Inventories</b>		
	X Ltd.	4,142	
	Y Ltd	2,520	
		6,662	
	Less: Unrealized Profit	(30)	6,632
<b>7.</b>	<b>Trade Receivables</b>		
	X Ltd.	3,010	
	Y Ltd	1,882	
		4,892	
	Less: Mutual Owing	50	4,842
<b>8.</b>	<b>Cash &amp; cash Equivalent</b>		
	X Ltd.	1,174	
	Y Ltd	560	1,734

**Working Notes****(i) Calculation of Revenue Profits****Y's Ltd Profit & Loss Account**

	Rs in lakh		Rs in lakh
To Equity Dividend		By Balance b/d	650
10 % of 6,000 lakh	600	By Net profit for the year (Bal Fig.)	1,200
To balance c/d	1,250		
	<b>1,850</b>		<b>1,850</b>

**Depreciation provided on Plant & Machinery**

Balance as on 1st April, 2016	4,000
Less Balance as 31st March 2017	3,600

	400
Hence rate of Depreciation = $400/4000 \times 100$	10%
Net Profit for the year ended 31st March 2017	1,200
Less: Additional Depreciation	100
Revenue Profit	1,100
X Ltd.'s share- $1100 \times 450/600$	825
Y Ltd.'s share = $1100 \times 150/600$	275

**(ii) Calculation of Capital Profits**

Profit & Loss Balance as on 1st April, 2016	650
Less: Dividend Paid	600
	50
Add: General Reserve as on 1st April, 2016	1,450
Add: Profit on Revaluation of Plant & machinery	1,000
Capital Profit	2,500
X Ltd.'s Share in Capital Profit = $2,500 \times 450/600$	1,875
Y Ltd.'s Share in Capital Profit = $2,500 \times 150/600$	625

**(iii) Calculation of Capital Reserve**

Paid up value of 450 Lakh equity shares	4,500
Add: Share in Capital Profits	1,875
	6,375
Amount Paid to acquire the 450 Lakh Equity Shares	6,800
Less: Dividend received out of Pre acquisition profits	450
	6,350
Capital Reserve = $6,375 - 6,350$	25

**(iv) Unrealised Profit**

Rs 150 Lakh  $\times 25/125^* = 30$  lakh

**(v) Plant & Machinery of Y Ltd.**

Balance as on 31st March, 2017		3,600
Add: Addition due to revaluation	1,000	
Less: Depreciation on additional Value of Plant & Machinery @ 10 %	100	900
		<b>4,500</b>

\* Rs 150 lakh considered as cost to Y ltd.

**QUESTION 150)**

Variety Ltd. holds 46% of the paid-up share capital of VR Ltd. The shares were acquired at a market price of ₹ 17 per share. The balance of shares of VR Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

- The shares held by the foreign company will be sold to Variety Ltd. The price per share will be calculated by capitalising the yield at 15%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were ₹ 30 lakhs, ₹ 40 lakhs and ₹ 65 lakhs.
- The actual cost of the shares to the foreign company was ₹ 5,40,000 only. The profit that would accrue to them



would be taxable at an average rate of 30%. The tax payable will be deducted from the proceeds and Variety Ltd. will pay it to the Government.

- (c) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after two years.

The above agreement was approved by all concerned for being given effect to on 1.4.20X1. The total assets of VR Ltd. as on 31st March, 20X1 was ₹ 1,00,00,000. It was decided to write down Property, Plant and Equipment by ₹ 1,75,000. Current liabilities of VR Ltd. as on the same date were ₹ 20,00,000. The paid-up share capital of VR Ltd. was ₹ 20,00,000 divided into 2,00,000 equity shares of ₹ 10 each.

Find out goodwill/capital reserve to Variety Ltd. on acquiring wholly the shares of VR Ltd.

### SOLUTION

#### 1. Computation of Purchase Consideration

(a)	Yield of VR Ltd. $\{(40/100 \times [(30+40+65)/3])\}$	₹ 18 lakhs
(b)	Price per share of VR Ltd.	
	Capitalized Yield: (18 lakhs/0.15)	₹ 120 lakhs
	No. of Shares	2 lakhs
	Therefore, Price per share	₹ 60
(C)	Purchase Consideration for 54% shares in VR Ltd. 2 lakh shares x 54% x ₹ 60 per shares	₹ 64.80 lakhs
(d)	Discharge of Purchase Consideration:	
	Tax at source (₹ 64.80 lakhs - ₹ 5.40 lakhs) x 30/100	₹ 17.82 lakhs
	50% of Purchase Consideration (net of tax) in cash (₹ (64.80-17.82) x 50%)	₹ 23.49 lakhs
	Balance – Unsecured Loan	₹ 23.49 lakhs

#### 2. Goodwill / Capital Reserve to Variety Ltd.

	₹ in lakhs	
Total Assets	100.00	
Less: Reduction in Value of Property, Plant and Equipment	(1.75)	
	98.25	
Less: Current Liabilities	(20.00)	
Net Assets of VR Ltd. on Date of Acquisition		78.25
Purchase Consideration: 54% purchased from Foreign Co.	64.80	
Investment: 46% existing stake	15.64	(80.44)
<b>Goodwill on Date of Acquisition</b>		<b>2.19</b>

### QUESTION 151)

The Trial Balances of X Limited and Y Limited as on 31<sup>st</sup> March, 2021 were as under:

	X Limited (Rs. In 000)		Y Limited (Rs. In 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of Rs. 100 each)		2,000		400
7% Preference share capital		-		400
Reserves		600		200
6% Debentures		400		400
Trade Receivables/Trade Payables	160	180	100	120
Profit & Loss A/c balance		40		30
Purchases /Sales	1,000	1,800	1,200	1,900

Wages and Salaries	200		300	
Debenture Interest	24		24	
General Expenses	160	7	120	
Preference share dividend up to 30.09.2020			14	
Inventory (as on 31.03.2021)	200		100	
Cash at Bank	27		12	
Investment in Y Limited	1,056		-	
Fixed Assets	2,200		1,580	
<b>Total</b>	<b>5,027</b>	<b>5,027</b>	<b>3,450</b>	<b>3,450</b>

- Investment in Y Limited was acquired on 1<sup>st</sup> July, 2020 and consisted of 80% of Equity Share Capital and 50% of Preference Share Capital.
- After acquiring control over Y Limited, X Limited supplied to Y Limited goods at cost plus 25%, the total invoice value of such goods being Rs. 1,20,000, one fourth of such goods were still lying-in inventory at the end of the year.
- Depreciation to be charged @ 10% in X Limited and @ 15% in Y Limited on Fixed Assets.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021

### SOLUTION

#### Consolidated Statement of Profit & Loss Account of X Ltd. and Y Ltd. for the year ended 31st March, 2021

Particulars	Note No.	Rs.
I. Revenue from operations	1	35,80,000
<b>II. Total revenue</b>		<b>35,80,000</b>
<b>III. Expenses</b>		
Cost of Material purchased/Consumed	2	20,80,000
Changes of Inventories of finished goods		-
Employee benefit expense	3	5,00,000
Finance cost	4	48,000
Depreciation and amortization expense	5	4,57,000
Other expenses	6	2,80,000
Total expenses		33,65,000
<b>IV. Profit before Tax (II-III)</b>		<b>2,15,000</b>
Profit transferred to Consolidated Balance Sheet		
<b>Profit After Tax</b>		<b>2,15,000</b>
Preference dividend	7,000	
Preference dividend payable	7,000	(14,000)
		2,01,000
Share in pre-acquisition loss (WN 3)		1,800
Share of Minority interest in losses (WN 1)		1,800
Less: Investment Account- dividend for 3 months (prior to acquisition)		(3,500)
Inventory reserve (WN 2)		(6,000)
<b>Profit to be transferred to consolidated balance sheet</b>		<b>1,95,100</b>

### Notes to Accounts

		Rs.	Rs.
<b>1</b>	<b>Revenue from Operations</b>		
	X Ltd.	18,00,000	
	Y Ltd.	19,00,000	
	Total	37,00,000	

	Less: Intra-group sales (X sold to Y)	(1,20,000)	35,80,000
<b>2</b>	<b>Cost of Materials Purchased/Consumed</b>		
	X Ltd.	10,00,000	
	Y Ltd.	12,00,000	
	Total	22,00,000	
	Less: Intra-group sales (X sold to Y)	(1,20,000)	20,80,000
<b>3</b>	<b>Employee benefit and expenses</b>		
	Wages and salaries		
	H Ltd.	2,00,000	
	S Ltd.	3,00,000	5,00,000
<b>4</b>	<b>Finance cost</b>		
	Interest		
	H Ltd.	24,000	
	S Ltd.	24,000	48,000
<b>5</b>	<b>Depreciation</b>		
	H Ltd.	2,20,000	
	S Ltd.	2,37,000	4,57,000
<b>6</b>	<b>Other expenses</b>		
	H Ltd.	1,60,000	
	S Ltd.	1,20,000	2,80,000

**Working Notes:**

1.

Profit of Subsidiary	Rs.	
Revenue from Operations		19,00,000
Less: Expenses		
Cost of Material purchased/Consumed	12,00,000	
Changes of Inventories of finished goods	-	
Employee benefit expense	3,00,000	
Finance cost	24,000	
Depreciation and amortization expense	2,37,000	
Other expenses	1,20,000	
Total expenses		(18,81,000)
Profit Before Tax		19,000
Less: Preference Dividend	14,000	
Less: Preference Dividend Payable	14,000	(28,000)
Profit available for shareholders		(9,000)
<b>Minority Share (20% of loss Rs. 9,000)</b>		<b>(1,800)</b>

**0. Inventory reserve =  $120,000 \times 25125 = \text{Rs. } 6,000$**

- 1. Pre-acquisition loss** = 80% of 3 month's profit up to 30<sup>th</sup> June, 2020 i.e. 80 % of  $\frac{1}{4}$  of loss Rs. 9,000. Hence, pre-acquisition loss = Rs. 1,800
- Investment account includes Preference dividend for 3 months prior to acquisition i.e.  $\text{Rs. } 4,00,000 \times 50\% \times 7\% \times \frac{1}{4} = \text{Rs. } 3,500$



## AMALGAMATION

### 1. BASICS

(1) **What's the Difference between Absorption & Merger?**

(a) **Absorption** (also called Take Over or Acquisition) can be of two types:

- (i) **Business Takeover/Acquisition:** A Ltd. absorbs B Ltd. i.e. taken over the Business of B Ltd., Here B Ltd. is getting liquidated.
- (ii) **Takeover through Shares (Voting Rights):** A Ltd. acquired Control over the Business of B Ltd. by Purchasing more than 50% Equity Shares of B Ltd. A Ltd. is called Holding co. & B Ltd. is called Subsidiary co. (No company is getting liquidated)

(b) **Merger** takes place when two companies Merge their businesses and New Company is creating which is controlled by the Management of both the Companies. For Example, A Ltd. and B Ltd. Merged and form a New Company AB Ltd. in which Directors of both the Companies have common decision making.

(2) The entity who acquires or takes over the Business is called **Transferee** (Buyer) Company.

(3) The entity whose Business is getting Taken over is called **Transferor** (Seller) Company.

(4) Transferee company gets **Net Assets (Assets and Liabilities)** of Transferor company as a result of Acquisition/Absorption.

(5) **Transferee company pay the Consideration against business taken over.**

Here A Ltd. shall pay consideration (PC) against acquiring of Net Asset of B Ltd. to the shareholders of B Ltd. in the form of:

- Cash
- Equity Shares
- Preference shares.
- Debenture etc.

### 2. DIFFERENCE BETWEEN AMALGAMATION, ABSORPTION AND EXTERNAL RECONSTRUCTION

Basis	Amalgamation	Absorption	External Reconstruction
<b>Meaning</b>	Two or more companies are wound up and a <b>new company</b> is formed to take over their business.	In this case an <b>existing company</b> takes over the business of <b>one or more</b> existing companies.	In this case, a <b>newly formed company</b> takes over the business of an <b>existing company</b> .
<b>Minimum number of Companies involved</b>	At least three companies are involved.	At least two Companies are involved.	Only two Companies are involved.

<b>Number of new resultant companies</b>	Only one resultant company is formed. Two companies are wound up to form a <b>single</b> resultant company.	<b>No</b> new resultant company is formed.	Only one resultant company is formed. Under this case a <b>newly formed company</b> takes over the business of an existing company.
<b>Objective</b>	Amalgamation is done to cut competition & reap the economies in large scale.	Absorption is done to cut competition & reap the economies in large scale.	External reconstruction is done to reorganize the financial structure of the company.
<b>Example</b>	Jai Ltd. and Ravi Ltd. amalgamate to form Vishal Ltd.	Jai Ltd. takes over the business of another existing company Ravi Ltd.	Jai Ltd. is formed to take over the business of an existing company Ravi Ltd.

### 3. TYPES OF AMALGAMATION (AS 14)

- 1) **For the Purpose of Accounting, Amalgamation is classified into Two Types:** (for Transferee Company)
- (a) **Amalgamation in the nature of Purchase:** Here one Entity has absorbed the business of other Entity i.e., One Entity is able to control Another Entity (A Ltd. + B Ltd. = A Ltd.)
- (b) **Amalgamation in the nature of Merger:** It is an amalgamation where there is a genuine pooling not merely of assets and liabilities of the transferor and transferee companies but also of the shareholders' interests and of the businesses of the companies. All Entities are agreed to work together in the name of new entity. No one is dominating to each other.
- Note:** The accounting treatment of such amalgamations in the nature of Merger should ensure that the resultant figures of assets, liabilities, capital and reserves more or less represent the sum of the respective figures of the transferor and transferee companies.
- 2) According to **AS 14**, on satisfaction of all the following conditions, then only Amalgamation will be treated as Nature of Merger:
- (a) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.  
**(Sab ki Sab A/L, Matlab kuch bhi nai chodne ka)**
- (b) Shareholders holding **not less than 90%** of the face value of the equity shares of the transferor company become equity shareholders of the transferee company by virtue of the amalgamation.  
**(Above 90% should not include the shares already held by transferee company)**
- (c) The consideration to Equity Shareholders of Transferor Company is discharged by the **issue of equity shares** in the transferee company, except that cash may be paid in respect of any fractional shares.  
**(Owner banao sabko)**
- (d) The **business** of the transferor company is **intended to be carried on**, after the amalgamation, by the transferee company.  
**(Purana Business continue karna jaruri hai)**
- (e) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

(Arre bhai same book values pe hi record karne ka hai A/L ko)

If any one or more of the above conditions are not satisfied in an amalgamation, such amalgamation is called **amalgamation in the nature of purchase.**

**EXAMPLE 1:**

A Ltd. and B Ltd. decided to amalgamate and form a New Company AB Ltd.

**Balance Sheet (Extract)**

	A	B
Fixed Assets	50 Lacs	40 Lacs
Current Assets	30 Lacs	25 Lacs
Liabilities	27 Lacs	18 Lacs

- Market Value of PPE 66 Lacs (A Ltd.) & 47 Lacs (B Ltd)
- Market Value of Current Asset are same as Book Value
- Fair value of Liabilities are same as Book Value.
- Purchased consideration (Market Value) = 69 Lacs (for A Ltd.) and 54 Lacs for B Ltd.
- It was decided to record Net Assets at Fair Value

PPE a/c	Dr.	113	
Current Asset a/c	Dr.	55	
To Liability A/c			45
To Purchase Consideration A/c*			123

**Conclusion – This is not Merger.**

**Note:** Purchase consideration is always based on Market Values.

**EXAMPLE 2:**

A Ltd. has 1,00,000 no. Outstanding, B Ltd is taking over A Ltd.

B Ltd. is also holding 15,000 shares in A Ltd. Other Share Holders holding 75,000 no. are giving their consent in favor of Amalgamation.

Total no of Outstanding Shares = 1,00,000 No.

- (a) Shares already Held by B Ltd. = 15,000 No.
- (b) Others Shareholders holding = 85,000 No.

Out of which, shareholders holding 75,000 No. of shares gave their Consent, which means 88.24% (75000/85,000 x 100). **Hence, it's not a Merger.**

**4. PURCHASE CONSIDERATION**

PC includes	PC does not include
Payment in any form such as- <ul style="list-style-type: none"> <li>● Shares or Other Securities</li> <li>● Cash</li> <li>● Other Assets etc.</li> </ul> To the Shareholders of Transferor company to acquire the Business.  PC shall always be measured at Fair Value of Shares/Other Securities issued/Assets Given.	Any payment made by transferee company to the Debenture holders or Creditors of Transferor company.

But if Fair Value (Market Values) are not given then we can take Book Values of Assets.

PC also includes any additional payment which is probable in future and can be estimated reasonably.

### CALCULATION OF PURCHASE CONSIDERATION

Purchase Consideration can be calculated in different ways. However, the most methods are as under:

- (a) Exchange Ratio Method
- (b) Net Assets Method

#### **Exchange Ratio Method:**

Here we need Exchange Ratio (Swap Ratio) for calculation of PC. Exchange ratio is a ratio for exchange of No. of Shares. It can be given in the question.

If it is missing in question, then we shall use Deemed Exchange Ratio as under:

**Fair Value of Share of Transferor ÷ Fair Value of Share of Transferee**

The above Fair values can be Intrinsic Values, Market Values or any other values given in the question.

In absence of any Information, we will use Intrinsic Values.

#### **Purchase consideration based on Net Asset value:**

- If Some Asset/Liabilities are not taken over then we shall not consider such Asset or Liabilities while calculating Purchase consideration

**(Refer Example 6)**

- If there are any unrecorded Asset/Liabilities they may also be taken over & to be considered in calculation of Purchase Consideration.

**(Refer Example 6)**

If Goodwill value is given in the Question then Goodwill shall also be taken for the purpose of calculation of Purchase Consideration.

**(Refer Example 8)**

- Sometimes Question asks to calculate Purchase consideration based on Intrinsic Values, If so then we shall assume that all Asset & all liabilities are being taken over.

- **How to Calculate Intrinsic Value: (Refer Q.204)**

Market Value of All Assets

(+) Goodwill if Any

(-) All Liabilities

(-) PC to PSH

**= Net Assets for Equity Shareholders ÷ No of Equity Shares**

### **EXAMPLE 3: - (Purchase Consideration based as Exchange Ratio)**

A Ltd. (Transferee) acquired business of B Ltd. (Transferor)

B Ltd. has total Outstanding equity shares of 2,00,000 no.

A Ltd. offered 3 shares of its own Company in exchange of every 2 shares of B Ltd. @ Market Price of 25/- per share

#### **SOLUTION:**

##### **Calculation of Purchased Share**

Payment to	Payment in	Working	Amount
Equity Share Holder of B Ltd.	Equity Shares of A Ltd.	2,00,000/2 x 3 3,00,000 x 25/-	75,00,000/-

**EXAMPLE 4: (Purchased Consideration as Exchange of Shares)**

B Ltd.	
Equity Shares	1,50,000 no.
Preference Shares	80,000 no.

A Ltd. is taking over Business of B Ltd Exchange Ratio is 5:4 for equity & 3:4 for Preference shares. Market Price per share of A: - Equity Share - 60/-, Preference Share - 20/-

**SOLUTION:**

Payment to	Payment in	Working	Amount
Equity Share Holders of B Ltd.	Equity Shares of A Ltd.	$(1,50,000/4 \times 5) \times 60/-$	1,12,50,000
Preference Share Holders of B Ltd.	Preference Share A Ltd.	$(80,000/4 \times 3) \times 20/-$	12,00,000
<b>Total Purchase Consideration</b>			<b>1,24,50,000</b>

**EXAMPLE 5:**

B Ltd. is Transferor having Outstanding equity shares are 3,00,000 No.

A Ltd. taking over Business of B Ltd. by issuing 4 shares for every 7 shares of B. Market Price Per share of A is 30/-

**SOLUTION:**

Payment to	Payment in	Working	Amount
Equity Shareholders of B Ltd.	Equity Shares of A Ltd.	$3,00,000 \times 4/7 \times 30$	51,42,840/-
Equity Shareholders of B Ltd.	Cash	$0.571 \times 30/-$	17/-
			<b>51,42,857/-</b>

**EXAMPLE 6: (PC based on Assets/Liabilities Value)****Balance Sheet of Q Ltd.**

Equity Share Capital (10/-)	10,00,000
Reserves & Surplus	12,00,000
Loan	17,50,000
Current Liabilities	20,50,000
	<b>60,00,000</b>
Building	30,00,000
Plant and Machinery	16,00,000
Inventory	4,00,000
Debtors	6,50,000
Cash and Bank	3,50,000
	<b>60,00,000</b>

P Ltd. is taking over the Business of Q Ltd. P Ltd. will taken over all Assets and Liabilities except Cash/Bank subject to following measurements:

- Building at 25% higher than book value
- P&M at 70% of book value
- Debtors at Same value subject to 5% Provision for doubtful debts
- There is an unrecorded tax liability of Q Ltd. of 85000/-, it is accepted by P Ltd.

Calculate Purchase Consideration

**SOLUTION****Calculation of PC**

Particulars	Amount
Building (at Agreed Value)	37,50,000
Plant and Machinery (at agreed value)	11,20,000

Inventory	4,00,000
Debtors	6,50,000
<b>Less:</b>	
Provision for Doubtful debts	32,500
Loans	17,50,000
Current Liability	20,50,000
Tax Liability	85,000
<b>Total Purchase</b>	<b>20,02,500</b>

**EXAMPLE 7:**

In above Example 6, Purchase Consideration to be discharge in form of Equity Shares of P Ltd. having MP per share 25/- each, Calculate No. of Equity Shares and Pass Journal Entries for Acquisition.

**SOLUTION:**

No. of shares to be Issued as Purchase Consideration =  $20,02,500 \div 25 = 80,100$  No.

Business Purchase	Dr.	20,02,500	
To Liquidator of Q Ltd.			20,02,500
Building A/c	Dr.	37,50,000	
Plant & Machinery A/c	Dr.	11,20,000	
Inventory A/c	Dr.	4,00,000	
Debtors A/c	Dr.	6,50,000	
To Provision for doubtful debts A/c			32,500
To Loan A/c			17,50,000
To Current Liabilities A/c			20,50,000
To Tax Liability A/c			85,000
To Business Purchase A/c			20,02,500
Liquidator of Q A/c	Dr.	20,02,500	
To Equity Share Capital A/c			8,01,000
To Security Premium A/c			12,01,500

**EXAMPLE 8: (PC based on Intrinsic Value or Market Value per share)****Balance Sheet of Transferor as on 31/3/2024**

Equity Share Capital (10/-)	12,00,000
Reserves & Surplus	7,00,000
Liabilities	21,00,000
	<b>40,00,000</b>
Non-Current Asset (Tangible)	25,00,000
Current Asset	15,00,000
	<b>40,00,000</b>

- Goodwill is valued at 6,00,000
- Market Value of NCA = 28,50,000
- Current Assets & Liabilities are at their Proper Value.
- Purchase Consideration shall be discharged based as Intrinsic Value of Transferor & Transferee.
- Intrinsic Value per Share of Transferee is 30/-

**SOLUTION:****Intrinsic Value Calculation**

Market Value of NCA	28,50,000
Value of Current Asset	15,00,000
Value of Goodwill	6,00,000
(-) Liabilities	(21,00,000)

<b>Net Assets for Equity share Holders</b>	<b>28,50,000</b>
(±) No of Equity Shares	1,20,000 no.
<b>Intrinsic Value Per share (Transferor)</b>	<b>23.75/-</b>
Intrinsic Value per Share (Transferee)	30/-(given)

Payment to	Payment in	Working	Amount
Equity Shareholders of Transferor	Equity Share in Transferee	1,20,000 X 23.75 / 30 95,000 No. x 30/-	28,50,000

**EXAMPLE 9: (PC based on Intrinsic Value)**

**Balance Sheet of Transferor as on 31/3/24**

Equity Share Capital (10/-)	12,00,000
Reserves & Surplus	7,00,000
Liabilities	21,00,000
Preference Share Capital (100/-)	10,00,000
	<b>50,00,000</b>
Non-Current Asset (Tangible)	30,00,000
Current Asset	20,00,000
	<b>50,00,000</b>

- (1) Goodwill is values at 8,50,000
- (2) Intrinsic values of Transferee = 50/- Per Share
- (3) Preference Share Holders of Transferor will get new shares of Transferee in the ratio of 3:2 of 100 each.

Calculate Total Purchase Consideration

**SOLUTION:**

**Working Note:** Calculation of Intrinsic value of Transferor

Market Value Non-Current Asset	30,00,000
Value of Current Asset	20,00,000
Goodwill	8,50,000
(-) Liabilities	(21,00,000)
(-) Purchase Consideration to Preference Share Holder	(15,00,000)
<b>Net Asset available for Equity Share Holder</b>	<b>22,50,000</b>

Intrinsic value =  $22,50,000 / 1,20,000 = 18.75$

**Working Note 2:**

Payment to	Payment in	Working	Amount
Preference Share Holder of Transferor	In Preference share of Transferee	$10,000 / 2 \times 3 = 15,000$ $\times 100/-$	15,00,000
Equity Share of Transferor	Equity Shares of Transferee	$1,20,000 \times 18.75 / 50$ $= 45,000 \times 50/-$	22,50,000
			<b>37,50,000</b>

### 5. PAYMENT TO DEBENTURE HOLDERS

Purchase Consideration is payable to Equity Shareholders & Preference Shareholders only. Anything payable to Debenture holders or any other party is not Purchase Consideration.

#### EXAMPLE 10: (Discharge of Purchased Consideration)

##### B/S (extract) of Transferor

Equity Share Capital (10/-) 2,00,000 no.	20,00,000
9% Preference Share Capital (100/-) 2,500 no.	2,50,000
11% Debenture (100/-)	15,00,000

#### Transferee shall discharge following:

- (1) Cash ₹ 3,00,000 to Equity Share Holders
- (2) 3 Equity Share against every 10 equity share of Transferor. Market Value Per share of Transferee = 18/-
- (3) New 12% Debenture to given to Equity shareholders of Transferor of 5,00,000/-
- (4) Preference share of Transferor will get equal no of preference share in Transferee to be issued at 10% premium (Face Value 100/-)
- (5) 11% Debenture of Transferor will get new 12% Debenture of Transferee at a value at which same Interest Amount should be received.

Calculate Purchased Consideration

#### SOLUTION:

##### Calculation Purchased Consideration

	Payment to	Payment In	Working	Amount
(a)	Equity Shareholders	(i) Cash	-	3,00,000
		(ii) Equity Shares	$2,00,000/10 \times 3$	10,80,0000
		(iii) 12:1 Debenture	-	
(b)	Preference Shareholders	Preference Share	$2,500 \times 110$	2,75,000
	<b>Total</b>			<b>21,55,000</b>

#### Payment to Debenture holders: (Not a part of PC)

Issue of new 12% Debenture = Old Interest amount/New Rate =  $1,65,000 \div 12\% = 13,75,000$

#### EXAMPLE 11:

Transferor has an outstanding 7% Debenture of Rs. 12,00,000. Transferee will settle these Debenture at 20% Premium by Issue of New 8% Debenture at 25% premium.

#### SOLUTION:

Settlement Value to Debenture holders of Trasferor =  $12,00,000 + 20\% = 14,40,000$  (Payable Value)

No. of New 8% Debenture to be issue against settlement =  $14,40,000/125 = 11,520$  no.

<b>2<sup>nd</sup> Entry</b>		
Asset A/c	Dr.	
To Debenture Holders		14,40,000
(Payable value always)		
<b>4<sup>th</sup> Entry (Settlement)</b>		
Debenture Holders	Dr.	14,40,000
To 8% Debenture		11,52,000
To Securities Premium		2,88,000

#### EXAMPLE 12:

9% Debenture of 10,00,000 to be settled at 20% premium, by issue of new 10% Debenture to be issued at 25% Discount.



**SOLUTION:**

Payable value = 10,00,000 + 20% = 12,00,000

New 10% Debenture no. against settlement = 12,00,000 ÷ 75 = 16,000 no.

Debenture holders A/c	Dr.	12,00,000	
Discount A/c	Dr.	4,00,000	
To 10% Debentures			16,00,000

**EXAMPLE 13:**

6% Debenture of ₹ 7,20,000 to be discharged at 10% Discount by issue of equity share @ 12/- per share. Face Value = 10/-

**SOLUTION:**

Payable Value to Debenture holders = 72,00,00 – 10% = 6,48,000

New Equity No. to be settled = 6,48,000/12 = 54,000

Debenture Holder	Dr.	6,48,000	
To Equity Share Capital			5,40,000
To Securities Premium			1,08,000

## 6. DIFFERENCE BETWEEN AMALGAMATION IN THE NATURE OF MERGER AND AMALGAMATION IN THE NATURE OF PURCHASE.

Best of Distinction	Amalgamation in the Nature of Merger	Amalgamation in the Nature of Purchase
<b>a) Transfer of Assets and Liabilities</b>	There is transfer of all assets & liabilities.	There need not be transfer for all assets & liabilities.
<b>b) Shareholders of transferor company</b>	Equity shareholders holding 90% equity shares in transferor company become shareholders of transferee company.	Equity shareholders need not become shareholders of transferee company.
<b>c) Purchase Consideration</b>	Purchase consideration is discharged wholly by issue of equity shares of transferee company (except cash only for fractional shares)	Purchase consideration need not be discharged wholly by issue of equity shares.
<b>d) Same Business</b>	The same business of the transferor company is intended to be carried on by the transferee company.	The business of the transferor company need not be intended to be carried on by the transferee company.
<b>e) Recording of Assets &amp; Liabilities</b>	The assets & liabilities taken over are recorded at their existing carrying amounts except where adjustment is required to ensure uniformity of accounting policies.	The assets & liabilities taken over are recorded at their existing carrying amounts or the basis of their fair values.
<b>f) Method of Accounting</b>	Journal entries for recording the merger are passed by pooling of interest method.	Journal entries for recording the purchase of business are passed by purchase method.

All Reserves & Surplus of Transferor are also taken up by Transferee. Ex. GR, CR, P&L A/C, IAR , EPR, CRR, DRR, etc.	No R&S are required to be maintained except Statutory Reserves EG. IAR/EPR
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### ACCOUNTING ENTRIES

In the Nature of Purchase (Purchase Method)	In the Nature of Merger (Pooling of Interest Method)
<p>Business Purchase A/c (PC) Dr.                      To Liq. of Transferor Co. A/c (PC)</p> <p>Sundry Assets A/c (Agreed value) Dr.                      Goodwill A/c (Bal. Fig) Dr.                      To Liabilities A/c (Payable Value)                      To Business Purchases A/c                      To CR (Bal. Fig)</p> <p><b>Payment of PC:</b>                      Liquidator A/c Dr.                      To Cash A/c                      To Equity Share Capital A/c                      To Pref. Share Capital A/c                      To Security Premium A/c</p> <p><b>Cancellation of Receivables and Payables</b>                      Payables A/c Dr.                      To Receivables A/c</p> <p><b>For Payment of Liability:</b>                      Liability A/c (e.g., Debenture holder's A/c) Dr.                      To Cash A/c                      To New Liability A/c                      (Debentures are taken over at agreed value and settled by issue of new debentures in above entry)</p> <p><b>For Payment of Expenses/Unrecorded Liability:</b>                      CR / Goodwill A/c Dr.                      To Cash A/c                      (In balance sheet goodwill and CR should set off to show net figure)</p> <p><b>For creation of Statutory Reserves:</b>                      Amalgamation Adjustment Reserve Dr.                      To Statutory Reserves A/c                      (Following are statutory reserves:                      1. Invst. Allowance Res.</p>	<p>Business Merger A/c (PC) Dr.                      To Liq. of Transferor Co. A/c (PC)</p> <p>All Sundry Assets A/c (Book value) Dr.                      Gen. Res or P&amp;L A/c (Bal. Fig) Dr.                      To All Liabilities A/c (Payable Value)                      To Business Merger A/c (PC)                      To Reserves and Surplus (Book value)</p> <p><b>Payment of PC:</b>                      Liquidator A/c Dr.                      To Cash A/c                      To Equity Share Capital A/c                      To Pref. Share Capital A/c                      To Security Premium A/c</p> <p><b>Cancellation of Receivables and Payables</b>                      Payables A/c Dr.                      To Receivables A/c</p> <p><b>For Payment of Liability:</b>                      Liability A/c (e.g., Debenture holder's A/c) Dr.                      To Cash A/c                      To New Liability A/c                      (Debentures are taken over at agreed value and settled by issue of new debentures in above entry)</p> <p><b>For Payment of Expenses/Unrecorded Liability:</b>                      Gen. Res. or P&amp;L A/c Dr.                      To Cash A/c</p> <p><b>No Statutory reserve to be created separately, Since they are already recorded in 2<sup>nd</sup> Entry above.</b></p>

2. Export Profit Res.
3. Foreign Project Res.
4. Tea Development Res.
5. Shipping Res.
6. Site Restoration Fund

**\*Amalg. Adjust. Reserve should be shown as a separate line item under the head R & S**

**For Unrealised Profit:**

Upstream Transaction:

Goodwill A/c Dr.  
To Stock A/c

Downstream Transaction:

General Reserve A/c Dr.  
To Stock A/c

**For Unrealised Profit:**

Upstream and Downstream Transaction:

General Reserve A/c Dr.  
To Stock A/c

**It is important to note that in case of Amalgamation in the nature of merger question may specify revalued figures or Market values of Assets, such values would be used for the purpose of calculation of PC.**

**EXAMPLE 14: (Accounting for Transferee Books – Purchase Method) (Master Problem)**

**Balance Sheet as on 31/3/24**

Particulars	Transferee	Transferor
Equity Share Capital (10/-)	12,00,000	8,00,000
9% Preference Share Capital (10/-)	8,00,000	-
8% Preference Share Capital (10/-)	-	6,00,000
General Reserve	5,00,000	3,00,000
Profit & Loss A/c	3,50,000	2,50,000
Export Profit Reserve	-	50,000
7% Debenture (100/-)	7,50,000	-
6% Debenture (100/-)	-	6,00,000
Creditors	4,00,000	4,00,000
	<b>40,00,000</b>	<b>30,00,000</b>
PPE	13,00,000	9,00,000
Investments	9,00,000	7,00,000
Inventory	10,00,000	7,00,000
Trade Receivables	5,00,000	6,00,000
Cash & Bank Balance	3,00,000	2,00,000
	<b>40,00,000</b>	<b>30,00,000</b>

- (1) 8% Preference Shareholders shall be given New 9% Preference Shares at 20% Increase in value (Shares to be issued at Par)
- (2) Purchased Consideration to Equity Share Holder shall be discharged as under:  
Cash = 3,00,000  
Equity Shares of Transferee in 5:4
- (3) Market Value per share of Transferee is 28/-
- (4) Market Value of PPE & Investments of Transferor are 11,50,000 & 6,20,000
- (5) Trade Receivable shall be subject to a Provision on Doubtful Debts @2%
- (6) 6% Debenture Holder will get new 7% Debenture at an adequate amount. So that Interest Amount would be same

- (7) EPR to be maintained for 2 Years more years.
- (8) There is unrecorded Liabilities of Transferor towards creditor for goods of ₹ 30,000 which is also assumed by Transferee.

Required:

- (a) Calculate Purchase Consideration.
- (b) Pass Journal entries in the Books of Transferee.
- (c) Prepare Balance Sheet after takeover of Transferee.

Assume Amalgamation in the nature of Purchase.

### SOLUTION:

#### Working Note: – 1 Calculation of Purchase Consideration

Payment to	Payment in	Working	Amount
Equity Shareholders	Cash	-	3,00,000
Equity Shareholders	Equity shares of Transferee	80,000 X 5/4	28,00,000
Preference Shareholder	9% Preference Shares	6,00,000 + 20%	7,20,000
<b>Total</b>			<b>38,20,000</b>

#### Working Note-2 Settlement of 6% Debentures

- 6% Debenture of Transferor = 6,00,000
- Interest Amount @ 6% = 36,000/-
- New Debenture Interest Rate 7%
- Therefore, New Debenture Value = 36,000 ÷ 7%
- 7% Debenture = 5,14,286/- (Payable Value)

#### Important Facts (Not a Part of Solution in Exam)

- a) All Assets and Liabilities to be Recorded.
- b) Assets to be recorded at Market Value if given.
- c) Provision for doubtful debts to be credited separately.
- d) Export Profit Reserve (EPR) is not a liability therefore will not come under 2<sup>nd</sup> Entry of Assets/Liabilities taken over.

#### Journal entries (Books of Transferee)

Business Purchase A/c	Dr.	38,20,000	
To Liability of Transferor A/c			38,20,000
(Being Business taken over)			
PPE A/c	Dr.	11,50,000	
Investment A/c	Dr.	6,20,000	
Inventory A/c	Dr.	7,00,000	
Trade Receivable	Dr.	6,00,000	
Cash & Bank	Dr.	2,00,000	
Goodwill A/c Dr. (BF)		15,06,286	
To Provision for DD A/c			12,000
To Creditors A/c			4,30,000
To Debenture Holder of Transferor A/c			5,14,286
To Business Purchase A/c			38,20,000
(Being Assets & Liabilities are recognised & Goodwill recorded)			
Liquidator of Transferor A/c	Dr.	38,20,000	
To 9% Preference Share Capital			7,20,000
To Cash A/c			3,00,000
To Equity Share Capital A/c			10,00,000

To Securities Premium A/c (Being Purchase Consideration Discharged)		18,00,000
Debenture Holder of Transferor A/c Dr. To 7% Debenture A/c (Being Outstanding Debenture are issued New with 7% Interest)	5,14,286	5,14,286
Amalgamation Adjustable Reserve Dr. To Expenses Profit Reserve (Being EPR maintained)	50,000	50,000

**Balance Sheet (after Amalgamation)**

<b>Shareholders Fund</b>		
(I) Share Capital	1	37,20,000
(II) Reserve & Surplus	2	26,50,000
<b>Non-Current Liabilities</b>		
(I) Long Term Borrowings	3	12,64,286
<b>Current Liability</b>		
(i) Trade Payable	4	8,30,000
		<b>84,64,286</b>
<b>Assets</b>		
<b>Non-current Assets:</b>		
(a) PPE Tangible & Intangible	5	40,56,286
(b) Investment	6	15,20,000
<b>Current Assets:</b>		
(a) Inventory	7	16,00,000
(b) Trade Receivable	8	10,88,000
(c) Cash & Cash equity	9	2,00,000
<b>Total</b>		<b>84,64.286</b>

**Notes to Accounts:**

<b>Share Capital</b>		
(a) Equity Share Capital of 10/- each + Issue of Purchase consideration	12,00,000 10,00,000	22,00,000
(b) 9% Purchased Share Capital of 10/- each + Issue of Purchase Consideration	8,00,000 72,00,000	15,20,000
		<b>37,20,000</b>
<b>Reserve &amp; surplus</b>		
		<b>26,50,000</b>
General Reserve	5,00,000	
Profit & Loss	3,50,000	
Securities Premium	18,00,000	
EPR	50,000	
(-) AAR	(50,000)	
<b>Long TERM Borrowings</b>		
		<b>12,64,286</b>
(a) 7 % Debenture + New Issue of 7% Debentures	7,50,000 5,14,286	
<b>Trade Payable</b>		
		<b>8,30,000</b>
Creditor of Transferee	4,00,000	
Creditors Recorded Transferor	4,30,000	
<b>PPE</b>		
(a) Tangible	13,00,000	24,00,000

Transferee	11,00,000	
Transferor		
(b) Intangible		
Goodwill		16,06,286
		<b>40,56,286</b>
<b>Investments</b>		
Transferee	9,00,000	
Transferor	6,20,000	15,20,000
<b>Inventory</b>		
Transferee	10,00,000	
Transferor	6,00,000	16,00,000
<b>Trade Receivable</b>		
Transferee	5,00,000	
Transferor	6,00,000	
(-) Provision	(12,000)	10,88,000
<b>Cash &amp; Bank</b>		<b>2,00,000</b>
Transferee	3,00,000	
Transferor	2,00,000	
(-) Purchase Consideration	(3,00,000)	

**EXAMPLE 15: (Amalgamation in the nature of Merger)****Balance Sheet**

	<b>X Ltd.</b>	<b>Y Ltd.</b>
Equity Share Capital (10/-)	15,00,000	12,00,000
General Reserve	3,00,000	2,00,000
Securities Premium	1,00,000	50,000
Revaluation Reserve	50,000	20,000
Liabilities	2,50,000	1,30,000
	<b>22,00,000</b>	<b>16,00,000</b>
Property Plant & Equipment	9,00,000	7,00,000
Investments	4,00,000	2,00,000
Current Assets	9,00,000	7,00,000
	<b>22,00,000</b>	<b>16,00,000</b>

- (1) X Ltd. & Y Ltd. decided to merge their Business & form a New Company XY Ltd.
- (2) XY Ltd. shall issue new equity share to Shareholders of X Ltd. & Y Ltd. at 10/- each (at Par)
- (3) Exchange Ratio for issue of New shares is 4:5

**Required:**

- (a) Calculate Purchase Consideration
- (b) Journal entries in the books of XY Ltd.

**SOLUTION:****WN 1 - Calculation of PC****(i) For Shareholders of X Ltd.**

Equity Shares in XY Ltd. =  $1,50,000/5 \times 4 = 1,20,000$  no.

PC Value =  $1,20,000 \times 10 = 12,00,000$

**(ii) For Share Holder of Y Ltd.**

Equity Shares in XY Ltd. =  $1,20,000/5 \times 4$

PC Value = 9,60,000

## Journal Entries in the Books of XY Ltd. (Transferee)

Business Purchase A/c	Dr.	21,60,000	
To Liquidator of X Ltd. A/c			12,00,000
To Liquidator of Y Ltd A/c			9,60,000
PPE A/c	Dr.	16,00,000	
Investment A/c	Dr.	6,00,000	
Current Asset A/c	Dr.	16,00,000	
To Liabilities			3,80,000
To Business Purchase			21,60,000
To Revaluation Reserve			70,000
To Securities Premium			1,50,000
To General Reserve (Bal. Fig.)			10,40,000
Liquidator of X Ltd.	Dr.	12,00,000	
Liquidator of Y Ltd.	Dr.	9,60,000	
To Equity Share Capital			21,60,000

## Balance of XY Ltd.

Equity Share Capital 10/- each	21,60,000
General Reserve	10,40,000
Securities Premium	1,50,000
Revenue Reserve	70,000
Liabilities	3,80,000
	<b>38,00,000</b>
PPE	16,00,000
Investment	6,00,000
Current Asset	16,00,000
	<b>38,00,000</b>

**EXAMPLE 16:**

Same as Example 15 But Exchange Ratio is 9:8 for calculation of PC

Calculate Purchase Consideration & Pass Journal entries in the Books of XY Ltd. (Pooling of Interest Method)

**SOLUTION:****WN 1 - Calculation of PC****For Shareholders of X Ltd.**

Equity Shares in XY Ltd. =  $1,50,000 \times \frac{9}{8} = 1,68,750$  no.

PC Value =  $1,68,750 \times 10 = 16,87,500$

**For Share Holder of Y Ltd.**

Equity Shares in XY Ltd. =  $1,20,000 \times \frac{9}{8} = 1,35,000$

PC Value =  $1,35,000 \times 10 = 13,50,000$

PPE A/c	Dr.	16,00,000	
Investment A/c	Dr.	6,00,000	
Current Asset A/c	Dr.	16,00,000	
General Reserve (Bal. Fig.)	Dr.	3,37,500	
To Liabilities			3,80,000
To B/P			30,37,500
To Revaluation Reserve			70,000
To Securities Premium Reserve			1,50,000
To General Reserve			5,00,000

## 7. Books of Transferor Company

1. Transfer all the Assets and Liabilities to Realisation A/c
2. EQ Share Capital, Reserves, Losses, Dividend Payable, Fict. Assets shall be transferred to ESH A/c
3. PSC is to be transferred to PSH A/c
4. **Cash and Bank** – If taken over then transfer it to Realisation A/c otherwise Make it separately
5. Raise PC in Credit side of Realisation A/c
6. Before closing Realisation A/c, close Pref. Share Holder A/c after discharging PC to them so that if there remains any difference in PSH A/c it will be transferred to Realisation A/c
7. Close Realisation A/c, Balance of this account will be transferred to ESH A/c
8. Discharge PC (In the form of Cash and Shares) to ESH.

### EXAMPLE 17:

In Above Example No. 15, Close the books of X Ltd.

### SOLUTION:

#### Closing the Books of X Ltd.

**Target** = To Close All Assets Ledger Balance and all Liabilities Ledger Balance through Realization A/c

To Close Equity Share Capital and R&S Ledger through Equity Shareholders A/c

#### Realization A/c

Particular	Amount	Particular	Amount
To PPE	9,00,000	By Liabilities	2,50,000
To Investment	4,00,000	By XY Ltd. (PC)	12,00,000
To Current Asset	9,00,000	<b>By Equity Shareholders A/c (b/f Loss)</b>	<b>7,50,000</b>

#### Equity Shareholders A/c

Particular	Amount	Particular	Amount
To Realisation A/c (Loss)	7,50,000	By Equity Share Capital	15,00,000
To Equity Share of XY Ltd. (final settlement)	12,00,000	By General Reserve	3,00,000
		By Securities Premium Reserve	1,00,000
		By Revaluation Reserve	50,000

<b>For Purchase Consideration due (Receivable from XY Ltd.)</b>		
XY Ltd. A/c	Dr.	12,00,000
To Realization		12,00,000
<b>For receiving Purchase Consideration</b>		
Equity Share of XY Ltd A/c	Dr.	12,00,000
To XY Ltd		12,00,000
<b>For Distributing Purchase consideration to Equity share Holder</b>		
Equity share Holders A/c	Dr.	12,00,000
To equity shares of XY Ltd.		12,00,000

### EXAMPLE 18: (Takeover of selected Asset & Liabilities)

#### Balance Sheet

	A Ltd.	B Ltd.
Equity Share Capital (10/- each)	10,00,000	7,00,000



GR	3,00,000	4,00,000
Bank Loan	9,00,000	8,00,000
Creditors	4,00,000	3,00,000
	<b>26,00,000</b>	<b>22,00,000</b>
Land & Building	8,00,000	6,00,000
Plant & Machinery	5,00,000	4,00,000
Investments	3,00,000	5,00,000
Goodwill	1,00,000	1,00,000
Debtors	6,00,000	5,00,000
Cash & Bank	3,00,000	1,00,000
	<b>26,00,000</b>	<b>22,00,000</b>

- (1) A Ltd acquired The Business of B except Creditors, Investment & Cash at Bank.
- (2) Investments will be realised by B @ 10% above Book Value.
- (3) Creditors to be paid Rs. 2,80,000 by B in full settlement.
- (4) Liquidation expenses to be borne by B ₹ 1,00,000.
- (5) Goodwill value of B is useless.
- (6) Market Value of Land & Building of B = 9,00,000

**Required:**

- (a) Calculate Purchased consideration (Purchased Consideration shall be discharged in form of Equity Shares @ 30/- each)
- (b) Close Books of B Ltd.
- (c) Prepare B/s of A Ltd after Amalgamation.

**SOLUTION:**

**Purchase Consideration Calculation**

Land Building	9,00,000
Plant & Machinery	4,00,000
Debtors	5,00,000
(-) Bank Loan	(8,00,000)
<b>Purchase Consideration</b>	<b>10,00,000</b>

Purchase consideration to be discharged in Equity Shares @ 30/-

Therefore No. Equity shares to be Issued =  $10,00,000 / 30 = 33,333$  no X 30/-

Remaining to be paid in cash =  $0.33 \times 30/- = 10/-$

Realization A/c	Dr.	5,00,000	
To Investment A/c			5,00,000
Bank A/c	Dr.	5,50,000	
To Realization			5,00,000
Creditors A/c	Dr.	3,00,000	
To Realization			3,00,000
Realization A/c	Dr.	2,80,000	
To Bank			2,80,000

**Realization A/c**

Particular	Amount	Particular	Amount
To Land & Building	6,00,000	By Bank Loan	8,00,000
To Plant & Machinery	4,00,000	By Creditors	3,00,000
To Investment	5,00,000	By A Ltd. (PC)	10,00,000

To Debenture	5,00,000	By Bank	5,50,000
To Goodwill	1,00,000		
To Bank	2,80,000		
To Bank	1,00,000		
<b>To Equity Shareholders</b>	<b>1,7,0000</b>		

**Cash at Bank A/c**

To Balance B/d	1,00,000	By Realization	2,80,000
To Realization	5,50,000	By Realization	1,00,000
To A Ltd	10	By Equity Shares	2,70,010
	<b>6,50,010</b>		<b>6,50,010</b>

**Equity Shareholders A/c**

Particular	Amount	Particular	Amount
To Equity Shares (PC)	9,99,990	By Equity Share Capital	7,00,000
To Cash (b/f)	2,70,010	By General Reserve	4,00,000
		By Realization	1,70,000
	<b>12,70,000</b>		<b>12,70,000</b>

**8. ELIMINATION OF UNREALISED PROFIT/LOSS ON UNSOLD STOCK IN INTER CO. TRANSACTION**

Transaction between Transferee co. and Transferor co. for sale purchase of goods/assets may be made at more than actual cost (i.e. at Profit margin). In that case, unrealized profit on unsold stock shall be eliminated while Preparing Final Balance Sheet of Transferee Co. Such Inter company transactions can be of two types:

1. Downstream Transaction – Sale of Goods/Assets by Transferee Co. to Transferor co.
2. Upstream Transaction – Sale of Goods/Assets by Transferor co. to Transferee co.

Downstream Transaction	Upstream Transaction
Profit is earned by Transferee co. and unsold stock is laying with Transferor co.  Such profit is to be eliminated from Profit and Loss A/c of Transferee co. as under: <p style="text-align: center;"><b>Profit and Loss A/c Dr.</b> <b>To Stock A/c</b></p>	Profit is earned by Transferor co. and unsold stock is laying with Transferee Co.  Such profit is to be eliminated from Profit & Loss A/c of Transferor co. (in case of Merger) or Capital Reserve/Goodwill A/c (in case of Purchase) as under: <p style="text-align: center;"><b>(Merger) Profit and Loss A/c Dr.</b> <b>To Stock A/c</b></p> <p style="text-align: center;"><b>(Purchase) Goodwill/CR A/c Dr.</b> <b>To Stock A/c</b></p>
<p><b>Note:</b> Above entries are based on Profit Elimination. In case of Loss elimination Profit and Loss A/c or Goodwill/CR A/c shall be credited and Stock shall be debited.</p>	

**EXAMPLE 19:**

A Ltd. sold goods costing 1,20,000 to B Ltd. @ 1,50,000. After some time, A Ltd. acquired Business of B Ltd. Inventory of B Ltd. includes 30,000/- goods purchased from A & not yet sold. Calculate unrealized profit and pass Journal Entry for elimination of unrealized Profit.

**SOLUTION:**

Profit Margin included in the above transaction =  $30,000/1,50,000 \times 100 = 20\%$  as sale

Profit element in Unsold Inventory with B =  $30,000 \times 20\% = 6000$

**Journal Entry (Books of A Ltd. Transferor)**

GR/ Profit & Loss A/c	Dr.	6,000	
To Stock			6,000

**Example 20:****Case 1: Downstream Transaction**

Transferee sold goods to Transferor Costing ₹ 5,00,000 at ₹ 7,50,000

In Balance sheet of Transferor Total inventory is appearing at 12,00,000. Which includes goods from transferee ₹ 3,00,000

Inventory is taken over at Book Value

Calculate Unrealised Profit to be eliminated

	Cost	Sale	Profit
Total	5,00,000	7,50,000	2,50,000
Unsold	?	3,00,000	1,00,000

Unrealised Profit to be Eliminated = 1,00,000/-

**Case 2:**

Same as Case 1 but Inventory is taken over at 15% less than Book Value

Total Unrealised Profit to be eliminated	5,00,000
(-) already eliminated @15% of 3,00,000	(45,000)
Unrealised Profit shall be eliminated Separately	55,000

**9. OTHER IMPORTANT ADJUSTMENTS**

1.	<b>DIVIDEND DECLARED &amp; PAID</b> (Refer Q203 & 208)	<b>Dividend declared:</b> It is declared out of free reserve i.e. General Reserve or Profit & Loss a/c. <b>Dividend in form of %:</b> Such % is always applied as paid up share capital.	Profit & Loss A/c Dr. General Reserve A/c Dr. To Dividend Payable A/c  Dividend Payable A/c Dr. To Bank A/c
2.	<b>REVALUATION OF PPE (FIXED ASSETS)</b> (Refer Q203 & 208)	If question asks for revaluation of PPE of Transferor and Transferee:	PPE A/c Dr. To Revaluation Reserve  Profit & Loss A/c Dr. To PPE a/c
3.	<b>SETTLEMENT OF PREFERENCE SHARES OF TRANSFEROR AT PREMIUM</b>	<ul style="list-style-type: none"> <li>Sometimes it is not clear whether New Preference shares to be issued by Transferee will be at Par OR @ Premium.</li> <li>In that case, check premium % given in the question is attached with preference shares of Transferor or with preference shares of Transferee.</li> </ul>	<b>Refer Example 21</b>

		<ul style="list-style-type: none"> <li>If premium % is attached with New Issue of Transferee, then only New Issue Price will be at premium otherwise at par.</li> </ul>	
4.	<p><b>PURCHASE CONSIDERATION ISSUED IN FORM OF PARTLY PAID UP SHARES (Refer Q402)</b></p>	<ul style="list-style-type: none"> <li>Transferee Company is issuing partly paid-up shares to discharge Purchase Consideration.</li> <li>When partly paid-up shares are being issued, transferee Company may announce premium separately.</li> <li>In such case, the issue price of share would be Partly Paid-up Value + Premium Amount.</li> </ul>	Refer Example 22
5.	<p><b>GOODWILL CALCULATION (Refer Q204)</b></p>	<p>Sometimes question require us to calculate Goodwill by following methods:</p> <ol style="list-style-type: none"> <li>Avg. Profit Method</li> <li>Super Profit Method</li> <li>Capitalisation Method</li> </ol> <p>One common observation in all above methods is we should always exclude following items while calculating Goodwill:</p> <ol style="list-style-type: none"> <li>Non-Trade Investments from Capital Employed working</li> <li>Non-Trade Incomes, Non-recurring Incomes/Expenses and Abnormal Items from Past Profits.</li> </ol>	

**EXAMPLE 21:**

**CASE 1:** 12% preference share of Transferor will be paid by issue of new 14% preference shares at 20% premium. B/S of Transferor shows PSC O/s = 1,50,000

Therefore, Settlement of Rs 1,50,000 @ 120/- per (No of new issue =  $1,50,000/20 = 1,250$  no.)

**Case 2:** 2,50,000/- 10% preference share capital will be discharged @ 20% premium by issue of new 9% preference shares of Transferee

Therefore, Settlement value =  $2,50,000 + 20\% = 3,00,000$

By issue of New 9% preference share @ 100/- (No. of new issue = 3,000 no.)

**Case 3:** Rs. 1,00,000, 9% preference shareholders will be paid @ 10% premium by issue of new preference share at 10% premium.

Settlement value = 1,10,000

By issue of new share @110 (No. =  $1,10,000/110 = 1000$  no.)

**EXAMPLE 22:**

Transferor has 1,20,000 no. of shares outstanding. Transferee shall issue Rs. 100 share at 80% paid up with 30/- premium in the ratio of 3:4

**SOLUTION:**

New No. to be issued =  $1,20,000 \times \frac{3}{4} = 90,000$  no.

Purchase Consideration = 90,000 No. X 110/- = 99,00,000/-

**Conclusion:** Purchase Consideration is discharged in form of shares at Issued price always.

Issued price = Paid up Price (+) Premium OR (-) Discount

## CONSOLIDATED OF FINANCIAL STATEMENTS

### CONCEPTS AND IMPORTANT ADJUSTMENTS TO SOLVE THE QUESTIONS

**(1) Two Types of Financial Statements**

- (a) Standalone Financial Statements
- (b) Consolidated Financial Statements

**(2) Standalone Financial Statements: -** Financial Statements of Individual Entity.

**(3) Consolidated Financial Statements: -** Financial Statements of Group Companies. (Holding Company + all Subsidiary Companies)

**Example:** A Ltd (Holding of B); B Ltd Subsidiary of A Ltd. and Holding of C Ltd & C Ltd Subsidiary of B. Here, A Ltd. will be the ultimate Parent Entity.

**(4) Holding Company: Sec 2 (46) of Companies Act, 2013**

‘Holding Company in relation to one or more other companies, means a company of which such companies are subsidiary companies’.

**(5) Subsidiary Company: Sec 2 (87) of Companies Act, 2013**

Subsidiary Company means a company in which the holding company –

- a) Controls the composition of the Board of Directors; or
- b) Controls/Holds more the 50% of the total share capital either at its own or together with one or more of its subsidiary companies.

**(6) Consolidated F/S Consist of -**

- (a) Consolidated Balance Sheet.
- (b) Consolidated Statement of Profit & Loss.
- (c) Consolidated Cash Flow Statement. (Not in Syllabus)
- (d) Consolidated Note to Accounts.

**(7) What is the relation between Holding Company & Subsidiary Company?**

- Holding Company holds Controlling Power over the Subsidiary Company.
- Controlling powers means “To Direct the Operating & Financial decisions (activities) of the Subsidiary Company”

**(8) Direct Subsidiary & Indirect Subsidiary:**

**Direct Subsidiary: -**

H invested in 80% equity shares of S

**Indirect Subsidiary: -**

H Invested in S1 @ 80% Equity

Ltd.	<p>S1 Invested in S2 @ 75% Equity                  Now S2 also become Subsidiary of H Indirectly                  H Holds 80% in S1                  S1 Holds 75% in S2                  H Holds 80% in S1 &amp; 20% in S2 &amp; S1 Holds 50% in S2 (This is called Chain Holding)</p>
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**(9) Wholly owned Subsidiary & Partially owned Subsidiary: -**

Wholly owned Subsidiary = Holding Company acquired 100% Equity Capital of Subsidiary

Partially owned Subsidiary = Acquired less than 100% of total Equity Capital of Subsidiary

**(10) Minority Interest: -**

Those shares which are not Directly or Indirectly held by Holding Company.

Example: If H Ltd. acquired 80% shares of S Ltd. then 20% shareholders of S Ltd will be known as Minority Interest.

Minority Interest doesn't have Control over the Subsidiary Company (i.e., they don't have decision making rights). But MI must have a proportionate share in profits and Net Assets of Subsidiary Company. If H has acquired 90% shares of Subsidiary co. then Minority Interest is 10%. Now H has 100% control over the subsidiary with 90% share in Subsidiary and Minority Interest has 0% control over the Subsidiary with 10% share in Subsidiary.

**EXAMPLE 1: -**

**Standalone Balance Sheet as on 31/3/24**

	H Ltd.	S Ltd.
Equity Share Capital (10/- each)	10,00,00	7,00,000
Liabilities	15,00,000	8,00,000
	<b>25,00,000</b>	<b>15,00,000</b>
NCA (PPE)	14,00,000	9,00,000
Cash & Bank Balance.	11,00,000	6,00,000
	<b>25,00,000</b>	<b>15,00,000</b>

On 1<sup>st</sup> April 2024, H has acquired 100% shares of S Ltd from Market at a cost of 7,50,000

**SOLUTION**

**Journal entry in the Books of H**

Investment A/c	Dr.	7,50,000
To Bank A/c		7,50,000

**Standalone Balance Sheet as on 1/4/24**

	H	S
Equity Share Capital (10/-)	10,00,000	7,00,000
Liabilities	15,00,000	8,00,000
	<b>25,00,000</b>	<b>15,00,000</b>
NCA (PPE)	14,00,000	9,00,000
NCA (Investment 100%)	7,50,000	0
Cash & Bank	3,50,000	6,00,000
	<b>25,00,000</b>	<b>15,00,000</b>

This Investment represents control & share of Holding (100%) on all Assets & Liabilities of Subsidiary.

Hence, if we replace this Investment with Net Assets of Subsidiary then it is called Consolidation.

For simplicity, we can understand the same concept with the help of following Journal entry in the Books of Holding Company: -

PPE A/c	Dr.	9,00,000	
Cash Bank	Dr.	6,00,000	
<b>Goodwill (b/f)</b>	<b>Dr.</b>	<b>50,000</b>	
	To Liabilities		8,00,000
	To Investment		7,50,000

**Consolidated B/S of H & Group**

Equity Share Capital		10,00,000
Liabilities		23,00,000
		<b>33,00,000</b>
PPE		23,00,000
Goodwill		50,000
Cash & Bank		
H	3,50,000	
S	6,00,000	9,50,000
		<b>33,00,000</b>

**Note:** Goodwill represents that value of Investments made by Holding co. is more than the Share of Holding co. in Net Assets of Subsidiary co.

**EXAMPLE 2: -**

H Ltd. acquired 90% of shares of S Ltd @ Rs. 7,50,000

Date of Acquisition = 1/4/24

Total Assets of Subsidiary (1/4/24)	PPE	9,00,000
	Cash	6,00,000
Total Liabilities of Subsidiary (1/4/24)		8,00,000

Pass Journal Entry for: -

- (i) Standalone Financial Statements &
- (ii) Consolidated Financial Statements

**SOLUTION:**

(1)

**Standalone Financial Statement**

*Investment	Dr.	7,50,000
	To Bank A/c	7,50,000

\*This Investment represents 100% control & 90% share of Holding on Net Assets of Subsidiary co.

**(2) Consolidated F/S**

We should consider control based (100%) Consolidation always:

PPE A/c	Dr.	9,00,000
Cash & Bank A/c	Dr.	6,00,000
<b>*Goodwill</b>	<b>Dr.</b>	<b>1,20,000 (B/F)</b>
	To Liabilities	8,00,000
	To Investment (90%)	7,50,000
	To Minority Inter (10%)	70,000

**How to Calculate Goodwill (also known as Cost of Control):**

*Investment (90%)	7,50,000
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(-) 90% Share In Net Asset 7,00,000 X 90%	6,30,000
	<b>1,20,000</b>

**Note:** Minority Interest in simple terms, shall be treated as Liability. But to be shown separately in Consolidated Balance Sheet after Shareholders funds but before Non-Current Liabilities.

MI should be equal to Proportionate Share of Net Assets of Subsidiary.

**(11) What are Net Assets of Subsidiary**

<b>Alternate 1</b>	All Assets – All Liabilities = XXX
<b>Alternate 2</b>	Equity Share Capital of Subsidiary + Reserves & Surplus of Subsidiary = XXX

**(12)** On Date of Acquisition (**DOA**), we need following elements: -

- (1) **Investment Cost** (Also known as Purchase Consideration for Acquisition of Control)
- (2) Market value of **Net Assets** of Subsidiary  
(Equity Share Capital on Date of Acquisition + Pre-Acquisition Profit of Subsidiary)
- (3) **Goodwill/CR** (Cost of Control working)  
[Investment Cost (-) Proportionate Net Asset on Date of Acquisition = Goodwill/CR]
- (4) **Minority Interest (MI)**  
Equity Share Capital X Proportionate share of Minority Interest  
Pre-acquisition X Proportionate share of Minority Interest

**EXAMPLE 3:**

**Standalone Balance Sheet as on 1/4/24**

	<b>H</b>	<b>S</b>
Equity Share Capital (Rs.10)	10,00,000	8,00,000
Liability	20,00,000	10,00,000
	<b>30,00,000</b>	<b>18,00,000</b>
PPE	12,00,000	9,00,000
Investment (100% in S)	9,00,000	-
Current Asset	9,00,000	9,00,000
	<b>30,00,000</b>	<b>18,00,000</b>

- (1) Investment in S (100%) acquired on 1/4/24
- (2) Prepare consolidated B/S of H on 1/4/24

**SOLUTION**

**(1) DOA = 1/4/24**

DOA is very important to consider, because on this date only, we need the value of Net Asset of subsidiary to compare it with the Investment cost so that we can calculate Goodwill/CR on same Date.

(Once Goodwill/CR is figured out it will not be changed in further period unless there is a change in % of Holding)  
In our Example, Investment cost of 9,00,000 can be compared with Net Assets of Subsidiary of 8,00,000 (as on 1/4/24)

**(2) Cost of Control as on DOA: (To Calculate Goodwill or CR as on DOA)**

Cost of Control Means comparing Investment value with Net Asset value as on DOA.

<b>Particulars</b>	<b>Amount</b>
Investments (100%)	9,00,000
(-) Equity share Capital	(8,00,000)
(-) R&S of Subsidiary	0



<b>Goodwill</b>	<b>1,00,000</b>
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(3)

**Consolidated Balance Sheet of H**

Equity Share (10%)		10,00,000
Liabilities		30,00,000
H	20,00,000	
S	10,00,000	
		<b>40,00,000</b>
PPE		21,00,000
H	12,00,000	
S	9,00,000	
Goodwill		1,00,000
Current Asset		18,00,000
H	9,00,000	
S	9,00,000	
		<b>40,00,000</b>

**EXAMPLE 4: -**

In continuation of Example 3:

Following Transaction took place in First Year 24-25

<b>Particular</b>	<b>H</b>	<b>S</b>
Sales	12,00,000	7,00,000
Cost of Good Sales	7,00,000	4,00,000

Above transaction took place in cash. Prepare consolidated Balance Sheet of H as on 31/3/25

**SOLUTION:**

**Working Note 1:**

**Standalone Balance Sheet as on 31/03/25**

Equity Share Capital	10,00,000	8,00,000
R&S	5,00,000	3,00,000
Liabilities	20,00,000	10,00,000
	<b>35,00,000</b>	<b>21,00,000</b>
PPE	12,00,000	9,00,000
Investments	9,00,000	-
Current Asset	14,00,000	12,00,000
	<b>35,00,000</b>	<b>21,00,000</b>

**Working Note 2:**

**Cost of control as on 1/4/24**

Investment (100%)		9,00,000
(-) 100% Net-Asset		8,00,000
Equity Share Capital	8,00,000	
Reserves & Surplus	0	
<b>Goodwill</b>		<b>1,00,000</b>

**Working Note 3:**

**Consolidate R&S of Group**

Balance as per standalone F/S of H	5,00,000
+ 100% share from NP of subsidiary (100% share of Post-Acquisition Profit)	3,00,000
<b>Consolidated R&amp;S</b>	<b>8,00,000</b>

**Consolidated Balance Sheet**

Equity share capital	10,00,000
Consolidated Reserves & Surplus	8,00,000
Liabilities	30,00,000
	<b>48,00,000</b>
PPE	21,00,000
Goodwill	1,00,000
Current Asset	26,00,000
	<b>48,00,000</b>

**EXAMPLE 5:**

**Standalone Balance Sheet as on 1/4/24**

Equity share (10/-)	15,00,000	1,20,000
Reserve & Surplus	7,00,000	5,00,000
Liabilities	8,00,000	6,00,000
	<b>30,00,000</b>	<b>23,00,000</b>
PPE	11,00,000	13,00,000
Investment (80% in Subsidiary)	13,00,000	-
Current Asset	6,00,000	10,00,000
	<b>30,00,000</b>	<b>23,00,000</b>

- (1) Investments were acquired on 1/4/24
- (2) Following Transaction took place in 24-25

	H	S
Sales	15,00,000	10,00,000
Cost of Goods Sold	9,00,000	6,00,000

All transactions are in Cash.

- (3) Calculate Cost of Control & Prepare Consolidated Balance sheet as on 1/4/24 & as on 31/3/25.

**SOLUTION:**

- (1) Date of Acquisition = 1/4/24

**Cost of Control**

Investment (80%)	13,00,000
(-) 80% Net Asset	(13,60,000)
Equity Share Capital 12,00,000 x 80%	
Reserves & Surplus 5,00,000 x 80%	
<b>CR as on 1/4/24</b>	<b>60,000</b>

- (2)

**Consolidated Balance sheet as on 1/4/24**

Equity Share Cost	15,00,000
Reserves & Surplus	7,00,000
Minority Interest (20%)	3,40,000
Liability	14,00,000
	<b>40,00,000</b>
PPE	24,00,000
Current Asset	16,00,000
	<b>40,00,000</b>

- (3)

**Standalone Balance Sheet as on 31/3/25**

	H	S
Equity Share Capital	15,00,000	12,00,000
Reserves & Surplus	13,00,000	9,00,000
Liabilities	8,00,000	6,00,000
	<b>36,00,000</b>	<b>27,00,000</b>
PPE	11,00,000	13,00,000
Investment	13,00,000	-
Current Asset	12,00,000	14,00,000
	<b>36,00,000</b>	<b>27,00,000</b>

(4) **Consolidate Reserves & Surplus of Group**

H's Balance of Reserves & Surplus	13,00,000
80% share in Post Acquisition profit	3,20,000
	<b>16,20,000</b>
Capital Reserve (WN 1)	60,000
	<b>16,80,000</b>

(5) **Minority Interest**

Minority Interest as on 1/4/24	3,40,000
+ 20% of Post Acquisition Profit	80,000
	<b>4,20,000</b>

(6) **Consolidated Balance Sheet as on 31/3/25**

Equity Share Capital	15,00,000
Consolidated Reserves & Surplus	16,80,000
Minority Interest	4,20,000
Liabilities	14,00,000
	<b>50,00,000</b>
PPE	24,00,000
Current Asset	26,00,000
	<b>50,00,000</b>

**EXAMPLE 6:****Standalone Balance Sheet of S Ltd. as on 31/3/23**

Equity share capital	15,00,000
General Reserve	7,00,000
Profit & Loss A/c	4,00,000
Liability	14,00,000
	<b>40,00,000</b>
Non-Current Asset	25,00,000
Current Asset	15,00,000
	<b>40,00,000</b>

On 31/3/23 H Ltd. acquired 90% equity Investment in S Ltd at cost of Rs. 24,00,000

**SOLUTION:****Date of Acquisition 31/3/23**

- (1) Investment cost 24,00,000 (90%)
- (2) Net Assets value of Subsidiary

Equity Share Capital	15,00,000
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*General Reserve as on DOA	7,00,000
*Profit & Loss balance as on DOA	4,00,000
	<b>26,00,000</b>

\*Pre-Acquisition Profit

**(3) Cost of Control (Calculation of Goodwill and CR):**

Investments (90%)	21,00,000
Less: 90% of Net Assets	
Equity Share Capital 1500000 x 90%	13,50,000
Pre-Acquisition Profit 11,00,000 x 90%	9,90,000
<b>Goodwill</b>	<b>60,000</b>

**(4) Minority Interest**

Equity Share 15,00,000 X 10%	1,50,000
Pre-Acquisition 11,00,000 X 10%	1,10,000
	<b>2,60,000</b>

**(5)**

**Journal Entry consolidation**

Goodwill A/c	Dr.	60,000	
NCA A/c	Dr.	25,00,000	
Current Asset A/c	Dr.	15,00,000	
	To Liabilities A/c		14,00,000
	To Minority Interest A/c		2,60,000
	To Investment A/c		24,00,000

**Consolidated Balance Sheet (Extract) as on 31/3/23**

Equity of H	XXX
Pre-Acquisition Part of General Reserve and Profit & Loss of Subsidiary Already taken in COC Working	XXX
Minority Interest (WN - 4)	2,60,000
Liabilities	14,00,000
NCA H – XXX	25,00,000
S – 25,00,000	
Goodwill (WN - 3)	60,000
Current Asset	15,00,000
H XXX	
S 15,00,000	

**EXAMPLE 7:**

In Continuation of Example 6, refer the following Balance Sheet of Subsidiary as on 31/03/2024:

Equity Share Capital	15,00,000
General Reserve	12,00,000
Profit & Loss	6,00,000
Liabilities	16,50,000
	<b>49,50,000</b>
NCA	30,00,000
Current Asset	19,50,000

	<b>49,50,000</b>
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Prepare Consolidated Balance Sheet as on 31/03/2024 (Extract)

**SOLUTION:****Consolidated Balance Sheet of H Ltd. (Extract)**

Equity Share Capital		XXX
GR (Post Acquisition share of H)		4,50,000
Profit & Loss (Post Acquisition Share of H)		1,80,000
Minority Interest		3,30,000
Opining	2,60,000	
+ General Reserve	50,000	
+ Profit & Loss	20,000	
Liability		16,50,000
H	XXX	
S	16,50,000	
NCA		30,00,000
H	XXX	
S	30,00,000	
Goodwill		60,000
CA		19,50,000
H	XXX	
S	19,50,000	

**EXAMPLE 8:****Standalone Balance Sheet as on 30/3/25**

	H	S
Equity Share Capital	15,00,000	12,00,000
Reserves & Surplus	13,00,000	9,00,000
Liabilities	8,00,000	6,00,000
<b>Total</b>	<b>36,00,000</b>	<b>27,00,000</b>
PPE	11,00,000	13,00,000
Investment 80%	13,00,000	-
Current Asset	12,00,000	14,00,000
<b>Total</b>	<b>36,00,000</b>	<b>27,00,000</b>

- Investment acquired on 31/3/24
- Balance of Reserves & Surplus of Subsidiary on 31/3/24 - 5,00,000

Prepare Consolidated Balance Sheet.

**SOLUTION:****Consolidated Balance Sheet of H Ltd. (Extract)**

Equity Share Capital	15,00,000
Consolidated Reserves & Surplus	16,80,000
Minority Interest	4,20,000
Liability	14,00,000
	<b>50,00,000</b>
PPE	24,00,000
Current Asset	26,00,000
	<b>50,00,000</b>

COC: -

Investment	13,00,000
(-) Proportionate Net Assets	13,60,000
ESC 9,60,000	
CP 4,00,000	
<b>CR</b>	<b>60,000</b>

Minority Interest: -

Equity Share Capital	2,40,000
Share of Capital Profit	1,00,000
As on Date of Acquisition	3,40,000
Share of Revenue Profit	80,000
<b>As on Balance Sheet</b>	<b>4,20,000</b>

### (13) Time Adjustment in AOP: -

- I. For Cost of Control, we need Net Assets (ESC + R&S Balance) as on DOA
  - II. On DOA, Equity Share Capital must be given, But Balance of Reserves & Surplus on DOA may be missing.
  - III. The difference between balances of R&S as on Beginning of year and End of Year is the Profit for the Year and it will be shown under Revenue Column of AOP (i.e. Post Acquisition Column).
  - IV. Time Adjustment for Revenue Profit Column is required so that Reserves & Surplus Balance as on DOA must be determined.
  - V. For making Time Adjustment **we will always assume that profit of each month is same.**
- Following points should also be taken care of while doing time adjustment of Revenue Profit:
- ✓ Take Normal profit always for Time Adjustment (Normal profit means Profit After Tax excluding the effect of Abnormal Gains/Losses)
  - ✓ Normal Profit should be after Tax.
  - ✓ But Before Dividend
  - ✓ Before Revaluation Gain/Loss
  - ✓ Before Un-realised Gain/Loss
  - ✓ Before Bonus Issue

### (14) Treatment of Abnormal Items

- a) While preparing AOP, effect of Abnormal Items should be eliminated from Revenue Profit column (Ab. Loss will be added and Ab. Profit will be deducted)
- b) Apply time adjustment of Revenue Profit after above elimination.
- c) Re-instate the effect of Abnormal Items (Ab. Loss deducted and Ab. Profit added) from Capital Profit Column or Revenue Profit Column depending on the date of occurrence of abnormal items.  
(Jis period me A.Item occur hua hai vahi pe adjust karenge)

**Note:** Ab. Loss will be calculated net of claims

### EXAMPLE 9:

Financial Year 23-24, Date of Acquisition 1/8/23

Date	Particulars	Amount
1/4/23	Balance of Reserve & Surplus	15,00,000
3/3/24	Balance of Reserve & Surplus	21,00,000

During the year: - Abnormal loss in the month of September (Dr. in Profit & Loss already) = 60,000  
Abnormal gain in the month of May 2023 = 1,45,000. Prepare Analysis of Profit of Subsidiary.

**SOLUTION:****Analysis of Profit of Subsidiary: -**

Particular	CP (1 <sup>st</sup> Aug)	Revenue Profit (Aug to March)	B/S 31/03
Balance of Reserve & Surplus	15,00,000 (as on 01/04)	6,00,000 (12 Months)	21,00,000
(+) Abnormal loss (September)	-	60,000	
(-) Abnormal gain (May)	-	(1,45,000)	
<b>Balance</b>	<b>15,00,000</b>	<b>5,15,000</b>	
(+/-) Time Adjustment for 4 months	1,71,667	(5,15,000/12 X 4)	
	<b>16,71,667</b>	<b>3,43,333</b>	
(+/-) Restatement of Abnormal Items	1,45,000	(60,000)	
	<b>18,16,667</b>	<b>2,83,333</b>	<b>21,00,000</b>

**EXAMPLE 10:**

- 1) FY 23-24, DOA = 1/12/23
- 2) Investment Cost @90% = 12,00,000
- 3) ESC of Subsidiary = 7,50,000
- 4) R&S of Subsidiary – 1/4/23 = 6,00,000; 31/3/24 – 9,30,000
- 5) Abnormal loss in July 23 = 18,000

Calculate AOP, COC & MI

**SOLUTION****Working Note 1:****AOP**

Particular	CP	RP	B/S
Reserves & Surplus	6,00,000	3,30,000	9,30,000
+ Abnormal loss	-	18,000	
	<b>6,00,000</b>	<b>3,48,000</b>	
+/- Time Adjustment for 8 Months	2,32,000	(3,48,000 x 8/12)	
	<b>8,32,000</b>	<b>1,16,000</b>	
(-) Abnormal Loss	(18,000)	-	
	<b>8,14,000</b>	<b>1,16,000</b>	
H 90%	7,32,600	1,04,400	
MI 10%	81,400	11,600	

**Working Note 2:****COC**

Investment	12,00,000
(-) 90% ESC	6,75,000
(-) CP x 90%	7,32,600
<b>Capital Reserve</b>	<b>2,07,600</b>

**Working Note 3:**

## Minority Interest

Equity Share Capital	75,000
Capital Profit	81,400
Revenue Profit	11,600
	<b>1,68,000</b>

## 15) Treatment of Bonus issue of Shares by Subsidiary

- a) Normally the Bonus Equity Shares are Issued out of Reserves & Surplus of the Entity as under:  
Reserves & Supplus (Earnings) A/c Dr.  
To Equity Share Capital A/c
- b) We shall always assume that bonus is distributed out of Past Profits/Reserves of the Subsidiary co. i.e., out of Capital Profits if such profits are sufficient. **(Purane kamaye hue profits me se bonus issue hoga, Na ki current year k profits me se)**
- c) There can be either of the two possible cases for Bonus issue:

**Case 1:** Bonus Entry has been passed in subsidiary's books: Follow the below steps

- Add back in Revenue Profit Column of AOP
- Less Back in Capital Profit Column of AOP

**Case 2:** Bonus Entry has not been passed in Subsidiary's Books: Directly deduct the Bonus issue amount out of Capital Profit column of AOP.

- d) Holding Company shall not pass any entry for receipt of Bonus Shares from subsidiary Co. since it is free of cost. **(Bonus shares receive karne wala koi bhi entry nai karega, kyunki usko shares free me mile hai.)**
- e) Bonus issue of shares may effect the calculation of Percentage of Holding. Hence, we should be very careful while calculating such Percentage.  
% of Holding = No. of Shares Held by Holding Co. (including Bonus) / Total O/s Shares of Subsidiary (including Bonus)

**EXAMPLE 11: (on Bonus Issue of Shares)****Balance Sheet of Subsidiary (31/3/24)**

Equity Share capital (10/-)	5,00,000
Reserves & Surplus	4,00,000
Liabilities	9,00,000
	<b>18,00,000</b>
Asset	18,00,000
	<b>18,00,000</b>

H Acquired 90% shares of S on 31/3/24 at cost of 7,50,000

Calculate Cost of Control, Minority Interest & Prepare Consolidated Balance Sheet (Extract)

**SOLUTION:****Cost of Control**

Investment	7,50,000
(-) Net Asset 90%	
Equity share capital 5,00,000 x 90%	4,50,000
Reserves & Surplus 4,00,000 x 90%	3,60,000
<b>Capital Reserve</b>	<b>60,000</b>



**Minority Interest**

Equity Share Capital @ 10%	50,000
Reserves & Surplus @ 10%	40,000
	<b>90,000</b>

**Consolidated Balance Sheet (Extract)**

Equity Share Capital	XXX
Reserves & Surplus (CR)	60,000
Minority Interest	90,000
Liabilities	90,000
H     xxxx	
S     9,00,000	
Asset	18,00,000
H     xxxx	
S     18,00,000	

**In continuation of above example: -**

**On 1<sup>st</sup> April 2024**, Subsidiary company announced Bonus issue in the ratio of 1:2 out of its Reserves & Surplus

**Journal entry by Subsidiary**

Reserves & Surplus A/c	Dr.	2,50,000
To Equity share capital A/c		2,50,000

No other transaction took place as 1<sup>st</sup> April Now

**Standalone Balance Sheet of Subsidiary as on 1/4/24**

Equity share capital	7,50,000
Reserves & Surplus	1,50,000
Liabilities	9,00,000
	<b>18,00,000</b>
Assets	18,00,000
	<b>18,00,000</b>

**Analysis of Profit: -**

Particular	Capital Profit up to 31/3	Revenue Profit 1 day	Balance Sheet Date
R&S	4,00,000	(2,50,000)	1,50,000
(+/-) Bonus Adjustment	(2,50,000)	2,50,000	
	<b>1,50,000</b>	<b>0</b>	
H 90%	1,35,000		
Minority Interest 10%	15,000		

**Cost of Control:**

Investments	7,50,000
(-) 90% Net Asset:	
Equity Share capital 7,50,000 x 90%	6,75,000
Share in Capital Profit	13,5000
<b>Capital Reserve</b>	<b>60,000</b>

**Minority Interest:**

Equity Share Capital	75,000
R&S	15,000

	90,000
--	--------

**Conclusion:**

- (1) Bonus will not affect the Goodwill/ CR/ Minority Interest
- (2) Revenue Profit shown as negative (2,50,000) is not Really a loss. There is no profit/loss, it needs to be rectified by adding back the Bonus Effect & deduction from Capital Profit.

**EXAMPLE 12: (Bonus adjustment – Entry already passed)****Standalone Balance Sheet as on 31/3/24**

	H	S
Equity sharer capital	8,00,000	5,00,000
Reserves & Surplus	6,00,000	4,00,000
Liabilities	5,00,000	3,00,000
	<b>19,00,000</b>	<b>12,00,000</b>
Investment 80%	7,00,000	-
Other Asset	12,00,000	12,00,000
	<b>19,00,000</b>	<b>12,00,000</b>

- Date of Acquisition - 1/7/23
- On 1<sup>st</sup> March, 2024 - Bonus issue of shares by subsidiary in the ratio of 1:4 (i.e., 1,00,000/-). Whose entry is already passed by subsidiary.
- Opening Reserves & Surplus as on 1/4/23 = 2,50,000

**SOLUTION:**

How much Net Profit earned by subsidiary company? Lets understand this with the help of below ledger account of R&S

**Reserves & Surplus (FY 23-24)**

Particular	Amount	Particular	Amount
To Equity share Capital (Bonus Entry Passed)	1,00,000	By Opening Balance	2,50,000
Closing Balance	4,00,000	<b>By Net Profit (B/f)</b>	<b>2,50,000</b>

**Note:** As we can understand from above R&S account that NP during the year is 2,50,000 for which Time Adjustment is required by assuming that it is earned equally every month.

**Working Note 1: Analysis of Profit**

	Capital Profit As on 01/07	Revenue Profit 1/7-31/3	B/S 31/3
Reserves & Surplus	2,50,000	1,50,000	4,00,000
Bonus Adjustment	(-)1,00,000	+1,00,000	
<b>Revised Balances</b>	<b>1,50,000</b>	<b>2,50,000</b>	
(+/-) Time Adjustment for 3 Months	62,500	(2,50,000 X 3/12)	
<b>Revised Balances</b>	<b>2,12,500</b>	<b>1,87,500</b>	
H 80%	1,70,000	1,50,000	
Minority Interest 20%	42,500	37,500	

**Cost of Control: -**

Investment (80%)	7,00,000
(-) 80% of Net Asset	

Equity shares capital (with Bonus always)	4,00,000
CP	1,70,000
<b>Goodwill</b>	<b>1,30,000</b>

**Minority Interest:**

Proportionate share in Equity shares capital (with bonus always)	1,00,000
Capital Profit Share	42,500
<b>M/I as on DOA</b>	<b>1,42,500</b>
Revenue Profit Share of MI	37,500
<b>Total MI as on BS Date</b>	<b>1,80,000</b>

**Consolidated Reserves & Surplus: -**

H's Balance R&S	6,00,000
(+) H's share of Profit from Subsidiary	1,50,000
	<b>7,50,000</b>

**Consolidated Balance Sheet**

Equity share capital	8,00,000
Consolidated Reserves & Surplus	7,50,000
Minority Interest	1,80,000
Liabilities	8,00,000
	<b>25,30,000</b>
Goodwill	1,30,000
Other Asset	24,00,000
	<b>25,30,000</b>

**EXAMPLE 13: (Bonus Issue but Entry not yet Passed)**

Solve Example 11 by assuming that bonus entry is not yet passed by Subsidiary & Equity share capital which is given in Balance Sheet i.e. 5,00,000 is without Bonus issue.

**SOLUTION:**

Amount of Bonus issue of Shares = 5,00,000 X 1/4 = 1,25,000

**Reserves & Surplus**

Particular	Amount	Particular	Amount
-	-	Opening Balance	2,50,000
Closing Balance	4,00,000	<b>Net Profit</b>	<b>1,50,000</b>

**Working Note 1 -****Analysis of Profit of Subsidiary**

	CP Up to 1/7	RP July to March	B/S Date 31/3
Reserves & Surplus	2,50,000	1,50,000	4,00,000
(-) Bonus share	(1,25,000)	1,50,000	4,00,000
	<b>1,25,000</b>	<b>1,50,000</b>	<b>2,75,000</b>
(+/-) Time adjustment for 3 months	37,500	(1,50,000 X 3/12)	
	<b>1,62,500</b>	<b>1,12,500</b>	<b>2,75,000</b>
H's Share 80%	1,30,000	90,000	
Minority Interest Share 20%	32,500	22,500	

Solve the rest part of this example here:

COC: -

Investments	7,00,000
(-) Proportionate Net Asset:	
Equity Share capital 6,25,000 x 80%	(5,00,000)
Share of Capital Profit	(1,30,000)
<b>Goodwill</b>	<b>70,000</b>

Minority Interest: -

Equity Share Capital 6,25,000 x 20%	1,25,000
Share of Capital Profit	32,500
Share of Revenue Profit	22,500
	<b>1,80,000</b>

**EXAMPLE 14:**

Date of Acquisition is 1/11/2024

Investment Cost is Rs. 5,00,000 (65%)

Equity Share Capital at beginning &amp; ending of year is 3,00,000

Reserves &amp; Surplus at beginning is 1,20,000 &amp; at end is 3,40,000

During the year Bonus shares issued by Subsidiary in the ratio of 1:3 (Abnormal Loss of ₹ 18,000 on 1<sup>st</sup> July)

Calculate Goodwill &amp; Minority Interest.

**SOLUTION:**

1) Since Equity Share Capital is 3,00,000 at beginning and ending of the year. Therefore Bonus entry not yet passed.

Working Note 1: - Analysis of Profit

	CP	RP	B/S Date
Reserves & Surplus	1,20,000	2,20,000	3,40,000
(-) Bonus Issue	(1,00,000)	-	
(+) Abnormal Loss	-	18,000	
	<b>20,000</b>	<b>2,38,000</b>	
(+/-) Time adjustment for 7 Months	1,38,833	(1,38,833)	
	1,58,833	99,167	
(-) Abnormal Loss	(18,000)	-	
	<b>1,40,833</b>	<b>99,167</b>	
H 65%	91,541	64,459	
MI 35%	49,292	34,708	

**Working Note 2: Goodwill**

Investment	5,00,000
(-) Equity Share Capital (65%)	(2,60,000)
(-) CP	(91,541)
<b>Goodwill</b>	<b>1,48,459</b>

**Working Note 3: Minority Interest**

Equity Share Capital (35%)	1,40,000
CP	49,292

RP	34,708
	2,24,000

### 16) Dividend Declared and Paid By Subsidiary

Declared in CY on B/S Date	Declared after BS Date	Dividend Received by Holding
<p><b>Case 1:</b> Entry not yet passed (Not shown on Liabilities side of BS) What to do in AOP? Directly Deduct after Time Adjustment from Pre/Post Column.</p> <p><b>Case 2:</b> Entry passed (Shown on Liability Side of BS) What to do in AOP?</p> <ul style="list-style-type: none"> <li>• Add back in Post Acquisition</li> <li>• Time Adjustment</li> <li>• Deduct from Pre-Column or Post Column depends on Period of Dividend</li> </ul>	<p>It means Dividend paid in CY and belongs to Last FY. Since it is paid in CY, it is declared in CY only before paid.</p> <p><b>What to do in AOP?</b></p> <ul style="list-style-type: none"> <li>• Add back in Post-Acquisition</li> <li>• Time adjustment</li> <li>• Deduct from Pre-Column or Post Column depends on Period of Dividend</li> </ul>	<p>Pre-Acquisition Dividend Should be Deducted from Investment Cost under COC working.</p> <p><b>(a)</b> If already deducted from Investment. Do Nothing, your Investment is already shown after deduction of Dividend.</p> <p><b>(b)</b> If Wrongly Cr. to P&amp;L A/c</p> <ul style="list-style-type: none"> <li>• Deduct from Investment under COC</li> <li>• Deduct from Consolidated P&amp;L of H</li> </ul> <p><b>(Also see Note 3 below)</b></p>

#### Important Notes:

1) There can be two types of Dividend:

- Final Dividend
- Interim dividend.

Treatment of both are almost same.

2) Dividend is calculated on paid up share capital outstanding:

- At the end of the relevant year in case of Final Dividend.
- On the date of Distribution for Interim Dividend.

3) We always assume that:

- Dividend paid is Final if question is silent.
- Pre-acquisition dividend received by parent is wrongly credited to its P&L A/c.

**(Agar pre acquisition dividend galti se p&l me daal diya parent ne to vaha se hatana padega to minus karenges and COC me dalna padega to vaha pe bhi minus karenges)**

#### EXAMPLE 15: (Dividend Declared and Paid by Subsidiary)

- Financial Year 23-24.
- Date of Acquisition 1/4/23
- Dividend (15%) declared on 31/3/24 for Financial Year 23-24 but Dividend entry not yet passed.
- Equity shares of subsidiary = 10,00,000/-
- Reserve & Surplus of 1/4/23 = 4,50,000/-
- Reserve & Surplus of 31/3/24 = 9,90,000/-

**SOLUTION****Reserves & Surplus A/c**

Particular	Amount	Particular	Amount
		Opening A/c	4,50,000
Closing A/c	9,90,000	Net Profit	5,40,000

**Analysis of Profit:**

	CP	RP	B/S date
R&S	4,50,000	5,40,000	9,90,000
(-) Dividend	-	(1,50,000)	
	<b>4,50,000</b>	<b>3,90,000</b>	

**EXAMPLE 16: (Dividend)**

Same as Example 15, Date of Acquisition is 1/10/23

**SOLUTION****Analysis of Profit: -**

	CP	RP	B/S Date
Reserve & Surplus	4,50,000	5,40,000	9,90,000
(+/-) Time Adjustment	2,70,000	(2,70,000)	
	<b>7,20,000</b>	<b>2,70,000</b>	
(-) Dividend	(7,50,000)	(75,000)	

**EXAMPLE 17: (Dividend)**

Same as Example 15, Date of Acquisition is 31/3/24

**SOLUTION****Analysis of Profit: -**

	CP	RP	B/S Date
Reserve & Surplus	9,90,000	-	9,90,000
(-) Dividend	(1,50,000)		
	<b>8,40,000</b>		

**Note:** Since Entire 12 Months belongs to Pre Acquisition period i.e., before DOA. Hence, entire dividend belongs to CP

**EXAMPLE 18: (Dividend)**

Same As Example 15, But Dividend entry is already passed.

**SOLUTION****Reserves and Surplus**

Particular	Amount	Particular	Amount
Dividend Payable A/c	1,50,000	Opening A/c	4,50,000
Closing A/c	9,90,000	<b>Net Profit</b>	<b>6,90,000</b>

**Note:** Since Dividend entry is passed during the year hence NP (before dividend is paid) for the year should be 6,90,000/-

**Analysis of Profit:**

	CP	RP	B/s Date
R&S	4,50,000	5,40,000	9,90,000

Dividend Add Back		+1,50,000	
<b>Profits before Dividend</b>	<b>4,50,000</b>	<b>6,90,000</b>	
+/- Total Adjustment	Not required		
(-) Dividend	-	(1,50,000)	
	<b>4,50,000</b>	<b>5,40,000</b>	

**EXAMPLE 19: (Dividend)**

Financial Year 23-24, Date of Acquisition 1/10/23

Date	Particular	Amount
1/4/23	Equity Share Capital	4,00,000
1/4/23	Reserves & Surplus Opening A/c	2,70,000
31/3/24	Reserves & Surplus closing A/c	3,90,000

Dividend Declared &amp; Entry passed on 31/3/24 = 12%, Dividend is for FY 23-24

**SOLUTION:**

	CP	RP	B/s Date
R&S	2,70,000	1,20,000	3,90,000
(+) Dividend	-	48,000	
	<b>2,70,000</b>	<b>1,68,000</b>	
(+/-) Total Adjustment	84,000	(84,000)	
	<b>3,54,000</b>	<b>84,000</b>	
(-) Dividend	(24,000)	(24,000)	
	<b>3,30,000</b>	<b>60,000</b>	

**EXAMPLE 20: (Dividend)**

Particular	Amount
Equity Share Capital of Subsidiary	7,50,000
Reserves & Surplus as on 1/4/23	6,00,000
Reserves & Surplus as on 31/3/24	9,00,000

DOA = 1/9/23. Dividend declared &amp; Paid on 15/9/23 in an AGM.

**SOLUTION:**

Dividend belong to 22-23

**Reserves & Surplus**

Particular	Amount	Particular	Amount
Dividend	75,000	Opening A/c	6,00,000
Closing A/c	9,00,000	Net Profit	3,75,000

**Analysis of Profit:**

	CP	RP	B/s Date
Reserves & Surplus	6,00,000	3,00,000	9,00,000
+ Dividend	-	75,000	
	<b>6,00,000</b>	<b>3,75,000</b>	
+/- Total Adjustment	1,56,250	(1,56,250)	
		<b>(3,75,000)</b>	
(-) Dividend	(75,000)	-	
	<b>6,81,250</b>	<b>2,18,750</b>	

**EXAMPLE 21: (Dividend)****Standalone Balance Sheet as on 31/3/24**

	H	S
Equity shares capital (10%)	5,00,000	4,00,000
Reserves & Surplus	6,00,000	5,00,000
Liabilities	7,00,000	6,00,000
Dividend Payable	-	80,000
	<b>18,00,000</b>	<b>15,80,000</b>
Investments in S (80%)	7,40,000	-
Other Assets	10,60,000	15,80,000
	<b>18,00,000</b>	<b>15,80,000</b>

- Date of Acquisition = 1/7/23
- Dividend is Declared as 31/3/24 for First Year 23-24
- Opening A/c Reserves & Surplus as on 1/4/23 = 2,60,000

Requirement: Prepare AOP, COC, Minority Interest & Consolidated Balance Sheet.

**SOLUTION:****Analysis of Profit**

	CP	RP	B/s Date
Reserves & Surplus	2,60,000	2,40,000	5,00,000
+ Dividend	-	80,000	
	<b>2,60,000</b>	<b>3,20,000</b>	
+/- Total Adjustment	80,000	(3,20,000 X 3/12)	
	<b>3,40,000</b>	<b>2,40,000</b>	
(-) Dividend (3 months Pre 9 months Post)	(20,000)	(60,000)	
	<b>3,20,000</b>	<b>1,80,000</b>	
H 80%	2,56,000	1,44,000	
Minority Interest 20%	64,000	36,000	

**Working Note 1:**

In above example, How H Ltd. has to treat the portion of Dividend Receivable from S Ltd.

- Dividend Receivable 64,000/-
- H has to treated 3 months Dividend as per Acquisition - 16,000 & 9 Months Dividend as post-Acquisition - 48,000

**Journal Entry:**

Dividend receivable A/c Dr.	64,000
To Investment A/c	16,000
To Profit & Loss A/c	48,000

**Working Note 2: - Cost of Control**

Investments (80%)	7,40,000
(-) Pre-Acquisition Dividend	16,000
Investments (Net)	7,24,000
<b>(-) 80% Net Assets</b>	
Equity share 80%	(3,20,000)
CP's Share	(2,56,000)
Goodwill	1,48,000



**Working Note 3: - Minority Interest**

Equity Share Capital (20%)	80,000
Share in	
CP	64,000
RP	36,000
	1,80,000

**Consolidated Balance Sheet**

Equity share capital		5,00,000
Consolidated Reserves & Surplus		79,2000
H	6,00,000	
+ share in RP	1,44,000	
+ Dividend income	48,000	
Minority Interest		1,80,000
Liabilities		
H	7,00,00	
S	6,00,00	13,00,000
Dividend payable	80,000	
(-) Inter Co. Debt	64,000	16,000
		<b>2,78,8000</b>
Goodwill		1,48,000
Other Asset		
H	10,60,000	
s	1,58,000	26,40,000
Dividend Receivable	64,000	
(-) Inter co debt	64,000	0
		<b>27,80,000</b>

**EXAMPLE 22:**

As on 1/4	Reserves & Surplus is 6,00,000
On 1/6	Date of Acquisition (90%)
On 1/10	Paid Interim Dividend (CY) is 75,000
On 1/1	Abnormal Loss 12,000
On 31/3	Reserves & Surplus is 9,50,000

Investment Cost = 10,00,000

ESC = 4,00,000

**Prepare AOP, COC, MI & Extract of Consolidated R&S.**

**SOLUTION:**

**(a) Analysis of Profit**

Particular	CP	RP	B/s Date
Balance of Profit & Loss	6,00,000	3,50,000	9,50,000
+ Abnormal Loss	-	12,000	
+ Dividend	-	75,000	
	<b>6,00,000</b>	<b>4,37,000</b>	
+/- Time Adjustment for 2	72,833	(72,833)	

months			
(-) Abnormal Loss	-	(12,000)	
(-) Interim Dividend (2M Pre & 4M Post)	(25,000)	(50,000)	
	<b>6,47,833</b>	<b>3,02,167</b>	
H's share 90%	5,83,050	2,71,950	
Minority Interest 10%	64,783	30,217	

**(b) Cost of Control**

Investment	10,00,000
(-) Proportionate of Net Asset	(22,500)
<b>Net Investment</b>	<b>9,77,500</b>
(-) 90% ESC	(3,60,000)
(-) Share in Capital Profit	(5,83,050)
<b>Goodwill</b>	<b>34,450</b>

**(c) Minority Interest**

Equity Share Capital	40,000
Share in Capital Profit	64,783
Share in Revenue Profit	30,217
	<b>1,35,000</b>

**(d) Consolidated Reserves & Surplus**

H's Balance	xxx
+ Share in Revenue Profit	2,71,950
(-) Pre Acquisition Dividend	(22,500)

**17) Preference Share Capital of Subsidiary & Investment by Holding in the Same**

- If Holding company has made Investment in Subsidiary's Preference Share Capital also, then proportionate Preference Share Capital will be shown in Cost of Control & Minority Interest working.
- Holding company may also be eligible for preference dividend which may be Pre or Post depending on DOA.

**EXAMPLE 23: (Pref. Share Capital of Subsidiary)****First Year 23-24**

Date	Particular	Amount
1/4/23	9% Preference share capital	6,00,000/-
1/4/23	Equity share capital	9,00,000/-
1/4/23	Profit & Loss Balance	4,50,000
31/3/24	Profit & Loss Balance	7,50,000

On 1/6 Investment in 80% equity of S = 9,50,000 and Investment in 40% Preference Share = 2,50,000

On 31/3/24, Equity Dividend @ 12% & Preference dividend declared.

Entry also passed by S But entry for Dividend Receivable not yet passed by H.

**1/4/23**

- Profit & Loss = 4,50,000
- Date of Acquisition - 1/6/23

**31/3/24**

- Profit & Loss = 7,50,000
- Preference Dividend = 54,000
- Equity Dividend = 1,08,000

**SOLUTION:**

**Note:** Both Dividend belongs to Current Year & DOA of 1/6 is also Current year. Therefore, 2 months pre & 10 Months post

**Working Note 1: Analysis of Profit**

Particular	CP	RP	B/s Date
Balance of Profit & Loss	4,50,000	3,00,000	7,50,000
+ Dividend	-	1,62,000	
	<b>4,50,000</b>	<b>4,62,000</b>	
+/- Total Adjustment for 2 months	77,000	(4,62,000X2/12)	
	<b>5,27,000</b>	<b>3,85,000</b>	
(-) Preference Dividend	(9,000)	(45,000)	
(-) Equity Dividend	(18,000)	(90,000)	
	5,00,000	2,50,000	
H's share 80%	4,00,000	2,00,000	
Minority Interest 20%	1,00,000	50,000	

**Working Note 2: - Cost of Control**

Investment in Equity	9,50,000
(+) Investment in Preference	2,50,000
Gross Investment	12,00,000
(-) Pre-Acquired Dividend	
Preference (40%)	3,600
Equity (80%)	14,400
Investment (Net)	11,82,000
(-) 80% Equity share capital	(7,20,000)
(-) 40% Preference Share Capital	(2,40,000)
(-) Pre Acquisition Profit Share	(4,00,000)
<b>Capital Reserve</b>	<b>1,78,000</b>

**Working Note 3: - Minority Interest**

Equity shares capital (20%)	1,80,000
Preference share capital (60%)	3,60,000
Capital Profit share	1,00,000
Revenue Profit share	50,000
	<b>6,90,000</b>

**Working Note 4: - Consolidated Reserves & Surplus**

	Profit & Loss	CR
Balance with H	-	-
+ Share in Revenue Profit of Subsidiary	2,00,000	-
+ Equity Dividend	72,000	-
+ Preference Dividend	18,000	-
+ Capital Reserve (from Cost of control)	-	17,8000
	<b>2,90,000</b>	<b>1,78,000</b>

**EXAMPLE 24: (Preference Share Capital of Subsidiary)**

Same Example 23 but Holding Company has not made Investment in preference share capital.

**SOLUTION:**

(1) No change in Analysis of Profit

(2)

**Cost of Control**

Investment	9,50,000
(-) Pre-Acquisition Dividend	(14,400)
(-) 80% Equity share capital	(7,20,000)
(-) Pre-acquisition profit Share	(4,00,000)
<b>Capital Reserve</b>	<b>1,84,400</b>

(3)

**Minority Interest**

Equity shares capital (20%)	1,80,000
Preference shares capital (100%)	6,00,000
Capital Profit	1,00,000
Revenue Profit	50,000
	<b>9,30,000</b>

(4) Consolidated Profit &amp; Loss

H's Balance	0
Revenue Profit	2,00,000
Dividend Equity	72,000

**EXAMPLE 25: (Preference Shares of Subsidiary)**

Show How much amount of Dividend shall be shown in the Balance Sheet of Example 23

**SOLUTION:**

(1)

Equity Dividend Declared By S	1,08,000
(-) Equity Dividend receivable by H	86,400
Payable to Minority Interest	21,600

(2)

Preference Dividend Declared by S	54,000
(-) Preference Dividend receivable By H (40%)	21,600
Payable to Minority Interest	32,400

**18) Treatment of Revaluation of Assets**

- Revaluation of Assets of Parent co. is not relevant.
- Revaluation of Assets of Subsidiary co. is relevant to find out the fair value of Net Assets of Subsidiary co. for the calculation of Cost of Control. **(Net assets ki real aukaat pata karne k liye market value of assets dekhenge, book value nai)**
- Revaluation of Assets will be checked on the acquisition date of investments.
- Revaluation Profit or Loss is calculated as follows:

Book Value of Asset on the date of Acquisition	xxx
Less: Market Value of Assets on the date of Acquisition	xxx

- Revaluation Profit/Loss is treated as pre-acquisition profit/loss. **(profit ko plus aur loss ko minus karenge)**

- Additional Depreciation will be calculated in case of Revaluation profit and adjusted in post-acquisition profit. (minus kareng)
- Saving in depreciation will be calculated in case of Revaluation loss and adjusted in post-acquisition profit. (plus kareng)

**Calculate Additional or Saving in Depreciation:**

Depreciation that should be charged on Market Value of Asset from DOA to BS Date	XXX
Depreciation which is actually charged by Subsidiary from DOA to BS Date	XXX
<b>Net Effect of Depreciation to be adjusted in Revenue Profit Column of AOP</b>	<b>XXX</b>
Additional Dep shall be deducted and Saving in Dep shall be added.	

- Revaluation adjustment will be done after applying Time Adjustment.

**EXAMPLE 26: (Fair Value of Net Assets of Subsidiary)****Balance Sheet of Subsidiary as on 31/3/24**

Equity share capital (10/-)	15,00,000
Reserves & Surplus	7,50,000
Liabilities	24,50,000
	<b>47,00,000</b>
PPE	30,00,000
Current Asset	17,00,000
	<b>47,00,000</b>

Date of Acquisition by H is 31/03/24 on this date Market Value of PPE of S was 38,00,000. Calculate Market Value of Net Asset on Date of Acquisition.

**SOLUTION:****Alternate 1**

PPE	38,00,000
Current Asset	17,00,000
(-) Liabilities	24,50,000
<b>Market Value of Net Asset</b>	<b>30,50,000</b>

**Alternate 2**

Equity share capital	15,00,000
Reserves & Surplus	7,50,000
+ Fair Value Gain	8,00,000
	<b>30,50,000</b>

**Alternate 3****Analysis of Profit**

	CP	RP	BS
Reserves & Surplus	7,50,000	-	7,50,000
(+) Fair Value Gain	8,00,000		
	<b>15,50,000</b>		
H (100%)	15,50,000		

**Example 27: (Fair Value of Net Assets of Subsidiary)****Balance Sheet of Subsidiary**

	Opening Balances	Closing Balances
Equity share capital	15,00,000	15,00,000
Reserves & Surplus	10,50,000	16,40,000
Liabilities	14,50,000	19,60,000
	<b>40,00,000</b>	<b>51,00,000</b>
PPE	30,00,000	27,00,000
Current Asset	10,00,000	24,00,000
	<b>40,00,000</b>	<b>51,00,000</b>

(1) Date of Acquisition is 1/23 (100% Acquisition)

(2) Market Value of PPE as on 1/1/23 = 38,00,000

Show AOP & Cost of Control (Extract)

**SOLUTION:****Analysis of Profit:**

	CP	RP	B/S
Reserves & Surplus	10,50,000	5,90,000	16,40,000
(+) Face value gain	8,00,000		
	<b>18,50,000</b>	<b>5,90,000</b>	
H 100%	18,50,000	5,90,000	

**Cost Of Control**

Investment	XXX
(-) Equity share of capital 100%	15,00,000
(-) CP	18,50,000

**Example 28: (Fair Value of Net Assets of Subsidiary)**

Same Balance Sheet from Example 26 but Date of Acquisition is 1/10/23

Market Value of PPE

as on 1/4 = 38,00,000

as on 1/10 = 37,00,000

as on 31/3 = 36,00,000

Value of Investment (100%) = 25,00,000

**Calculate Analysis of Profit & Cost of Control**

**SOLUTION:**

a)	Market Value of PPE as on 1/10	37,00,000
b)	Full year Depreciation	3,00,000
c)	Depreciation for 1 <sup>st</sup> half	1,50,000
d)	Book Value as on ¼	30,00,000
e)	Book Value on as 1/10 (d-c)	28,50,000
f)	Fair Value Gain (a-e)	8,50,000

**Analysis of Profit (AOP):**

	CP	RP	Balance Sheet
Reserves & Surplus	10,50,000	5,90,000	16,40,000
(+/-) Total adjustment	2,95,000	(2,95,000)	
	13,45,000	2,95,000	
(+) Fair Value Gain	8,50,000	(35,000)	
H's 100% Share	21,95,000	2,60,000	

**Addition Depreciation due to Revaluation:**

Depreciation @ 10% on Market Value for post period (37,00,000 X 10% X 6/12)	1,85,000
Depreciation which is actually charged by S for post period (Book Value as on 1/10 – Book Value as on 31/3 = 35,000)	1,50,000
<b>Additional Depreciation</b>	<b>35,000</b>

**Cost of Control: -**

Investment	25,00,000
(-) Pre-Acquisition Dividend	0
(-) 100% Net Asset	
Equity Share Capital	15,00,000
CP	21,95,000
<b>CR</b>	<b>11,95,000</b>

**EXAMPLE 29: (Fair Value of Net Assets of Subsidiary)**

First year 23-24, DOA = 1/923

Date	Particular	Amount
31/3/24	Book Value of PPE of Subsidiary	18,00,000
	Depreciation Rate	10% P.a.
1/4/23	Profit & Loss A/c of subsidiary	11,00,000
31/3/24	Profit & Loss A/c of subsidiary	19,50,000
1/9/23	MV of PPE	22,30,000

On Date of Acquisition value of Inventory & creditors of subsidiary should be increased by 50,000 & 21,000 respectively. Abnormal Loss on 01/12/23 = 32,000

**Prepare Analysis of Profit (AOP)****SOLUTION:**

Book Value as on 1/4	20,00,000
(-) Depreciation for 5 Months	83,333
Book Value as on 1/9	19,16,667
Market Value as on 1/9	22,30,000
<b>FV Gain</b>	<b>3,13,333</b>

**Additional Depreciation: -**

1) Depreciation that should be charged on MV for Post Period (22,30,000 x 10% x 7/12)	1,30,083
2) Depreciation actually Charged by S on Book Value for Post Period (BV as on DOA – BV as on B/s)	1,16,667
	<b>13,416</b>

**3) Inventory on DOA is increased by 50,000**

Inventory A/c	Dr.	50,000
To CP		50,000

4) Creditors increased by 21,000

CP A/c	Dr.	21,000
To Creditor A/c		21,000

	CP	RP	B/S Date
Profit & Loss	11,00,0000	8,50,000	19,50,000
+ Abnormal Loss	-	32,000	
	11,00,000	8,82,000	
+/- Trading Adjustment for 5 Months	3,67,500	(3,67,500)	
(-) Abnormal Loss	-	(32,000)	
(+/-) FV Adjustment	3,13,333	(13,416)	
	50,000	-	
	(21,000)	-	
	<b>18,09,833</b>	<b>4,69,084</b>	

**EXAMPLE 30: (Fair Value of Net Assets of Subsidiary)**

Date of Acquisition = 1/12/23

Date	Particular	Amount
Furniture & Fixture		
31/3/24	Book Value	4,00,000
01/4/23	Book Value	5,00,000
01/12/23	Market Value	3,50,000

Calculate Fair Value gain/Loss & Depreciation Effect

Solve Here:

1) Depreciation % $(1,00,000/5,00,000 \times 100)$	20%
2) Depreciation Amount $(5,00,000 \times 20\% \times 8/12)$	66,667
3) Book Value as on 1/12	4,33,333
4) Market Value as on 1/12	3,50,000
5) Fair Value Loss	83,333

Depreciation:

Depreciation that should be charged $(3,50,000 \times 20\% \times 4/12)$	<b>23,333</b>
Depreciation actually Charged $(4,33,333 - 4,00,000)$	33,333
	<b>10,000</b>

**EXAMPLE 31:**

**Standalone Balance Sheet as on 31/3/24**

Particular	H	S
Equity Share Capital	15,00,000	12,00,000
General Reserve	5,00,000	2,80,000
Profit & Loss A/c	3,00,000	4,20,000
Loans	9,00,000	7,50,000
Trades Payable	5,50,000	2,50,000
	<b>37,50,000</b>	<b>29,00,000</b>
Land & Building	8,00,000	10,00,000
Machines	7,00,000	9,00,000
Investment @75%	14,00,000	-
Current Asset	8,50,000	10,00,000



	<b>37,50,000</b>	<b>29,00,000</b>
--	------------------	------------------

- 1) DOA = 1/July/23
- 2) MV of Land & Building – 12,00,000, Plant & Machinery – 7,00,000 as on DOA
- 3) Rate of Depreciation = Land and Building 20%, Plant & Machinery 10%
- 4) Abnormal Gain on 1/June = 21,000; Abnormal loss on 2/July = 18,000
- 5) On 1/Jan/24 Bonus, issue by Subsidiary
- 6) Opening Balance of General Reserve 1,80,000 and Profit & Loss 3,00,000
- 7) Bonus entry already Passed
- 8) Debtors of 15,000 of H are receivable from S

**SOLUTION****Working Note 1: Calculation of FV Gain/Loss due to Revaluation**

		Land & Building	Plant & Machinery
(a)	Book Value as on 31/3	10,00,000	9,00,000
(b)	Depreciation Rate	20%	10%
(c)	Book Value as on 1/4 (a/100%-b)	12,50,000	10,00,000
(d)	Book Value as on 1/7 (after 3M dep)	11,87,500	9,75,000
(e)	Market Value as on 1/7	12,00,000	7,00,000
(f)	<b>Gain/Loss (e-d)</b>	<b>12,500</b>	<b>(2,75,000)</b>

**Working Note 2: Depreciation effect**

	Land & Building	Plant & Machinery
(a) Depreciation from July to March already Charged by S	1,87,500	75,000
(b) Depreciation from July to March that should be charged by H on Market Value	1,80,000	52,500
<b>Saving</b>	<b>7,500</b>	<b>22,500</b>

**Working Note 3: Analysis of Profit of Subsidiary**

Particular	CP (up to 1/7)	Revenue Profit		Balance Sheet 31/3/24
		GR (9M)	P&L (9M)	
Balances				
General Reserve	1,80,000	1,00,000	-	2,80,000
Profit & Loss	3,00,000	-	1,20,000	4,20,000
(+/-) Bonus	(2,00,000)	2,00,000	-	
(+/-) Eliminated Abnormal Items			(21,000) 18,000	
	<b>2,80,000</b>	<b>3,00,000</b>	<b>1,17,000</b>	
(+/-) Time Adjustment (3 Months)	75,000 29,250	(3,00,000 x 3/12)	(1,17,000 x 3/12)	
<b>Balances</b>	<b>3,84,250</b>	<b>2,25,000</b>	<b>87,750</b>	
(+/-) Abnormal Item	21,000	-	(18,000)	
(+/-) Fair Value				
Land & Building (Gain)	12,500			
Plant & Machinery (Loss)	(2,75,000)			
(+) Saving in Depreciation				
Land & Building	-	-	7,500	
Plant & Machinery	-	-	22,500	

<b>Final Balances</b>	<b>1,42,750</b>	<b>2,25,000</b>	<b>99,750</b>	
H 75%	1,07,063	1,68,750	74,813	
MI 25%	35,687	56,250	24,937	

**Working Note 4: Cost of Control**

Investment	14,00,000
(-) Proportion of Net Asset	
ESC @75%	9,00,000
Share in Capital Profit	1,07,063
<b>Goodwill</b>	<b>3,92,937</b>

**Working Note 5: Minority Interest**

Equity Share Capital @25%	3,00,000
Share in Capital Profit	35,687
Share in Revenue Profit	81,187
	<b>4,16,874</b>

**Working Note 6: Consolidated Reserves & Surplus**

Particular	Amount
(a) General Reserve	
Balance with H	5,00,000
+ Share in RP	1,68,750
	<b>6,68,750</b>
(b) Profit & Loss	
Balance with H	3,00,000
+ Share in RP	74,813
	<b>3,74,813</b>
<b>Gross Total (a+b)</b>	<b>10,43,563</b>

**Consolidated Balance Sheet as on 31/3/2024**

Particular	Amount
Equity Share Capital	15,00,000
Consolidated Reserves & Surplus (W.N – 6)	10,43,563
Minority Interest (W.N – 5)	4,16,874
Loans	16,50,000
H                    9,00,000	
S                    7,50,000	
Trade Payables	7,85,000
H                    5,50,000	
S                    2,50,000	
(-) Common Debts                    (15,000)	
	<b>53,95,437</b>
Land & Building	18,20,000
H                    8,00,000	
S                    10,00,000	
+ FV Gain                    12,500	
+ Saving Depreciation                    7,500	
Profit & Machinery	13,47,500
H                    7,00,000	

S	9,00,000	
(-) FV Loss	(2,75,000)	
(+) Dep	22,500	
Goodwill (WN – 4)		3,92,937
Current Asset		18,35,000
H	8,50,000	
S	10,00,000	
(-) Common Debts	(15,000)	
		<b>53,95,437</b>

**EXAMPLE 32**

As on 1/4	Equity Share Capital = 7,00,000 Reserves & Surplus = 5,20,000
On 1/9 (DOA)	80% Investment of 10 lakhs PPE (MV) = 11,00,000
On 1/1	Abnormal Gain = 18,000
On 31/3	Reserves & Surplus = 9,00,000

**On 31/3**

- (a) Bonus Declared at 1:4 ratio, but entry is not passed  
 (b) Dividend Declared 15%, but entry is not passed  
 (c) Book Value of PPE is 8,50,000, Depreciation = 12%

**SOLUTION:**

\*Revenue Profit is already Before Dividend. Since, Dividend entry not yet passed

**Working Note 1: Revaluation of PPE and depreciation thereon**

(a)	Book Value as on 31/3	8,50,000
(b)	Book value as on 1/4 (8,50,000/88%)	9,65,910
(c)	Book value as on 1/9 (after 5M Dep)	9,17,615
(d)	Market value as on 1/9	11,00,000
(e)	FV Gain (d-c)	1,82,385
(f)	Depreciation for Post Acquisition Period actually Charged by S (c-a)	67,615
(g)	Depreciation that should be Charged on Market Value	77,000
(h)	<b>Additional Depreciation (g-f)</b>	<b>9,385</b>

**Working Note 2: AOP of Subsidiary**

Particular	CP (up to 1/9)	GR (Sep to Nov)	Balance Sheet 31/3
Balance of Reserves & Surplus	5,20,000	3,80,000	9,00,000
(-) Abnormal Gain	-	(18,000)	
(-) Bonus issue (7,00,000 x 1/4)	(1,75,000)	-	
	<b>3,45,000</b>	<b>3,62,000</b>	
(+/-) Time Adjustment for 5 months	1,50,833	(1,50,833)	
<b>Balances</b>	<b>4,95,833</b>	<b>2,11,167</b>	
(+) Abnormal Gain	-	18,000	
(-) Dividend (5M Pre : 7M Post)	(43,750)	(61,250)	
+/- Revaluation effect (WN.1)	1,82,385	(9,385)	
<b>Final Balances</b>	<b>6,34,468</b>	<b>1,58,532</b>	

H's 80%-	5,07,574	1,26,826	
MI 20%	1,26,894	31,706	

**Working Note 3: Cost of Control**

Investment Cost (Before Pre-Dividend Deduction)	10,00,000
(-) Pre-Acquisition Dividend Receivable	(35,000)
<b>Net Investment Cost</b>	<b>9,65,000</b>
(-) Proportionate Net Asset	
80% Equity Share Holder (with Bonus)	(7,00,000)
80% share in Capital Profit (WN.2)	(5,07,574)
<b>Capital Reserve</b>	<b>2,42,574</b>

**Working Note 4: Minority Interest**

20% of Equity Share Capital	1,75,000
20% of Share in Capital Profit (WN.2)	1,26,894
20% of Share in Revenue Profit (WN.3)	31,706
	<b>3,33,600</b>

**Note:** Dividend payable to Minority Interest shall be shown Separately in the Balance Sheet as Current Liability.

**Working Note 5: Consolidated Reserves & Surplus of Holding**

Balance of H	xxx
(+) Share in Revenue Profit	1,26,826
(+) Dividend Income (7M)	49,000

**19) Elimination of Unrealised Profit/Loss on unsold stock in Inter Co. Transaction**

Transaction between Holding Co. and Subsidiary Co. for sale purchase of goods/assets may be made at more than actual cost (i.e., at Profit margin). In that case, unrealized profit on unsold stock shall be eliminated while Preparing Consolidated Balance Sheet of Group.

Such Inter company transactions can be of two types:

1. Downstream Transaction – Sale of Goods/Assets by Holding Co. to Subsidiary Co.
2. Upstream Transaction – Sale of Goods/Assets by Subsidiary Co. to Holding Co.

Downstream Transaction	Upstream Transaction
Profit is earned by Holding Co. and unsold stock is laying with Subsidiary Co.	Profit is earned by Subsidiary Co. and unsold stock is laying with Holding Co.
Such profit is to be eliminated from Profit and Loss A/c of Holding Co. as under: <b>Profit and Loss A/c (of Holding) Dr.</b> <b>To Stock A/c</b>	Such profit is to be eliminated from Profit & Loss A/c of Subsidiary Co. under the Revenue Profit Column of AOP. <b>Revenue Profit (AOP) Dr.</b> <b>To Stock A/c</b>
<b>Note:</b> Minority Interest will not be affected due to such elimination.	Such Elimination will affect Holding Co.'s and MI's Share of Profit.
<b>Note:</b> Above entries are based on Profit Elimination. In case of Loss elimination, Profit and Loss A/c shall be credited and Stock shall be debited.	

**(16) How to prepare consolidated Profit & Loss of group?**

- (a) Make line by line consolidation of every income & expenses of H & S  
(Line by line mean item wise)
- (b) In the year of Acquisition we shall take proportionate amount of Income other than Beginning

**EXAMPLE 33: (Consolidated Profit and Loss A/c)****Statement of profit & Loss year ending 31/3/24**

Particular	H Ltd.	S Ltd.
Revenue form Operation	50,00,000	30,00,000
Other income	4,50,000	2,00,000
	<b>54,50,000</b>	<b>32,00,000</b>
Cost of Material consume	18,00,000	9,00,000
Changes in Inventories	(3,00,000)	(1,80,000)
Employee Benefit Expenses	6,00,000	5,00,000
Finance cost	5,50,000	3,80,000
Other expenses	11,00,000	8,00,000
	<b>37,50,000</b>	<b>24,00,000</b>
Profits before Taxes	17,00,000	8,00,000
(-) Tax expenses	(5,00,000)	(2,00,000)
Profit After Taxes	12,00,000	6,00,000
Less: Dividend paid	(2,50,000)	(1,00,000)
Retained Earnings	9,50,000	5,00,000

- (1) Date of Acquisition is 1/7/23
- (2) Acquired 75% of equity
- (3) During the year: -
- (a) Goods Sold by H to S for Rs.4,00,000
- (b) Interest paid by S to H Rs. 50,000
- (4) Opening inventory on 1/7 of S is 5,00,000 & Closing Inventory as on 31/3 of S is 6,20,000

**SOLUTION:****Consolidated statement of Profit & Loss of group for the year ended 31/3/24**

Particular	H	S	Contra	Total
Revenue from Operation	5,00,000	22,50,000	(4,00,000)	68,50,000
Other Income	4,50,000	1,50,000	(50,000)	5,50,000
<b>Total (A)</b>	<b>54,50,000</b>	<b>24,00,000</b>	<b>(4,50,000)</b>	<b>74,00,000</b>
Cost of material consume	18,00,000	6,75,000	(4,00,000)	20,75,000
Changes in Inventory	(3,00,000)	(1,20,000)	-	(4,20,000)
Employment Benefit Expenses	6,00,000	3,75,000	-	9,75,000
Finance cost	5,50,000	28,500	(50,000)	78,500
Other Expenses	11,00,000	6,00,000	-	17,00,000
<b>Total (B)</b>	<b>37,50,000</b>	<b>18,15,000</b>	<b>(4,50,000)</b>	<b>51,15,000</b>
Profit Before tax (A.B)	17,00,000	5,85,000		22,85,000
(-) Tax expenses	5,00,000	1,50,000	-	(6,50,000)
Profit after Tax	12,00,000	4,35,000	-	16,35,000
(-) Dividend declared	(2,50,000)	(1,00,000)	75,000	(2,75,000)
Retained earnings	9,50,000	3,35,000	75,000	13,60,000
Retained earnings attributable to owners of Parent (B/F)				12,76,250
R/E attributable to M/I (3,35,000 X 25%)				83,750

**EXAMPLE 34: (Contingent Liabilities for Bills Discounted)****H**

Bills Payable	65,000	Bills receivable	50,000
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Contingent Liabilities: Bills Discovered 15,000

Bills Payable	30,000	Bills receivable	40,000
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Contingent Liabilities: Bills discovered 8,000

Bills Payable of H Includes 20,000 payable to S, Out of this 5,000/- of bills already discounted by S

**Consolidated B/s (Extract)**

Bills Receivable		75,000
H	50,000	
S	40,000	
(-) Contra	(15,000)	
Bills Payable		80,000
H	65,000	
S	30,000	
(-) Contra	(15,000)	
Contingent Liabilities		18,000
H	15,000	
S	8,000	
(-)	5,000	

**As Per AS 21**

Negative minority cannot be shown in consolidated Balance Sheet

Negative minority shall be written off from consolidated Profit &amp; Loss of group (Holding Company) excess i.e., share of loss of M/I beyond 0 balance of M/I shall be borne by holding company for the time being

When subsidiary earns profit in future the M/I share of profit to the extent of earlier loss shall be transfer to holding.

**EXAMPLE 35: (Negative Minority Interest)**

Minority Interest =30%

Date	Particular	Amount
1/4/24	Equity share capital	10,00,000
1/4/24	Reserves & Surplus	5,00,000
31/3/25	Reserves & Surplus	2,00,000
31/3/26	Reserves & Surplus	(3,00,000)

Calculate Minority Interest on as Date of Acquisition at every Balance Sheet Date

**SOLUTION:****(1) As on 1/4/24 Date of Acquisition**

Equity Share Capital	10,00,000
Reserves & Surplus	5,00,000
Minority Interest (15,00,000 x 30%)	4,50,000

**(2) Minority Interest as on 31/3/25**

Equity Share Capital	10,00,000
Reserves & Surplus	2,00,000
<b>12,00,000 x 3</b>	<b>3,60,000</b>

**OR**

Minority Interest as on DOA	4,50,000
-----------------------------	----------

(-) Share in RP	(90,000)
	<b>3,60,000</b>

**(3) Minority Interest on as 31/3/26**

Equity Share Capital	10,00,000
Reserves & Surplus	(3,00,000)
Net Asset	7,00,000 x 30%
<b>Minority Interest</b>	<b>21,00,000</b>

OR

Minority Interest as on 31/3/25	3,60,000
(-) Share of Loss for first year 25-26 (5,00,000 x 30%)	(1,50,000)
<b>Minority Interest</b>	<b>2,10,000</b>

**EXAMPLE 36:**

In continuation of Example 35, Balance Reserves & Surplus as on 31/3/27 = (12,00,000)

**SOLUTION**

Minority Interest (as on 31/3/27)	
Equity share capital	10,00,000
Reserves & Surplus	(12,00,000)
Net Asset	(2,00,000)
Minority Interest @ 30%	*(60,000)

OR

Minority Interest as on 31/3/26	3,60,000
(-) Share of Loss for first year 26-27 (9,00,000 x 30%)	(2,70,000)
<b>Minority Interest</b>	<b>*(60,000)</b>

\*Borne By Holding

Therefore, Minority Interest = NIL

**20) Other Important Adjustments:**

<b>Balances of Reserves and Surplus Missing</b>	For Balance of Profit & Loss A/c: Assume Zero Balance as on 1 <sup>st</sup> Day of the year. For Balance of Other Reserves: Assume the Same amount as at the end of the year.
<b>Dividend on Preference Shares</b>	<ol style="list-style-type: none"> <li>Add back in AOP, if entry is already passed (ignore if entry not passed)</li> <li>Apply Time Adjustment</li> <li>Deduct in AOP from Pre and/or Post according to the date of Investment.</li> <li>If this dividend is receivable by Parent then share of parent will be transfer to COC (Pre) or CPL (Post)</li> <li>MI's Share in dividend will be shown as Short Term Provisions separately.</li> </ol>
<b>Rectification of Errors</b>	If question specifies any error then such errors should be rectified before time adjustment.
<b>Contra Items</b>	Whenever Payable and Receivable are within group (i.e. H and S), then such payable/receivable should be eliminated. Payable A/c Dr. To Receivable A/c
	<b>Note:</b>

	<ol style="list-style-type: none"> <li>If payable is less than receivable then difference is called cheque in transit</li> <li>If payable is more than some Error will be given in the question. Such error will be rectified and then contra adjustment will be made.</li> </ol>
<b>Contingent Liabilities</b>	<p>The Portion which is discounted and shown as Contingent liability will not be shown in Consolidated BS</p> <p>Contra Adjustment will be made only for that portion which is not yet discounted and shown under Bills receivable and Bills payable</p>

**EXAMPLE 37**

As on 1/4/23	Reserves & Surplus is 5,20,000
On 1/6	Abnormal Gain is 9,000
On 1/8 (DOA)	Market Value of Fixed Asset – 25,00,000; Depreciation rate = 12%
On 1/10	Upstream Transaction at 25% on Cost; Unsold Goods = 1,25,000
On 1/3	Bonus @ 1:4
31/3/24	Reserves & Surplus is 9,30,000; Dividend declared is 12%

**Standalone Balance Sheet as on 31/3/24**

Particular	H Ltd.	S Ltd.
Equity Share Capital	12,00,000	10,00,000
Reserves & Surplus	10,00,000	9,30,000
Liabilities	19,00,000	11,70,000
	<b>41,00,000</b>	<b>31,00,000</b>
Fixed Asset	12,00,000	18,00,000
Investment @75%	15,00,000	-
Current Asset	14,00,000	13,00,000
	<b>41,00,000</b>	<b>31,00,000</b>

**Note:** Bonus entry is already Passed

**SOLUTION:****Working Note 1: Revaluation & its Depreciation**

(i)	Book Value as on 31/3/23	18,00,000
(j)	Book value as on 1/4/23 $18,00,000/88\%$	20,45,454
(k)	Book value as on 1/8/23	19,63,636
(l)	Market value as on 1/8/23	25,00,000
(m)	FV Gain (d-c)	5,36,364
(n)	Depreciation for Post Acquisition Period actually Charged by S (c-a)	1,63,636
(o)	Depreciation that should be Charged on Market Value	2,00,000
(p)	Additional Depreciation (g-f)	36,364

**Working Note 2: Calculation of Unrealised Profit on Unsold Goods with H**

Unsold goods with H (i.e., Sale by S) = 1,25,000

Subsidiary Margin (25% on Cost) = 1/5 on Sales

Profit =  $1,25,000/5 = 25,000$



**Working Note 3: Analysis of Profit of S:**

	CP	RP	Balance Sheet
Balance of Reserves & Surplus	5,20,000	4,10,000	9,30,000
(-) Abnormal Gain	-	(9,000)	
(+/-) Bonus	(2,00,000)	2,00,000	
<b>Balance</b>	<b>3,20,000</b>	<b>6,01,000</b>	
(+/-) Time adjustment for 4M	2,00,333	(6,01,000 x 4/12)	
	<b>5,20,333</b>	<b>4,00,667</b>	
(+) Abnormal Gain	9,000	-	
(-) Dividend (4M Pre & 8M Post)	(40,000)	(80,000)	
(+/-) Revaluation effect	5,36,364	(36,364)	
(-) Unrealised Profit (WN.2)	-	(25,000)	
	<b>10,25,697</b>	<b>2,59,303</b>	
H 75%	7,69,273	1,94,477	
MI 25%	2,56,424	64,826	

\* Dividend shall be calculated on ESC including Bonus is already declared before CY Dividend.  $10,00,000 \times 12\% = 1,20,000$

\*Dividend entry not yet passed

**Working Note 4: Cost of Control**

Investment	15,00,000
(-) Pre-Acquisition Dividend	30,000
(-) 75% ESC	(7,50,000)
(-) Capital Profit Share	(7,69,273)
<b>Capital Reserve</b>	<b>49,273</b>

**Working Note 5: Minority Interest**

Equity Share Capital	2,50,000
Share in Capital Profit	2,56,424
Share in Revenue Profit	64,826
	<b>5,71,250</b>

**Working Note 6: Consolidated Reserves & Surplus**

(a) Consolidated Free Reserves		12,54,477
Balance with H	10,00,000	
(+) Revenue Profit Share of H	1,94,477	
(+) Post Acquisition Share of Dividend	60,000	
(+) (b) Capital Reserve		49,273
<b>Consolidated Reserves &amp; Surplus</b>		<b>13,03,750</b>

**Consolidated Balance Sheet**

Equity Share Capital		12,00,000
Consolidated Reserves & Surplus		13,03,750
Minority Interest		5,71,250
Liability		31,00,000
H	19,00,000	
S	11,70,000	

+ Dividend Payable to MI	30,000	
		<b>61,75,000</b>
Fixed Asset		35,00,000
H	12,00,000	
S	18,00,000	
+ FV	5,36,364	
(-) Depreciation	(36,364)	
Current Assets		26,75,000
H	14,00,000	
S	13,00,000	
(-) Unrealised Profit	(25,000)	
		<b>61,75,000</b>