CA INTERMEDIATE

ADVANCED ACCOUNTING

- ICAI Study Material Questions Covered
- RTP/MTP Questions Covered
- Previous Year Questions Covered

CA Nitin Goel

PREFACE

A highly skilled professional team of CA Wallah works arduously to ensure that the students receive the best content for their CA-Intermediate exams.

A plethora of CA Study Material is available in the market but CA Wallah professionals at PW are continuously working to provide supreme quality study material for the CA-Intermediate students.

From the beginning, the content team comprising Subject Matter Experts, Content Creators, Reviewers, DTP operators, Proofreaders, and others is involved in shaping the material to their best knowledge and experience to produce powerful content for the students.

CA Wallah Faculties have adopted a novel style of presenting the content in easy-to-understand language and have provided the content team with expert guidance and supervision throughout the creation and curation of this book.

PW's CA Wallah strongly believes in conceptual and fun-based learning. CA Wallah provides highly examoriented content to bring quality and clarity to the students.

This book adopts a multi-faceted approach to mastering and understanding the concepts by having a rich diversity of questions asked in the CA-Intermediate examination and equipping the students with the knowledge for this highly competitive exam.

The main objective of this book is to provide an edge to your preparation with short & crisp yet high-quality content.

BOOK FEATURES

This book, especially designed & amended for CA-Intermediate aspirants, contains:

- Syllabus coverage strictly as per ICAI study Material
- All ICAI Study Material Questions
- Latest RTP & MTP Questions
- Detailed Theory with Exam prototype and Concept Applications Questions
- Short Notes and Solve Miscellaneous Examples
- Topic wise, Learning Plus and Advanced Level Questions covered in the Book
- Past Year Exam Questions Covered

ABOUT THE AUTHOR

CA Nitin Sir is a highly accomplished individual who has attained significant achievements in the field of chartered accountancy. He has been awarded the prestigious Chartered Accountant designation with All India Ranks (AIR) at all three levels of the CA Exams, including an AIR of 9th in CPT, AIR of 7th in Intermediate, and AIR of 9th in CA Final. In addition, he is a Gold Medalist from Panjab University in Chandigarh, having been the University Topper for all three years of his B.Com degree.

Nitin Sir's academic pursuits also include a Diploma in IFRS from the ACCA Institute of Britain. His practical experience in the field comes from his tenure at ITC Ltd. where he worked for three years, providing him with a practical perspective that he shares with his students.

As an educator, Nitin Sir has made a significant impact on the field of Chartered Accountancy, having taught over 1,00,000 students in the last nine years. His teaching methodology focuses on building strong conceptual foundations, and he has developed a comprehensive question bank and handwritten summary charts that are popular among CA students. His commitment to his students' success is evident in their consistently high scores, with many of them scoring 90+ marks in his subjects.

One of Nitin Sir's unique contributions to the field of education is his marathon revisionary videos for CA Foundation and CA Inter, which have a cumulative viewership of over 15 lakhs on social media platforms. These videos offer a comprehensive overview of the material, ensuring that students have a thorough understanding of the concepts before sitting for their exams.

Overall, Nitin Sir's achievements and contributions to the field of chartered accountancy are impressive. His academic and practical experience, coupled with his dedication to his students' success, have made him a highly respected and sought-after educator in the field.

Dear Student

Welcome to my course and I will ensure that me & my team justify the faith you have placed in us.

Advanced Accounting just like any other subject is very important from exam point of view but its importance increases being the 1st paper of the group and practical subject where in you can score wonderful marks.

Each Chapter is divided into two parts i.e. Assignment Questions & Practice Questions. All the assignment questions have been done in the class and practice questions you are supposed to do at home.

My module covers all the questions from ICAI module, RTP/MTPs and Past year exams so that you get everything at one place.

The key mantra to pass the exam is mastering PTC- Presentation-Time-Concept. So while studying make sure that your concepts are thoroughly revised so that it can be well presented in exam in the 3 hour time frame.

Best Wishes!

CA. Nitin Goel

PAPER 1: ADVANCED ACCOUNTING (100 MARKS)

Objective

To acquire the ability to apply specific accounting standards and legislations to different transactions and events and in preparation and presentation of financial statements of various business entities.

Contents

1) Process of formulation of Accounting Standards including Indian Accounting Standards (IFRS converged standards) and IFRSs; Convergence vs Adoption; Objective and Concepts of carve outs.

2) Framework for Preparation and Presentation of Financial Statements (as per Accounting Standards).

3) i. Applicability of Accounting Standards to various entities.
   ii. Application of Accounting Standards:

AS 1 Disclosure of Accounting Policies
AS 2 Valuation of Inventories
AS 3 Cash Flow Statements
AS 4 Contingencies and Events Occurring After the Balance Sheet Date
AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 7 Construction Contracts
AS 9 Revenue Recognition
AS 10 Property, Plant and Equipment
AS 11 The Effects of Changes in Foreign Exchange Rates
AS 12 Accounting for Government Grants
AS 13 Accounting for Investments
AS 14 Accounting for Amalgamations (excluding inter-companyholdings)
AS 15 Employee Benefits
AS 16 Borrowing Costs
AS 17 Segment Reporting
AS 18 Related Party Disclosures
AS 19 Leases
AS 20 Earnings Per Share
AS 21 Consolidated Financial Statements of single subsidiaries (excluding problems involving acquisition of Interest in Subsidiary at Different Dates, Cross holding, Disposal of a Subsidiary and Foreign Subsidiaries)
AS 22 Accounting for Taxes on Income
AS 23 Accounting for Investment in Associates in Consolidated Financial Statements
AS 24 Discontinuing Operations
AS 25 Interim Financial Reporting
AS 26 Intangible Assets
AS 27 Financial Reporting of Interests in Joint Ventures
AS 28 Impairment of Assets
AS 29 Provisions, Contingent Liabilities and Contingent Asset

4) Company Accounts
    a. Schedule III to the Companies Act, 2013 (Division I)
    b. Preparation of financial statements – Statement of Profit and Loss, Balance Sheet and Cash Flow Statement
    c. Buy back of securities
    d. Accounting for reconstruction of companies

5) Accounting for Branches including foreign branches

ADVANCED ACCOUNTING: ICAI MODULE BIFURCATION & WEIGHTAGE			
Chapter No.	**Weightage**	**Chapter Name**	
1	55% - 65%	**Introduction to Accounting Standards**	
2		**Framework for Preparation & Presentation of Financial Statements**	
3		**Applicability of Accounting Standards**	
4		**Presentation and Disclosure Based Accounting Standards**	
		Unit 1	AS 1 Disclosure of Accounting Policies
		Unit 2	AS 3 Cash Flow Statement
		Unit 3	AS 17 Segment Reporting
		Unit 4	AS 18 Related Party Disclosures
		Unit 5	AS 20 Earnings per Share
		Unit 6	AS 24 Discontinuing Operations
		Unit 7	AS 25 Interim Financial Reporting
5		**Assets Based Accounting Standards**	
		Unit 1	AS 2 Valuation of Inventory
		Unit 2	AS 10 Property, Plant & Equipment
		Unit 3	AS 13 Accounting for Investments
		Unit 4	AS 16 Borrowing Costs
		Unit 5	AS 19 Leases
		Unit 6	AS 26 Intangible Assets
		Unit 7	AS 28 Impairment of Assets
6		**Liabilities Based Accounting Standards**	
		Unit 1	AS 15 Employee Benefits
		Unit 2	AS 29 Provisions, Contingent Liabilities and Contingent Assets
7		**Accounting Standards Based on Items Impacting Financial Statement**	
		Unit 1	AS 4 Contingencies & Events Occurring After Balance Sheet Date
		Unit 2	AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
		Unit 3	AS 11 The Effects of Changes in Foreign Exchange Rates
		Unit 4	AS 22 Accounting for Taxes on Income
8		**Revenue Based Accounting Standards**	
		Unit 1	AS 7 Construction Contracts
		Unit 2	AS 9 Revenue Recognition
9		**Other Accounting Standards**	
		Unit 1	AS 12 Accounting for Government Grants
		Unit 2	AS 14 Accounting for Amalgamations
10		**Accounting Standards for Consolidated Financial Statements**	
		Unit 1	AS 21 Consolidated Financial Statements
		Unit 2	AS 23 Accounting for Investment in Associates in CFS
		Unit 3	AS 27 Financial Reporting of Interests in Joint Ventures
11	30% - 35%	**Financial Statement of Companies**	
		Unit 1	Financial Statements of Companies
		Unit 2	Cash Flow Statements
12		**Buyback of Securities**	
13		**Amalgamation of Companies**	
14		**Internal Reconstruction**	
15	5% - 10%	**Accounting for Branches including Foreign Branches**	

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WEIGHTAGE IN PAST YEAR EXAMS

	MAY 18	NOV 18	MAY 19	NOV 19	NOV 20	JAN 21	JULY 21	DEC 21	MAY 22	NOV 22	MAY 23	NOV 23
Basics	–	5	–	–	–	5	–	–	–	5	–	5
AS-1	–	5	–	–	–	–	–	5	5	–	5	5
AS-2	–	–	5+1	5	–	5	5	–	5	5	–	5
AS-4	–	5	5+1	–	–	–	5	5	–	5	–	–
AS-5	5	–	1	–	–	5	–	–	5	5	–	5
AS-7	5	–	5	–	5	–	5	–	5	–	5	–
AS-9	–	–	5	5	–	–	–	5	–	5	5	–
AS-10	–	5	–	–	5	–	5	–	5	–	5	–
AS-11	5	5+5	–	5	–	5	–	5	–	5	5	5
AS-12	5	–	1	–	5	5	5	–	5	–	5	5
AS-16	–	–	5	–	5	–	–	–	5	–	5	5
AS-17	5	–	–	5	5	5	–	–	5	–	5	5
AS-18	–	5	5	–	–	–	5	–	–	–	5	–
AS-19	5	–	5	5	–	5	–	5	5	–	–	–
AS-20	5	5	–	5	–	–	–	5	5	5	–	5
AS-22	5	–	5	5	5	5	5	–	–	5	–	5
AS-24	–	5	–	–	–	–	5	–	–	–	–	5
AS-26	5	–	–	5	5+5	5	–	5	–	–	–	5
AS-29	–	–	–	5	5	–	5	–	5	5	–	–

WEIGHTAGE IN PAST YEAR EXAMS

	MAY 18	NOV 18	MAY 19	NOV 19	NOV 20	JAN 21	JULY 21	DEC 21	MAY 22	NOV 22	MAY 23	NOV 23
Financial Statement of Companies	-	-	-	10	-	-	20	-	-	20	10	20
Cash Flow Statement (incl. AS 3)	5	-	10	5	10	12	5	5	5	5	10	-
Buy Back of Securities	10	-	10	15	-	5	15	10	10	5	10+5	5
Internal Reconstruction	-	10	-	15	-	-	5	-	-	20	5	20
Amalgamation (Incl. AS 14)	20	5	10+5	-	15	20+5	10	15+5	20	5	20	5
Branch Accounting	10	-	8	-	10	5	10	10	10	10	5	10
AS 13: Accounting for Investments	10	10	5+1	10	10+5	10+5	20	10+5	5	10+5	10	10
AS 21: Consolidation	20	10	10	10+5	15	20	15+5	15	15	15	15+15	15
Framework for Preparation & Presentation of Financial Statements	5	5	5	-	5+5	5	5	5+5	-	5	5	-

FINANCIAL STATEMENTS OF COMPANIES

CH 1

"Stop being afraid of what could go wrong and focus on what could go right"

MAINTENANCE OF BOOKS OF ACCOUNTS (Sec 128 of Companies Act, 2013)

Every company shall prepare and keep at its *registered office* books of account and other relevant books and papers and financial statement for every financial year which give a *true and fair view* of the state of the affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books shall be kept on *accrual basis* and according to the *double entry system* of accounting.
Provided further that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

PREPARATION OF FINANCIAL STATEMENTS

Under Section 129 of the Companies Act, 2013, the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies, as prescribed in Schedule III.
(As per section 133 of the Companies Act, it is mandatory to comply with accounting standards notified by the Central Government from time to time)

The Board of Directors of the company shall lay *financial statements* at every annual general meeting of a company which include:

a) Balance Sheet as at the end of the period, and
b) Profit and Loss Account for that period.
   [Note: For a Company not carrying on business for profit, an Income and Expenditure Account shall be laid at that AGM, instead of the P & L Account.]
c) Cash flow statement for the financial year
d) Statement of changes in equity, if applicable; and
e) Any explanatory note annexed to, or forming part of, any document referred above

Provided that the financial statement, with respect to One Person Company, small company, dormant company and private company (if it's a start up), may not include the cash flow statement.

Requisites of Financial Statements It shall give a true and fair view of the state of affairs of the company as at the end of the financial year.

Provisions Applicable
(1) Specific Act is Applicable
For instance any
a) Insurance company
b) Banking company or
c) Any company engaged in generation or supply of electricity or
d) Any other class of company for which a Form of balance sheet or Profit and loss account has been prescribed under the Act governing such class of company

(2) In case of all other companies
Balance Sheet as per Form set out in Part I of Schedule III and Statement of Profit and Loss as per Part II of Schedule III

Division	Applicable to
Division I	Companies that are required to apply Accounting Standards notified under Section 133 of the Companies Act, 2013.
Division II	Companies that are required to apply Indian Accounting Standards notified under Section 133 of the Companies Act, 2013.
Division III	Non-Banking Finance Companies (NBFCs) that are required to apply Indian Accounting Standards notified under Section 133 of the Companies Act, 2013.

Points to be kept in mind while preparing final accounts:

- Requirements of Schedule III to the Companies Act;
- Other statutory requirements;
- Accounting Standards notified by Ministry of Corporate Affairs (MCA) (AS 1 to AS 29);
- Statements and Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI); which are necessary for understanding the accounting treatment/ valuation/ disclosure suggested by the ICAI.

Depending upon the Total Income of the company, the figures appearing in the Financial Statements shall be rounded off as given below:

Total Income	Rounding Off
(a) Less than 100 crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
(b) 100 crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.

DIVIDEND (Sec 123 of Companies Act, 2013)

Dividend	Dividend to be declared / paid out of a) Profits of the company for that year or previous years but after providing depreciation as per Schedule II or b) Money provided by Central Govt. or State Govt. in pursuance of guarantee given by Govt.
General Provisions	➢ Dividend cannot be declared except out of profits. ➢ Dividend to be declared/paid out of free reserves. ➢ Capital cannot be returned to the shareholders by way of dividend. ➢ Dividend is paid to Shareholders; Preference shareholders being paid first. ➢ It is generally calculated on paid up capital i.e., Called up Capital <u>Less</u> Calls in Arrears ➢ No dividend on Calls in Advance ➢ Company cannot declare dividend unless previous year losses & depreciation not provided are set off against profits of current year.
Interim Dividend	The Board of Directors of a company may declare interim dividend during any financial year or at any time during the period from closure of financial year till holding of the AGM out of the surplus in the profit and loss account or out of profits of the financial year for which such interim dividend is sought to be declared or out of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend: Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.
Declaration of Dividend out of Reserves	<u>Withdrawal from Reserves : Conditions</u> 1) Dividend Rate cannot exceed average of previous 3 years 2) Maximum Amount that can be withdrawn from reserves $\leq$ 10% of (Paid up capital + Free Reserves) 3) Minimum Amount left in reserves after withdrawal $\geq$ 15% of (Paid up capital) The amount so drawn shall first be utilised to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.

Schedule III of the Companies Act, 2013

PART I – BALANCE SHEET

Name of the Company……………………
Balance Sheet as at ………………………

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
A.	EQUITY AND LIABILITIES			
1.	Shareholder's funds			
a	Share capital			
b	Reserves and surplus			
c	Money received against share warrants			
2.	Share application money pending allotment			
3.	Non-Current Liabilities			
a	Long-term borrowings			
b	Deferred tax liabilities (Net)			
c	Other long term liabilities			
d	Long-term provisions			
4.	Current Liabilities			
a	Short-term borrowings			
b	Trade payables			
c	Other current liabilities			
d	Short-term provisions			
	TOTAL			
B.	ASSETS			
1.	Non-Current Assets			
a	Property, Plant & Equipment & Intangible Assets			
i.	Property, Plant & Equipment			
ii.	Intangible assets			
iii.	Capital work-in-Progress			
iv.	Intangible assets under development			
b	Non-current investments			
c	Deferred tax assets (net)			
d	Long-term loans and advances			
e	Other non-current assets			
2.	Current Assets			
a	Current investments			
b	Inventories			
c	Trade receivables			
d	Cash and cash equivalents			
e	Short-term loans and advances			
f	Other current assets			
	TOTAL			

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

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

All other assets shall be classified as non-current.

2. An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

3. A liability shall be classified as current when it satisfies any of the following criteria:
   a) it is expected to be settled in the company's normal operating cycle;
   b) it is held primarily for the purpose of being traded;
   c) it is due to be settled within twelve months after the reporting date; or
   a) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

4. A receivable shall be classified as a 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.
5. A payable shall be classified as a 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

Important Disclosures in Notes to Accounts

1) Share Capital: For each class of share capital (different classes of preference shares to be treated separately):
   a) the number and amount of shares authorised;
   b) the number of shares issued, subscribed & fully paid, and subscribed but not fully paid;
   c) par value per share;
   d) a reconciliation of the number of shares o/s at the beginning & at the end of the period;
   e) for the period of 5 years immediately preceding the date as at which the Balance Sheet is prepared:
      - Aggregate number & class of shares allotted as fully paid-up pursuant to contract(s) without payment being received in cash.
      - Aggregate number & class of shares allotted as fully paidup by way of bonus shares
      - Aggregate number and class of shares bought back.
   f) List of Shareholders holding more than 5% shares
   g) Shareholding of Promoter's

Shares held by Promoter at the end of the year				% change during the year
S.No.	Promoter Name	No. of Shares	% of total Shares	
Total				

2) Reserves and Surplus: Debit balance of statement of profit and loss shall be shown as negative figure under the head "Surplus". Similarly, balance of "Reserves & Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.

3) Current maturities of Long term borrowings shall be disclosed separately under Short term borrowings & not under Other Current Liabilities

4) Trade Payables ageing Schedule:

Particulars	O/s for following periods from due date of payment				
	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
MSME					
Others					
Disputed dues-MSME					
Disputed dues-Others					

5) PPE & Intangible Assets: A reconciliation of the gross & net carrying amounts of each class of assets at beginning & end of reporting period showing additions, disposals, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of PPE/ Intangible Assets) & other adjustments & related depreciation & impairment losses/reversals shall be disclosed separately.]

6) Trade Receivables ageing Schedule:

Particulars	O/s for following periods from due date of payment					
	Less than 6 months	6 months – 1 year	1-2 years	2-3 years	More than 3 years	Total
Undisputed -considered good						
Undisputed -considered doubtful						
Disputed - considered good						
Disputed - considered doubtful						

7) Additional Disclosures
   (1) Title deeds of Immovable Property not held in name of the Company.
   (2) Capital WIP/ Intangible Assets under development Ageing schedule.
   (3) Following ratios to be disclosed: (Change >25% as compared to previous year to be explained)
   (a) Current Ratio, (b) Debt-Equity Ratio, (c) Debt Service Coverage Ratio, (d) Return on Equity Ratio, (e) Inventory turnover ratio, (f) Trade Receivables turnover ratio, (g) Trade payables turnover ratio, (h) Net capital T/o ratio, (i) Net profit ratio, (j) Return on Capital employed, (k) Return on investment

CONTINGENT LIABILITIES and COMMITMENTS (to the extent not provided for)

a. Claims against the company not acknowledged as debt
b. Guarantees
c. Arrears of fixed cumulative dividends on preference shares
d. Estimated amount of contracts remaining to be executed on capital account & not provided
e. Uncalled liability on shares and other investments partly paid
f. Bills discounted not yet matured
g. Other money for which the company is contingently liable & other commitments.

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company…………………….

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

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
I.	Revenue from operations			
II.	Other income			
III.	Total Income (I + II)			
IV.	Expenses:			
	Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, work-in-progress and Stock-in-Trade			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total Expenses			
V.	Profit before exceptional and extraordinary items and tax (III-IV)			
VI.	Exceptional items			
VII.	Profit before extraordinary items & tax (V - VI)			
VIII.	Extraordinary Items			
IX.	Profit before tax (VII- VIII)			
X	Tax expense:			
	(1) Current tax			
	(2) Deferred tax			
XI.	Profit (Loss) for the period from continuing operations (VII-VIII)			
XII.	Profit/(loss) from discontinuing operations			
XIII.	Tax expense of discontinuing operations			
XIV.	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)			
XV	Profit (Loss) for the period (XI + XIV)			
XVI.	Earnings per equity share:			
	(1) Basic			
	(2) Diluted			

Additional Information:

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

(a) Employee Benefits Expense [showing separately

- (i) salaries and wages,
- (ii) contribution to provident and other funds,
- (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP),
- (iv) staff welfare expenses].

(b) Depreciation and amortization expense;
(c) Any item of income or expenditure which exceeds 1% of the revenue from operations or ₹ 1,00,000, whichever is higher;
(d) Interest Income;
(e) Interest Expense;
(f) Dividend Income;
(g) Net gain/ loss on sale of investments;
(h) Adjustments to the carrying amount of investments;
(i) Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);
(j) Payments to the auditor as
a. auditor,
b. for taxation matters,
c. for company law matters,
d. for management services,
e. for other services,
f. for reimbursement of expenses;
(k) In case of companies covered u/s 135, amount of expenditure incurred on corporate social responsibility activities.
(l) Details of items of exceptional and extraordinary nature;
(m) Prior period items

Other Disclosures:

1) Corporate Social Responsibility (CSR):
Where the company covered under section 135 of the companies act, the following shall be disclosed with regard to CSR activities.
(a) amount required to be spent by the company during the year,
(b) amount of expenditure incurred,
(c) shortfall at the end of the year,
(d) total of previous years shortfall,
(e) reason for shortfall,
(f) nature of CSR activities,
(g) details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,
(h) where provision is made with respect to liability incurred by entering into a contractual obligation, movements in provision during year should be shown separately

2) Details of Crypto Currency or Virtual Currency
Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:
a) profit or loss on transactions involving Crypto currency or Virtual Currency.
b) amount of currency held as at the reporting date,
c) deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency.

3) Details as wilful defaulter (where company declared wilful defaulter by bank or financial institution , details to be given like: date, amount & nature of defaults)

4) Relationship with struck off companies

QUESTIONS: SCHEDULE III OF COMPANIES ACT, 2013

Question 1

H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset. Comment on the accuracy of the decision and the treatment of the asset by H Ltd., as per the Schedule III.

Solution

As per Schedule III to the Companies Act, 2013, one of the criteria for classification of an asset as a current asset is that the asset is expected to be realised in the company's' operating cycle or is intended for sale or consumption in the company's normal operating cycle. Further, Schedule III to the Companies Act, 2013 defines that an operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. However, when the normal operating cycle cannot be identified, it is assumed to have duration of 12 months. As per the facts given in the question, the process of manufacturing of lotus wine takes around 18 months; therefore, its realisation into cash and cash equivalents will be done only when it is ready for sale i.e. after 18 months. This means that normal operating cycle of the product is 18 months. Therefore, contention of company's management that the operating cycle of the product lotus wine is 18 months and not 12 months is correct.

Question 2

C Ltd. is a group engaged in manufacture and sale of industrial and FMCG products. One of their division also deals in Leasing of properties - Mobile Towers. The accountant showed the rent arising from the leasing of such properties as other income in the Statement of Profit and Loss. Comment whether the classification of the rent income made by the accountant is correct or not in the light of Schedule III to the Companies Act, 2013.

Solution

As per the "General Instructions for preparation of Statement of Profit and Loss" given in Schedule III to the Companies Act, 2013, "Other Income" does not include operating income. The term "Revenue from operations" has not been defined under Schedule III to the Companies Act, 2013. However, as per the Guidance Note on Schedule III to the Companies Act, 2013 this would include revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue-generating activities. Whether a particular income constitutes "Revenue from operations" or "Other income" is to be decided based on the facts of each case and detailed understanding of the company's activities. The classification of income would also depend on the purpose for which the particular asset is acquired or held.

As per the information given in the question, C Ltd. is a group engaged in manufacture and sale of industrial and FMCG products and its one of the division deals in leasing of properties - Mobile Towers. Since its one division is continuously engaged in leasing of properties, it shall be considered as its principal or ancillary revenue-generating activities. Therefore, the rent arising from such leasing shall be shown under the head "Revenue from operations" and not as "other income". Hence, the presentation of rent arising from the leasing of such properties as "other income" in the Statement of Profit and Loss is not correct. It should be shown under head "Revenue from operations".

Question 3

In the financial statements of the financial year 2022-2023, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ₹ 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Schedule III to the Companies Act? Comment.

<u>Solution</u>

As per Part I of the Schedule III, a company should, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 2023 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Schedule III does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Schedule III to the Companies Act.

Question 4

The management of Loyal Ltd. contends that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in process would be more or less the same. Accordingly, the management had not separately disclosed work in process in its financial statements. Comment in line with Schedule III

<u>Solution</u>

Schedule III to the companies Act does not require that the amounts of WIP at the beginning and at the end of the accounting period to be disclosed in the statement of profit and loss. Only changes in inventories of WIP need to be disclosed in the statement of profit and loss. Non-disclosure of such change in the statement of profit and loss by the company may not amount to violation of Schedule III if the differences between opening and closing WIP are not material.

Question 5

Prince Ltd. presents its provisions for contingencies under "Reserves and Surplus" in Notes to Accounts in its financial statements. Whether this presentation is correct?

<u>Solution</u>

The ICAI's Glossary of Terms Used in Financial Statements defines the term 'Reserve' as "the portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability." 'Reserves' should be distinguished from 'provisions'. For this purpose, reference may be made to the definition of the expression `provision' in AS-29 Provisions, Contingent Liabilities and Contingent Assets. As per AS-29, a `provision' is "a liability which can be measured only by using a substantial degree of estimation". A 'liability' is "a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits." Present obligation' – "an obligation is a present obligation if, based on the evidence available, its existence at the Balance Sheet date is considered probable, i.e., more likely than not."

Question 6

Anek Ltd. is a company that is required to present its financial statements as per the Division I of Schedule III. The company has trade receivables at the balance sheet date. What are the disclosures that are applicable with respect to trade receivables in the financial statements?

Solution

Trade Receivables, shall be sub-classified as:

(i) (a) Secured, considered good; (b) Unsecured considered good; (c) Doubtful

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

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

For trade receivables outstanding, following ageing schedule shall be given:

Particulars	O/s for following periods from due date of payment					
	Less than 6 months	6 months – 1 year	1-2 years	2-3 years	More than 3 years	Total
Undisputed -considered good						
Undisputed -considered doubtful						
Disputed - considered good						
Disputed - considered doubtful						

ASSIGNMENT QUESTIONS

TOPIC 1: DIVIDEND

Question 1 *(ICAI Study Material)* *Pg no._____*

Due to inadequacy of profits during year ended 31st March, 2022, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From following particulars, ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

	₹
17,500 9% Preference shares of ₹ 100 each, fully paid up	17,50,000
8,00,000 Equity shares of ₹ 10 each, fully paid up	80,00,000
General Reserves as on 1.4.2021	25,00,000
Capital Reserves as on 1.4.2021	3,00,000
Revaluation Reserves as on 1.4.2021	3,50,000
Net profit for the year ended 31st March, 2022	3,00,000

Average rate of dividend during the last 3 years has been 12%.

Question 2 *Pg no._____*

From the following particulars, ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

5,000 8% Preference shares of ₹ 100 each	5,00,000
2,00,000 Equity shares of ₹ 10 each, fully paid up	20,00,000
General Reserves	6,00,000
Capital Reserve on revaluation	1,00,000
Security Premium	1,00,000
P&L Account (Opening Balance)	18,000
Profit for current year	1,02,000

Average dividend in previous 3 years - 15%. Company proposes to declare dividend @12%

TOPIC 2: FINANCIAL STATEMENTS

Question 3 *Pg no._____*

Sumedha Ltd. took a loan from bank for ₹ 10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First instalment is due on 30.09.2021 of ₹ 1,00,000. How loan will be classified in Financial Statements of Sumedha Ltd. for year ended 31st March, 2021.

Question 4 *Pg no._____*

Futura Ltd. had following items under "Reserves & Surplus" in Balance Sheet as on 31.03.22

	₹ (In Lakhs)
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of ₹ 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

Question 5 *Pg no._____*

Prepare extract of Balance Sheet of A Limited along with notes making necessary compliance of Schedule III to the Companies Act, 2013

		Amount (₹)
Loan Funds		
(a) Secured Loans		18,12,000
(b) Unsecured Loan - Short term from bank		2,25,000
Other information is as under:		
Secured Loans		
Term Loans from:		
Banks		8,95,000
Others		9,17,000
		18,12,000
Current Maturities of long-term loan from Bank		1,24,000
Current Maturities of long-term loan from Others		85,000

There was no interest accrued / due as at the end of the year. Current maturities of long-term loans amounting ₹ 2,09,000 is included in the value of secured loans of ₹ 18,12,000.

Question 6 Pg no._____

The Articles of Association of S Ltd. provide the following:

(i) That 20% of the net profit of each year shall be transferred to reserve fund.

(ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.

(iii) That the balance available for distribution shall be applied:

a. in paying 14% on cumulative preference shares.

b. in paying 20% dividend on equity shares.

c. one-third of the balance available as additional dividend on preference shares and two-third as additional equity dividend.

A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 12% on preference shares after making provisions (i), (ii) and (iii) mentioned above. The company has issued 13,000, 14% cumulative participating preference shares of ₹ 100 each fully paid and 70,000 equity shares of ₹ 10 each fully paid up. The profit for the year 2021 was ₹ 10,00,000 and balance brought from previous year ₹ 80,000. Provide ₹ 31,200 for depreciation and ₹ 80,000 for taxation before making other appropriations. Show net balance of profit and loss account after making above adjustments.

Question 7 *(RTP May 2018) / (RTP May 2021) (Similar)* Pg no._____

Kapil Ltd. has authorized capital of ₹50 lakhs divided into 5,00,000 equity shares of ₹10 each. Their books show the following balances as on 31st March, 2022:

	₹		₹
Inventory 1.4.2021	6,65,000	Bank Current Account	20,000
Discounts & Rebates	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Debenture interest (for the period of 6 months ended 30.9.2021	10,000
Patterns	3,75,000	Interest (Bank Loan)	91,000
Rate, Taxes and Insurance	55,000	Calls in Arrear @ ₹ 2 per share	10,000
Furniture & Fixtures	1,50,000	Equity share capital (2,00,000 shares of ₹ 10 each)	20,00,000
Purchases	12,32,500	4% Debentures (repayable after 10 years)	5,00,000
Wages	13,68,000	Bank Overdraft	7,57,000
Freehold Land	16,25,000	Trade Payables (for goods)	2,40,500
Plant & Machinery	7,50,000	Sales	36,17,000

Engineering Tools	1,50,000	Rent (Cr.)	30,000
Trade Receivables	4,00,500	Transfer fees received	6,500
Advertisement	15,000	Profit & Loss A/c (Cr.)	67,000
Commission & Brokerage	67,500	Repairs to Building	56,500
Business Expenses	56,000	Bad debts	25,500

The inventory (valued at cost or market value, which is lower) as on 31st March, 2022 was ₹ 7,08,000. 4% Debentures amounting ₹ 5,00,000 were issued on 1.04.2021. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 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 ₹16,000 as bad debts.
Create debenture redemption reserve @ 10% of Debentures. Provide for income tax @ 30%.
You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2022 and Balance Sheet as on that date

Question 8 — *(RTP May 2022) / (ICAI Study Material)* — *Pg no.*_____

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

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share cap. (shares of 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (bal. on 1.4.20)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-21)	96	Sales	1200
Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		2455

Additional Information:

a) The authorized share capital of the company is 80,000 shares of ₹ 10 each.
b) The company revalued the land at ₹ 9,60,000.
c) Equity share capital includes shares of ₹ 50,000 issued for consideration other than cash.
d) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2020. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.
e) Depreciation is to be provided on plant and machinery at 10% on cost.
f) Balance at bank includes ₹ 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.
g) Make provision for income tax @30%.
h) Trade receivables of ₹ 50,000 are due for more than six months.
i) Declared dividend @10% on 03.04.2021.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.2021 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2021 as per Schedule Ill. Ignore previous year's figures.

Question 9 *(RTP Nov 2020) (Similar) / (ICAI Study Material)* *Pg no._____*

On 31st March, 2022 Bose and Sen Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2022:

Credit Balances	₹
Equity shares capital, fully paid shares of ₹ 10 each	70,00,000
General Reserve	15,49,100
Loan from State Finance Corporation	10,50,000
Secured by hypothecation of Plant & Machinery (Repayable within one year ₹ 2,00,000)	
Loans: Unsecured (Long term)	8,47,000
Sundry Creditors for goods & expenses (Payable within 6 months)	14,00,000
Profit & Loss Account	7,00,000
Provision for Taxation	4,16,900
Dividend Payable	4,00,000
	1,33,63,000

Debit Balances	₹
Calls in arrear	7,000
Land	14,00,000
Buildings	20,50,000
Plant and Machinery	36,75,000
Furniture & Fixture	3,50,000
Stocks : Finished goods : Raw Materials	14,00,000 3,50,000
Trade Receivables	14,00,000
Advances: Short-term	2,98,900
Cash in hand	2,10,000
Balances with banks	17,29,000
Preliminary Expenses	93,100
Patents & Trade marks	4,00,000
	1,33,63,000

The following additional information is also provided :

(i) 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii)

a. Cost of Building ₹ 28,00,000
b. Cost of Plant & Machinery ₹ 49,00,000
c. Cost of Furniture & Fixture ₹ 4,37,500

(iii) Trade Receivables for ₹ 3,80,000 are due for more than 6 months.

(iv) The amount of Balances with Bank includes ₹ 18,000 with a bank which is not a scheduled Bank and the deposits of ₹ 5 lakhs are for a period of 9 months.

(v) Unsecured loan includes ₹ 2,00,000 from a Bank and ₹ 1,00,000 from related parties.

(vi) Entire amount of Preliminary expenses to be written off, by adjusting from opening balance of General Reserve.

You are required to prepare the Balance Sheet of the Company as on 31st March, 2022 as required under Schedule III of the Companies Act, 2013.

Question 10 *(ICAI Study Material)* *Pg no._____*

You are required to prepare a Statement of Profit & Loss and Balance Sheet from the following Trial Balance extracted from the books of the International Hotels Ltd., on 31st March, 2022:

	Dr. (₹)	Cr. (₹)
Authorised Capital-divided into 5,000 6% Preference Shares of ₹ 100 each and 10,000 equity Shares of ₹ 100 each		15,00,000
Subscribed Capital – 5,000 6% Preference Shares of ₹ 100 each Equity Capital		 5,00,000 8,05,000
Purchases - Wines, Cigarettes, Cigars, etc. - Foodstuffs	45,800 36,200	
Wages and Salaries	28,300	
Rent, Rates and Taxes	8,900	
Laundry	750	
Sales - Wines, Cigarettes, Cigars, etc. -Food		68,400 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	
Stock on hand, 1st April, 2021 Wines, Cigarettes. Cigars, etc Foodstuffs	 12,800 5,260	
Cash in hand	2,200	
Cash with Bankers	76,380	
Preliminary and formation expenses	8,000	
2,000 Debentures of ₹ 100 each (6%)		2,00,000
Profit and Loss Account		41,500
Sundry Creditors		42,000
Sundry Debtors	19,260	
Investments	2,72,300	
Goodwill at cost	5,00,000	
General Reserve		2,00,000
	19,75,000	19,75,000

a) Wages and Salaries outstanding 1,280

b) Stock on 31st March, 2022:-

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

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

The Equity capital on 1st April, 2021 stood at ₹ 7,20,000, that is 6,000 shares fully paid and 2,000 shares ₹ 60 paid. The directors made a call of ₹ 40 per share on 1st October 2021. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹ 90 per share as fully paid.

The directors declared dividend of 8% on equity shares on 02.04.2022, transferring any amount that may be required from General Reserve. Ignore Taxation.

Question 11 *(RTP Nov 2021) / (RTP May 2019) (Similar)* *Pg no._____*

Om Ltd. has the Authorised Capital of ₹ 15,00,000 consisting of 6,000 6% Preference shares of ₹ 100 each and 90,000 equity Shares of ₹10 each. The following was the Trial Balance of the Company as on 31st March, 2022

Particulars	Dr.	Cr.
Investment in shares at cost (non current investment)	1,50,000	
Purchases	14,71,500	
Selling Expenses	2,37,300	
Opening Inventory	4,35,600	
Salaries & Wages (including 30,000 Director's Remuneration)	1,56,000	
Cash in Hand	84,000	
Bills Receivable	1,24,500	
Interest on Bank Overdraft	29,400	
Interest on Debentures upto 30th Sept (1st Half year)	11,250	
Debtors & Creditors	1,50,300	2,63,550
Freehold Property at cost	10,50,000	
Furniture at cost less depreciation of 45,000	1,05,000	
6% Redeemable Preference Share Capital		6,00,000
Equity Share Capital fully paid up		6,00,000
5% mortgage debentures secured on freehold properties		4,50,000
Dividend Received		12,750
Profit & Loss A/c (Opening Balance)		85,500
Sales (Net)		20,11,050
Bank Overdraft (secured by hypothecation of stocks & receivables)		4,50,000
Technical know how fees (cost paid during the year)	4,50,000	
Audit Fees	18,000	
Total	44,72,850	44,72,850

1. Closing Stock was valued at ₹ 4,27,500.
2. Purchases include 15,000 worth of goods & articles distributed among valued customers.
3. Salaries and Wages include ₹ 6,000 being Wages incurred for installation of Electrical Fittings which to be recorded under "Furniture".
4. Bills Receivable include ₹ 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of ₹ 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Interest on Debentures for the half year ending on 31st March was due on that date.
8. Technical Knowhow Fees is to be written off over a period of 10 years.
9. Trade receivables include ₹ 18,000 due for more than six months.

You are required to prepare the Profit and Loss Statement for the year ended 31st March, 2022 and the Balance Sheet as on 31st March, 2022 as per Schedule III of the Companies Act, 2013 after taking into account the above information. Ignore taxation.

PRACTICE QUESTIONS

TOPIC 1: DIVIDEND

Question 1 *(RTP May 2021)* *Pg no._____*

XYZ Ltd. is having inadequacy of profits in the year ending 31-03-2022 and it proposes to declare 10% dividend out of General Reserves.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of Dividend out of Reserves) Rules, 2014:

	₹
5,00,000 Equity shares of ₹ 10 each, fully paid up	50,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%.

TOPIC 2: FINANCIAL STATEMENTS

Question 2 *(ICAI Study Material)* *Pg no._____*

You are required to prepare financial statements from the following trial balance of Haria Chemicals Ltd. for the year ended 31st March, 2022.

Particulars	Dr.	Particulars	Cr.
Stock	6,80,000	Equity Shares Capital (Shares of ₹ 10 each)	25,00,000
Furniture	2,00,000	11% Debentures	5,00,000
Discount	40,000	Bank loans	6,45,000
Loan to Directors	80,000	Bills payable	1,25,000
Advertisement	20,000	Creditors	1,56,000
Bad debts	35,000	Sales	42,68,000
Commission	1,20,000	Rent received	46,000
Purchases	23,19,000	Transfer fees	10,000
Plant and Machinery	8,60,000	Profit & Loss account	1,39,000
Rentals	25,000	Depreciation provision : Machinery	1,46,000
Current account	45,000		
Cash	8,000		
Interest on bank loans	1,16,000		
Preliminary Expenses	10,000		
Fixtures	3,00,000		
Wages	9,00,000		
Consumables	84,000		
Freehold land	15,46,000		
Tools & Equipments	2,45,000		
Goodwill	2,65,000		
Debtors	2,87,000		
Bills receivable	1,53,000		
Dealer aids	21,000		
Transit insurance	30,000		
Trade expenses	37,000		

Distribution freight	54,000		
Debenture interest	55,000		
	85,35,000		85,35,000

Additional information: Closing stock on 31-3-2022: ₹ 8,23,000

Question 3 *(RTP Nov 2019) / (RTP Nov 2022)* Pg no._____

The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2022

Particulars		₹	Particulars		₹
Inventory 01-04-2021			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	46,500	76,500	Profit and Loss A/c		45,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secured Loans :Short-term	 4,500	
Salaries and wages		40,200	:Long-term	21,000	25,500
General Charges		16,500	Unclaimed Dividend		3,000
Stores and Spare Parts Consumed		45,000	Deposits (unsecured) Short -Term	 1,500	
Building		1,01,000	Long -Term	3,300	4,800
Plant and Machinery		70,400	Trade Payables		3,27,000
Furniture		10,200			
Motor Vehicles		40,800			
Interim Dividend		27,000			
Investments:					
Current	4,500				
Non Current	7,500	12,000			
Trade Receivables		2,38,500			
Cash in Bank		2,71,100			
		24,34,200			24,34,200

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2022 and Company's Balance Sheet as on that date:

1. Inventory on 31st March, 2022 Raw material ₹ 25,800 & finished goods ₹ 60,000.
2. Outstanding Expenses: Manufacturing Expenses ₹ 67,500 & Salaries & Wages ₹ 4,500.
3. Interest accrued on Securities ₹ 300.
4. General Charges prepaid ₹ 2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. Current maturity of long term loan is ₹ 1,000.
7. The Taxation provision of 40% on net profit is considered.

Question 4 *(ICAI Study Material)* Pg no._____

Ring Ltd. was registered with a nominal capital of ₹ 10,00,000 divided into shares of ₹ 100 each. The following Trial Balance is extracted from the books on 31st March, 2022:

Particulars	₹	Particulars	₹
Buildings	5,80,000	Sales	10,40,000
Machinery	2,00,000	Outstanding Expenses	4,000
Closing Stock	1,80,000	Provision for Doubtful Debts (01/04/2021)	6,000
Loose Tools	46,000	Equity Share Capital	4,00,000
Purchases (Adjusted)	4,20,000	General Reserve	80,000

Salaries	1,20,000	Profit and Loss A/c (01/04/2021)	50,000
Directors' Fees	20,000	Creditors	1,84,000
Rent	52,000	Provision for depreciation:	
Depreciation	40,000	On Building 1,00,000	
Bad Debts	12,000	On Machinery 1,10,000	2,10,000
Investment	2,40,000	14% Debentures	4,00,000
Interest accrued on investment	4,000	Interest on Debentures accrued but not due	28,000
Debenture Interest	56,000	Interest on Investments	24,000
Advance Tax	1,20,000	Unclaimed dividend	10,000
Sundry expenses	36,000		
Debtors	2,50,000		
Bank	60,000		
	24,36,000		24,36,000

You are required to prepare statement of Profit and Loss for the year ending 31st March, 2022 and Balance sheet as at that date after taking into consideration the following information:

a) Closing stock is more than opening stock by ₹ 1,60,000
b) Provide to doubtful debts @ 4% on Debtors
c) Make a provision for income tax @30%.
d) Depreciation expense included depreciation of 16,000 on Building & of 24,000 on Machinery.
e) Dividend declared @ 25% on 2nd April, 2022
f) Transfer to General Reserve @10%.
g) Bills Discounted but not yet matured ₹ 20,000.

Question 5 *(ICAI Study Material) / (RTP May 2023) (Similar)* Pg no._____

From the following particulars furnished by Pioneer Ltd., prepare the Balance Sheet as at 31st March, 2022 as required by Schedule III of the Companies Act. Give notes at the foot of the Balance Sheet as may be found necessary –

	Dr. (₹)	Cr. (₹)
Equity Capital (Face value of ₹ 100)		10,00,000
Calls in Arrears	1,000	
Land	2,00,000	
Building	3,50,000	
Plant and Machinery	5,25,000	
Furniture	50,000	
General Reserve		2,10,000
Loan from State Financial Corporation		1,50,000
Stock : Finished Goods 2,00,000 Raw Materials 50,000	2,50,000	
Provision for Taxation		68,000
Sundry Debtors	2,00,000	
Advances	42,700	
Dividend Payable		60,000
Profit and Loss Account		86,700
Cash Balance	30,000	
Cash at Bank	2,47,000	
Loans (Unsecured)		1,21,000
Sundry Creditors (For Goods and Expenses)		2,00,000
	18,95,700	18,95,700

The following additional information is also provided:
(1) 2,000 equity shares were issued for consideration other than cash.
(2) Debtors of ₹ 52,000 are due for more than six months.
(3) The cost of assets:
  a. Building ₹ 4,00,000
  b. Plant and Machinery ₹ 7,00,000
  c. Furniture ₹ 62,500
(4) The balance of ₹ 1,50,000 in the loan account with State Finance Corporation is inclusive of ₹ 7,500 for interest accrued but not due. The loan is secured by hypothecation of Plant and Machinery.
(5) Balance at Bank includes ₹ 2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.
(6) Bills receivable for ₹ 2,75,000 maturing on 30th June, 2022 have been discounted.
(7) The company had contract for the erection of machinery at ₹ 1,50,000 which is still incomplete.

Question 6 *(Inter Nov 2019) (10 Marks)* **Pg no._____**

From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31st March, 2022 as required by Schedule III of the Companies Act, 2013 :

Particulars	Debit (₹)	Credit (₹)
Equity share capital (face value of ₹ 10 each)		15,00,000
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	
Unsecured loans		1,65,000
Trade payables		2,67,000
Total	25,90,800	25,90,800

The following additional information is also provided:
1) 10,000 equity shares were issued for consideration other than cash.
2) Trade receivables of ₹55,000 are due for more than six months.
3) The cost of building and plant & machinery is ₹5,50,000 and ₹6,25,000 respectively.
4) Loan from State Financial Corporation is secured by hypothecation of plant & machinery. Balance of 2,10,000 in this account is inclusive of 10,000 for interest accrued but not due.
5) Balance at Bank included ₹15,000 with Aakash Bank Ltd., which is not a scheduled bank.

Question 7 *(RTP May 2020) / (RTP Nov 2023) (Similar) / (ICAI Study Material)* **Pg no._____**

From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 2022 as required by Part I, Schedule III of the Companies Act, 2013

Particulars		Debit (₹)	Credit (₹)
Equity Share Capital (Face value of ₹ 100 each)			50,00,000

Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory: Raw Materials Finished Goods	 2,50,000 10,00,000	 12,50,000	
Provision for Taxation			6,40,000
Trade Receivables		10,00,000	
Short Term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade Payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

a) 10,000 Equity shares were issued for consideration other than cash.

b) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

c) Cost of Assets: Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

d) Balance of ₹ 7,50,000 in Loan Account with State Finance Corporation is inclusive of 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

e) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

f) Transfer ₹ 20,000 to general reserve is proposed by Board of directors.

g) Declared dividend of 5% on the paid up capital on 2nd April, 2022

Question 8 *(ICAI Study Material)* Pg no._____

On 31st March, 2022, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31st March, 2022.

Particulars	Debit	Credit
Equity Share Capital, fully paid shares of ₹ 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	
	1,76,24,000	1,76,24,000

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

(1) 50,000 fully paid equity shares were allotted as consideration for land.

(2) The cost of assets were:
Building ₹ 32,00,000 Plant and Machinery ₹ 30,00,000 Furniture and Fixture ₹ 16,50,000

(3) Trade Receivables for ₹ 4,86,000 due for more than 6 months.

(4) Balances with banks include ₹ 56,000, the Naya bank, which is not a scheduled bank.

(5) Loan from Public Finance Corporation repayable after 3 years.

(6) Balance of ₹ 26,30,000 in the loan account with Public Finance Corporation is inclusive of ₹ 1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.

(7) Other long term loans (unsecured) includes:
Loan taken from Nixes Bank ₹ 13,80,000 (Amount repayable within one year ₹ 4,80,000)
Loan taken from Directors ₹ 8,50,000

(8) Bills Receivable for ₹ 1,60,000 maturing on 15th June, 2022 has been discounted.

(9) Short term borrowings includes:
Loan from Naya bank ₹ 1,16,000 (Secured) Loan from directors ₹ 48,000

(10) Transfer of ₹ 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 ₹ 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 2022 as required under Part - I of Schedule III of the Companies Act, 2013. You are not required to give previous year figures.

Question 9 *(Inter July 2021) (20 Marks)* Pg no._____

The following is the Trial Balance of H Ltd., as on 31st March, 2021:

	Dr.	Cr.
Equity Capital (Shares of ₹ 100 each)		8,05,000
5,000, 6% preference shares of ₹ 100 each		5,00,000
9% Debentures		4,00,000
General Reserve		40,00,000
Profit & Loss A/c (of previous year)		72,000
Sales		60,00,000
Trade Payables		10,40,000
Provision for Depreciation on Plant & Machinery		1,72,000
Suspense Account		40,000
Land at cost	24,00,000	
Plant & Machinery at cost	7,70,000	
Trade Receivables	19,60,000	
Inventories (31-03-2021)	9,50,000	
Bank	2,30,900	
Adjusted Purchases	22,32,100	
Factory Expenses	15,00,000	
Administration Expenses	3,00,000	
Selling Expenses	14,00,000	

Debenture Interest	36,000	
Goodwill	12,50,000	
	1,30,29,000	1,30,29,000

Additional Information:

(i) The authorised share capital of the company is :
5,000, 6% preference shares of ₹ 100 each 5,00,000
10,000, equity shares of ₹ 100 each 10,00,000
Issued equity capital as on 1st April 2020 stood at ₹ 7,20,000, that is 6,000 shares fully paid and 2,000 shares ₹ 60 paid. Directors made call of ₹ 40 per share on 1st October 2020. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹ 90 per share as fully paid.

(ii) On 31st March 2021, the Directors declared a dividend of 5% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

(iii) The company on the advice of independent valuer wishes to revalue land at ₹ 36,00,000.

(iv) Suspense account of ₹ 40,000 represents amount received for the sale of some of the machinery on 1-4-2020. The cost of the machinery was ₹ 1,00,000 and the accumulated depreciation thereon being ₹ 30,000

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Amortize 1/5th of Goodwill.

You are required to prepare H Limited's Balance Sheet as on 31-3-2021 and Statement of Profit and Loss with notes to accounts for the year ended 31-3-2021 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures & taxation.

Question 10 *(RTP May 2022)* Pg no._____

"Current maturities of long term borrowing are disclosed separately under the head Other current Liabilities in the balance sheet of a company". You are required to comment in the line with schedule III to the Companies Act, 2013

Question 11 *(Inter Nov 2022) (20 Marks)* Pg no._____

The following is the Trial Balance of Anmol Limited as on 31st March, 2022:

Debit Balance	Amount(₹)	Credit Balances	Amount(₹)
Purchases	82,95,000	Sales	1,25,87,000
Wages and Salaries	12,72,000	Commission	72,500
Rent	2,20,000	Equity Share Capital	10,00,000
Rates and Taxes	50,000	General Reserve	10,00,000
Selling & Distribution Expenses	4,36,000	Surplus (P&L A/c) 01.04.2021	8,75,500
Directors Fees	32,000	Securities Premium	2,50,000
Bad Debts	38,500	Term Loan from Public Sector Bank	1,02,00,000
Interest on Term Loan	8,05,000	Trade Payables	55,08,875
Land	24,00,000	Provision for Depreciation:	
Factory Building	36,80,000	On Plant & Machinery	9,37,500
Plant and Machinery	62,50,000	On Furniture and Fittings	82,500
Furniture and Fittings	8,25,000	On Factory Building	1,84,000
Trade Receivables	64,75,000	Provision for Doubtful Debts	25,000
Advance Income Tax Paid	37,500	Bills Payable	1,25,000
Stock (1st April,2021)	9,25,000		
Bank Balances	9,75,000		
Cash on Hand	1,31,875		
Total	3,28,47,875	Total	3,28,47,875

Following information is provided:

1. The Authorized Share Capital of the Company is 2,00,000 Equity Shares of ₹ 10 each. The Company has issued 1,00,000 Equity Shares of ₹ 10 each.
2. Rent of ₹ 20,000 and Wages of ₹ 1,56,500 are outstanding as on 31st March, 2022.
3. Provide Depreciation @ 10% per annum on Plant and Machinery, 10% on Furniture and Fittings and 5% on Factory Building on written down value basis.
4. Closing Stock as on 31st March, 2022 is ₹ 11,37,500.
5. Make a provision for Doubtful Debt @ 5% on Debtors.
6. Make a provision of 25% for Corporate Income Tax.
7. Transfer ₹ 1,00,000 to General Reserve.
8. Term Loan from Public Sector Bank is secured against Hypothecation of Plant and Machinery. Installment of Term Loan falling due within one year is ₹ 17,00,000.
9. Trade Receivables of ₹ 85,600 are outstanding for more than six months.
10. The Board declared a dividend @10% on Paid up Share Capital on 5th April, 2022.

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

Question 12 - *(ICAI Study Material) / (RTP May 2019) / (RTP Nov 2021) (Similar)* — *Pg no.____*

State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act:

(i) Share application money received in excess of issued share capital.
(ii) Share option outstanding account.
(iii) Unpaid matured debenture and interest accrued thereon.
(iv) Uncalled liability on shares and other partly paid investments.
(v) Calls unpaid.
(vi) Money received against share warrant.

Question 13 - *(Inter May 2023) (10 Marks)* — *Pg no.____*

The following balances are extracted from the books of Travese Limited as on 31st March 2023:

Particular	Amount ₹	
	Debit	Credit
7% Debentures		48,45,000
Plant & Machinery (at cost)	37,43,400	
Trade Receivables	35,70,000	
Land	97,37,000	
Debenture Interest	3,39,150	
Bank Interest	13,260	
Sales		47,22,600
Transfer Fees		38,250
Discount received		66,300
Purchases	28,86,600	
Inventories 1.04.2022	4,97,250	
Factory Expenses	2,58,060	
Rates, Taxes and Insurance	65,025	
Repairs	1,49,685	
Sundry Expenses	1,27,500	
Selling Expenses	26,520	
Directors Fees	38,250	
Interest on Investment for the year 2022-2023		55,000

Provision for depreciation		5,96,700
Miscellaneous receipts		1,42,800

Additional information:

(i) Closing inventory on 31.03.2023 is ₹ 4,76,850.

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

(iii) The Land is re-valued at ₹ 1,08,63,000.

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

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

(vi) The Board of Directors declared a dividend of 10% on Equity shares on 4th April, 2023.

You are required to prepare a Statement of Profit and Loss as per Schedule III of the Companies Act, 2013 for the year ended 31.03.2023. (Ignore previous year figures)

Question 14 *(Inter Nov 2023) (20 Marks)* *Pg no._____*

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

Particulars	Debit Amount (₹)	Credit Amount (₹)
Equity Share Capital (Fully paid-up shares of ₹100 each)		10,00,000
10% Preference Share Capital of Face Value ₹ 100 each		4,00,000
General Reserve		2,85,000
2,000 10% Debentures of ₹ 100 each		2,00,000
Securities Premium Account		50,000
Land (at Cost)	7,00,000	
Plant and Machinery	14,70,000	
Furniture	4,00,000	
Provision for Depreciation - Plant and Machinery		3,00,000
Provision for Depreciation – Furniture		1,90,000
Trade Receivables	3,10,000	
Trade Payables		72,000
Cash-in-Hand	1,34,000	
Cash-at-Bank	3,05,000	
Bank Over Drafts from Nationalized bank (Long Term) (Secured by Hypothecation of Stocks)		2,00,000
6% Secured Loan from State Finance Corporation (repayable after 3 years) (Secured by Hypothecation of Plant and Machinery)		4,50,000
Unclaimed Dividend		23,000
Loan from Director (Short Term)		1,00,000
Adjusted Purchases	2,25,000	
Closing Stock	1,12,000	
Sales		8,46,000
Carriage Inward	17,200	
Miscellaneous Expenses	10,200	
Selling and Distribution Expenses	46,600	
Depreciation	1,80,000	
Salaries	72,000	
Director's Fees	40,000	
Travelling Expenses (include ₹ 50,000/- for foreign tour)	1,30,000	
Profit and Loss Account		40,000

Office Expenses	28,000	
Rent Received		24,000
Total	41,80,000	41,80,000

Additional Information:

(i) Authorized Capital — divided into –

a) 20,000 equity shares of ₹ 100 each.

b) 10,000 10% preference shares of ₹ 100 each

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

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

(iv) It is proposed to capitalize part of the undistributed profits by making bonus issue to the shareholders by allocating one equity share of ₹ 100 each for every 5 shares held.

(v) Trade Receivables of ₹ 46,000 are due for more than six months. There is no doubtful amount.

(vi) Depreciation expenses include depreciation of ₹ 1,10,000 on Plant and Machinery and that of ₹ 70,000 on Furniture.

(vii) Cash-at-Bank include ₹ 55,000 with Desire Bank Ltd., which is not scheduled Bank.

(viii) Miscellaneous expenses included ₹ 5,000 being audit fees paid to auditors.

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

(x) Balance of secured loan from State Finance Corporation is inclusive of ₹ 36,000 for interest accrued but not due.

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

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

You are required to prepare Balance Sheet as on 31st March, 2023 and Statement of Profit and Loss with Notes to Accounts for the year ending 31st March, 2023 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures. (Ignore taxation). (All workings should form part of the answer)

CASH FLOW STATEMENT (AS-3)

CH 2

"Winners aren't who Never fail, But People who Never quit..."

It is an additional information provided to the users of accounts in the form of a statement, which reflects the various sources from where cash was generated (inflow of cash) by an enterprise during the relevant accounting year and how these inflows were utilized (outflow of cash) by the enterprise.

Financial statements with respect to one person company, small company, dormant company and private company (if such a private company is a startup), may not include the cash flow statement.

Cash Flow Statement helps the users of accounts:
- To identify the historical changes in the flow of cash & cash equivalents.
- To determine the future requirement of cash & cash equivalents.
- To assess the ability to generate cash & cash equivalents.
- To estimate the further requirement of generating cash & cash equivalents.
- To compare the operational efficiency of different enterprises.
- To study the insolvency and liquidity position of an enterprise.
- As an indicator of amount, timing and certainty of future cash flows.
- To check the accuracy of past assessments of future cash flows
- In examining relationship between profitability & net cash flow & impact of changing prices

THE TERM 'CASH'

Meaning	Cash comprises Cash in hand and Demand Deposits with banks.
Examples	Cash in hand, Cash at Bank

THE TERM 'CASH EQUIVALENTS'

Meaning	Cash Equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.
Purpose	Cash Equivalents are held for the purpose of meeting short-term cash commitments rather than for Investment or other purposes.
Conditions to qualify	It must be readily convertible to a known amount of cash. It must be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only *when it has a short maturity of, say, 3 months or less* from the date of acquisition. Investments in shares are not normally taken as cash equivalent (unless they are in substance cash equivalent), because of uncertainties associated with them as to realisable value.
Examples	Treasury Bills, Commercial Papers, Commercial Bills, Call Money, Certificate of Deposit

TRANSACTIONS NOT CONSIDERED AS CASH FLOWS

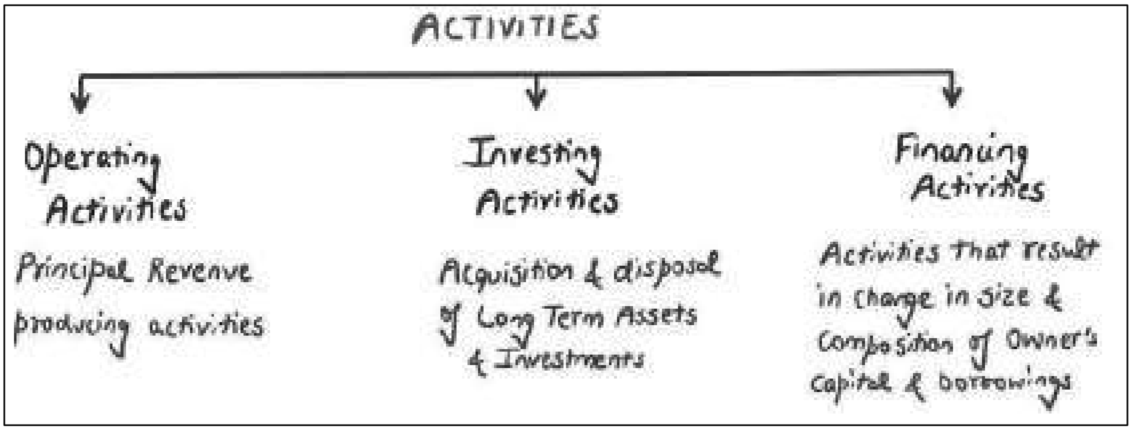
Meaning	Transactions which represent movements between items of Cash or Cash Equivalents are not considered as Cash Flows.
Reason	These components are part of the cash management of an enterprise rather than part of its Operating, Investing and Financing Activities.
Examples	a) Cash deposited into Bank; b) Cash withdrawn from Bank; c) Purchase/Sale of Short-term Marketable Securities (neither held as Current Investments nor held as Non-current Investments). d) It is important to note that a change in cash does not necessarily imply cash flow. For example: Suppose an enterprise has a bank balance of USD 10,000, stated in books at 4,90,000 using the rate of exchange 49/USD prevailing on date of receipt of dollars. If the closing rate of exchange is 50/USD, the bank balance will be restated at 5,00,000 on the balance sheet date. The increase is, however, not a cash flow because neither there is any cash inflow nor there is any cash outflow.

'CASH FLOWS'

Cash Flows	Cash Flows are inflows and outflows of Cash and Cash equivalents.
Cash Inflows	Cash Inflow arises when the net effect of transaction is increase in the amount of Cash or Cash Equivalents.
Cash Outflows	Cash Outflow arises when the net effect of transaction is to decrease in the amount of Cash or Cash Equivalents.

EXAMPLES OF CASH FLOWS

CASH INFLOWS	CASH OUTFLOWS
1) Cash Sales of Goods	1) Cash Purchases of Goods
2) Cash received from Trade Debtors	2) Cash paid to Trade Creditors
3) Cash received from commission & Royalty	3) Operating Expenses paid (e.g. Salaries & Wages, Administration Exp. Selling Exp.)
4) Sale of Fixed Assets for Cash	4) Income Tax paid
5) Sale of Investments (whether Current or Non-Current) for Cash	5) Purchase of Fixed Assets for Cash
6) Loans & Advances repayment received (whether Short term or Long term)	6) Purchase of Investments (whether Short term or Long term) for Cash
7) Income received on Investments (whether Current or Non-Current)	7) Loans & Advances granted (whether Short term or Long term)
8) Issue of Equity Shares for Cash	8) Buy-back of Equity Shares for Cash
9) Issue of Preference Shares for Cash	9) Redemption of Preference Shares for Cash
10) Issue of Debentures for Cash	10) Redemption of Debentures for Cash
11) Loans taken (whether Short/Long term)	11) Loans repaid (whether Short/Long term)
	12) Interest on Debentures & Loans paid.
	13) Final Dividend on Equity Shares paid.
	14) Dividend on Preference Shares paid.
	15) Interim Dividend on Equity Shares paid.



OPERATING ACTIVITIES

MEANING OF OPERATING ACTIVITIES

Principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.

Cash Inflows	Cash Outflows
1) Cash Sales of Goods	1) Cash Purchases of Goods
2) Cash received from Trade Debtors	2) Cash paid to Trade Creditors
3) Cash received from Trading Commission & Royalty	3) Operating Expenses paid (e.g. Salaries & Wages, Administration Exp. Selling Exp.)
	4) Income Tax paid (Operating Activity only).

NOTES

In case of *Financial Enterprises* the following activities are classified as Operating Activities since they relate to the main revenue-producing activity of that enterprise:

- *Purchases and Sales of Shares & Debentures of other companies for Cash*
- *Dividend received on Shares of other companies*
- *Interest received on Debentures of other companies*
- *Loans & Advances granted*
- *Interest received on Loans & Advances granted*

Other Examples: Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits.

Cash receipts & payments relating to futures contracts, forward contracts, option contracts & swap contracts when the contracts are held for dealing or trading purposes.

Cash flows arising from the purchase and sale of dealing or trading securities

INVESTING ACTIVITIES

MEANING OF INVESTING ACTIVITIES

Acquisition & disposal of long-term assets & other investments not included in cash equivalents.

Cash inflows	Cash outflows
1) Cash sale of fixed assets	1) Cash purchase of fixed assets
2) Cash sale of investments (whether current or non-current)	2) Cash purchase of investments (whether short term or long term)
3) Loans & advances repayment received (whether short term or long term)	3) Loans & advances granted (whether short term or long term)
4) Income received on investments (whether current or non-current)	4) Brokerage paid on purchase of investments (whether short term or long term)

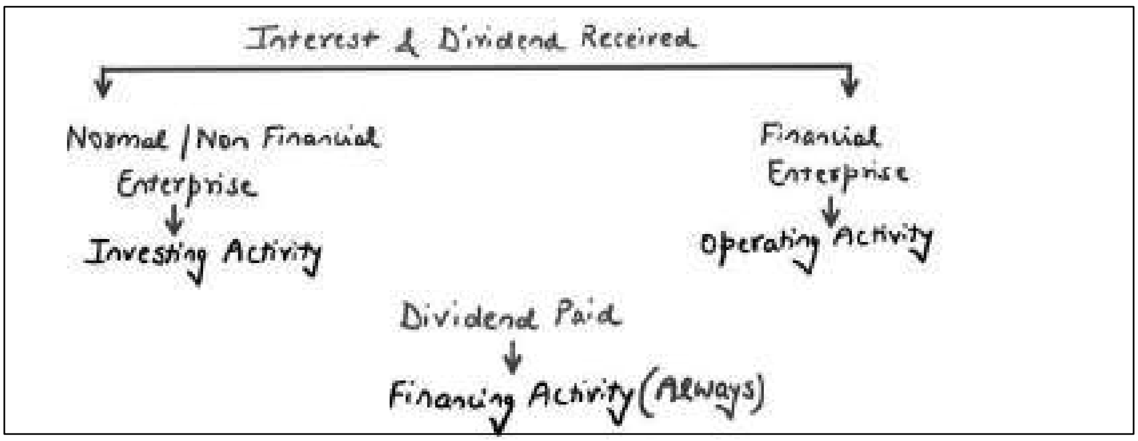
FINANCING ACTIVITIES

MEANING OF FINANCING ACTIVITIES
Activities that result in changes in size and composition of the Owners' capital (including Preference share capital in case of a company) and Borrowings (whether short term or long term) of the enterprise.

Cash inflows	Cash outflows
1) Issue of Equity shares for cash	1) Buy-back of Equity shares for cash.
2) Issue of Preference shares for cash	2) Redemption of Preference shares for cash
3) Issue of Debentures for cash	3) Redemption of Debentures for cash
4) Loans taken (whether short term or long-term)	4) Loans repaid (whether short term or long term)
	5) Interest on Debentures and Loans paid
	6) Dividend on Shares Paid
	7) Brokerage & Underwriting Commission Paid on issue of Shares & Debentures
	8) Cash payments by lessee for reduction of O/s liability relating to a finance lease.

NON-CASH TRANSACTIONS

Meaning	Those transactions which do not involve Cash
Examples (Verification by Journal Entry)	Issue of Equity Shares or Debentures against the purchase of an Asset Asset A/c Dr To Equity Share Capital A/c / Debentures A/c
	Issue of Equity Shares on conversion of Convertible Debentures Convertible Debentures A/c Dr To Equity Share Capital A/c
Why ignored in CFS?	Non-Cash transactions are ignored while preparing Cash Flow Statement because these do not involve Cash.



STEPS INVOLVED IN THE PREPARATION OF CASH FLOW STATEMENT

Step 1: Calculate the Cash flow from Operating activities.
Step 2: Calculate the Cash flow from Investing activities
Step 3: Calculate the Cash flow from Financing activitites
Step 4: Calculate Net Increase/(Decrease) in cash & cash equivalents [Step (1 + 2 + 3)]
Step 5: Calculate the Cash and Cash Equivalents at the beginning of period
Step 6: Calculate the Cash and Cash Equivalents at the end of period [Step (4 + 5)]

HOW TO COMPUTE NET CASH FLOW FROM OPERATING ACTIVITIES (UNDER DIRECT METHOD)

Particulars	₹	₹
A. Operating Receipts in Cash (e.g.)		
Cash Sales	xxx	
Cash receipts from Debtors	xxx	
Trading Commission received	xxx	xxx
B. Opening Payments in cash (e.g.)		
Cash Purchases	xxx	
Cash paid to Suppliers	xxx	
Wages & Salaries Paid	xxx	
Office and Administration Expenses paid	xxx	
Manufacturing overheads paid	xxx	
Selling and Distribution expenses paid	xxx	xxx
C. Cash Generated from Operations before taxes (A-B)		xxx
D. Income tax paid (Net of refund of Tax)		xxx
E. Cash flow before extraordinary item (C-D)		xxx
F. Extraordinary item		xxx
G. Net cash from (used in) Operating Activities		xxx

HOW TO COMPUTE NET CASH FLOW FROM OPERATING ACTIVITIES (UNDER INDIRECT METHOD)

Particulars	₹	₹
Step 1: Calculate Net Profit before Taxation & Extraordinary item:		
Closing Balance of P & L A/c		xxx
Less: Opening Balance of P&L A/c (or Add: Opening Bal. of P&L A/c (Dr.)		xxx
Add: Dividend declared for the current year		xxx
Add: Interim Dividend paid during the current year		xxx
Add: Transfer to Reserve (or Less : Transfer from Reserve)		xxx
Add: Provision for Tax made during the Current Year		xxx
Less: Refund of Tax credited to P&L A/c		(xxx)
Less: Extraordinary Item, if any, credited to P&L A/c (e.g. Insurance proceeds from earthquake disaster settlement)		(xxx)
Add: Extraordinary Debit Items (e.g. Loss due to earthquake)		xxx
Net Profit before Taxation and Extraordinary Item		xxx
Step 2: Calculate Operating Profit before Working Capital Changes:		
Net Profit before Taxation and Extraordinary Item		xxx
Adjustments for Non-Cash and Non-Operating Items: (For Example)		
Depreciation	xxx	
Interest on Debentures & Loans (whether Short term or Long Term)	xxx	
Preliminary Expenses/Underwriting Commission/Discount on	xxx	
Issue of Debentures/Shares written off	xxx	
Goodwill/Patents/Trade Marks/Copyright amortized	xxx	
Loss on Sale of Investments (whether Current or Non Current)	xxx	
Interest income from Investments (whether current or non-current)	(xxx)	
Dividend income	(xxx)	
Rental income	(xxx)	
Profit on sale of Investments (whether current or non-current)	(xxx)	xxx
Operating profit before working capital changes		xxx

Step 3: Calculate Cash from Operations before tax & Extraordinary item:		
A. Operating profit before working capital changes		xxx
B. Add: Changes in current assets (Excluding cash and cash equivalents) & Current Liabilities (excluding bank overdraft and cash credit):	xxx	
Decrease in Inventories, Trade Receivables etc.	xxx	
Increase in Trade Payables, O/s exp. Etc.	xxx	
Increase in Inventories, Trade Receivables etc.	(xxx)	
Decrease in trade Payables, O/s Exp. etc.	(xxx)	xxx
Cash Generated from Operations		xxx
Step 4: Calculate Cash generated from Operations after tax but before extraordinary item:		
A. Cash generated from Operations		xxx
B. Less: Income taxes paid (incl. Advance tax but excl. refund of tax)		(xxx)
(Note: Income tax should be related to operating activities only)		
C. Cash flow before extraordinary item		xxx
Step 5 : Calculate Net Cash from (used in) Operating Activities :		
Cash Flow before Extraordinary Items		xxx
Add : Extraordinary Items (e.g. Insurance proceeds from earthquake disaster settlement, Govt. Grant)		xxx
Net Cash Flow from (used in) Operating Activities		xxx

Note : Negative items which are to be deducted have been shown in brackets.

CALCULATION OF CASH FLOW FROM INVESTING ACTIVITIES

Particulars	₹
A. Cash inflow from Investing Activities:	
Sale of Tangible Fixed Assets (eg. Machinery) for cash	xxx
Sale of Intangible Assets (e.g. Goodwill/Patents/Trademark/Copyright) for cash	xxx
Sale of Investments (whether current or non-current) for cash	xxx
Loans & Advances repayments received (whether short term or long term)	xxx
Incomes from Investments (whether current or non-current)	xxx
Dividend received on Shares held as investments	xxx
Interest received on Debentures held as investments	xxx
Rent received from Immovable property held as investments	xxx
B. Cash used in Investing Activities	
Purchase of Tangible Fixed Assets (e.g. Machinery) for cash	(xxx)
Purchase of Intangible Assets (e.g. Goodwill/Patents/Trademark/Copyright) for cash	(xxx)
Purchase of Investments (whether current or non-current) for cash	(xxx)
Loans & Advances granted (whether short term or long term)	(xxx)
Net Cash flow from/used in Investing Activities (if A>B)/ (If A<B)	xxx

CALCULATION OF CASH FLOW FROM FINANCING ACTIVITIES

Particulars	₹
A. Cash inflows from financing Activities:	
Issue of Equity share capital for cash	xxx
Issue of Preference share capital for cash	xxx
Issue of debentures for cash	xxx
Loans raised (whether short term or long term)	xxx

B. Cash used in financing activities	
Buy back of Equity shares	(xxx)
Redemption of preference shares for cash	(xxx)
Redemption of debentures for cash	(xxx)
Repayment of loans (whether short term or long term)	(xxx)
Interim dividend paid on Equity shares	(xxx)
Final dividend paid on Equity shares	(xxx)
Final dividend paid on preference shares	(xxx)
Interest paid on debentures & loans (whether short term or long term)	(xxx)
Net Cash flow from/used in Financing Activities (if A>B)/ (If A<B)	xxx

Note:-
As per AS 3, Cash Flow Statements, an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, *except* in the case of:

- cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and
- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

Cash flows arising from each of the following activities of a financial enterprise may be reported on a net basis:
(a) cash receipts & payments for acceptance & repayment of deposits with fixed maturity date
(b) placement of deposits with and withdrawal of deposits from other financial enterprises
(c) cash advances & loans made to customers and the repayment of those advances & loans

BUSINESS PURCHASE

Aggregate cash flows arising from acquisitions & disposals of subsidiaries or other business units should be presented separately and classified as cash flow from investing activities.
(a) The cash flows from disposal and acquisition should not be netted off.
(b) An enterprise should disclose, in aggregate, in respect of both acquisition and disposal of subsidiaries or other business units during the period each of the following:
   (i) The total purchase or disposal consideration; and
   (ii) The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.

IMPORTANT POINTS:

Loans/Advances given and Interests earned

For Financial enterprises	Operating cash flows
For Non-Financial enterprises	Investing cash flows
Given to Subsidiaries	Investing cash flows for all enterprises
Given to Employees	Operating cash flows for all enterprises.
Advance Payments to Suppliers	Operating cash flows for all enterprises.

Interests earned from customers for late payments are operating cash flows for non-financial enterprises.

Loans/Advances taken and interests paid

For Financial enterprises	Operating cash flows
For Non-Financial enterprises	Financing cash flows
Advance Taken from Customers	Operating cash flows

Interests paid to suppliers for late payments are operating cash flows for all enterprises.
Interests taken as part of inventory costs in accordance with AS 16 are operating cash flows

Investments made and Dividend earned

For Financial enterprises	Operating cash flows
For Non-Financial enterprises	Investing cash flows
Given to Subsidiaries	Investing cash flows for all enterprises

Tax Deducted at Source

If concerned incomes are Operating Incomes	Operating cash Outflow
If concerned incomes are Investment Incomes	Investing cash Outflow
If concerned expenses are Operating Expenses	Operating cash Inflow
If concerned expenses are Financing Expenses	Financing cash Inflow

Insurance claims received

Against loss of stock or loss of profits	Extraordinary operating cash inflows
Against loss of fixed assets	Extraordinary investing cash inflows

Exchange gains and losses

The foreign currency monetary assets (e.g. balance with bank, debtors etc.) and liabilities (e.g. creditors) are initially recognised by translating them into reporting currency by the rate of exchange transaction date. On the balance sheet date, these are restated using the rate of exchange on the balance sheet date. The difference in values is exchange gain/loss. The exchange gains and losses are recognised in the statement of profit and loss.

The exchange gains/losses in respect of cash and cash equivalents in foreign currency (e.g. balance in foreign currency bank account) are recognised by the principle aforesaid, and these balances are restated in the balance sheet in reporting currency at rate of exchange on balance sheet date. The change in cash or cash equivalents due to exchange gains and losses are however not cash flows. This being so, the net increases/decreases in cash or cash equivalents in the cash flow statements are stated exclusive of exchange gains and losses. *The resultant difference between cash and cash equivalents as per the cash flow statement and that recognised in the balance sheet is reconciled in the note on cash flow statement.*

DISCLOSURES

AS 3 requires an enterprise to disclose the amount of significant cash and cash equivalent balances held by it but not available for its use, together with a commentary by management. This may happen for example, in case of bank balances held in other countries subject to such exchange control or other regulations that the fund is practically of no use.

AS 3 encourages disclosure of additional information, relevant for understanding the financial position and liquidity of the enterprise together with a commentary by management. Such information may include:

(a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and

(b) The aggregate amount of cash flows required for maintaining operating capacity, e.g. purchase of machinery to replace the old, separately from cash flows that represent increase in operating capacity, e.g. additional machinery purchased to increase production

ASSIGNMENT QUESTIONS

Question 1 *(RTP May 2020) (Similar) / (ICAI Study Material)* Pg no._____

Classify the following activities as
(a) Operating Activities, (b) Investing Activities, (c) Financing Activities (d) Cash Equivalent

a. Purchase of Machinery.
b. Proceeds from issuance of equity share capital
c. Cash Sales.
d. Proceeds from long-term borrowings.
e. Proceeds/cash receipts from Trade receivables.
f. Trading Commission received.
g. Purchase of investment.
h. Redemption of Preference Shares.
i. Cash Purchases.
j. Proceeds from sale of investment
k. Purchase of goodwill.
l. Cash paid to suppliers.
m. Interim Dividend paid on equity shares.
n. Wages and salaries paid.
o. Proceed from sale of patents.
p. Interest received on debentures held as investment.
q. Interest paid on Long-term borrowings.
r. Office and Administration Expenses paid / Selling and distribution expense paid.
s. Manufacturing Overheads paid.
t. Dividend received on shares held as investments.
u. Rent Received on property held as investment.
v. Income tax paid
w. Dividend paid on Preference shares.
x. Underwritings Commission paid.
y. Rent paid.
z. Brokerage paid on purchase of investments.
aa. Bank Overdraft
bb. Cash Credit
cc. Short-term Deposits
dd. Highly Liquid Marketable Securities (without risk of change in value)
ee. Refund of Income Tax received.

Question 2 *(ICAI Study Material)* Pg no._____

From the following information, calculate cash flow from operating activities:

Summary of Cash Account for the year ended March 31, 2022

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Cash Purchases	1,20,000
To Cash sales	1,40,000	By Trade payables	1,57,000
To Trade receivables	1,75,000	By Office & Selling Expenses	75,000
To Trade Commission	50,000	By Income Tax	30,000
To Sale of Investment	30,000	By Investment	25,000
To Loan from Bank	1,00,000	By Repayment of Loan	75,000
To Interest & Dividend	1,000	By Interest on loan	10,000
		By Balance c/d	1,04,000
	5,96,000		5,96,000

Question 3 *(ICAI Study Material)* *Pg no._____*

Following summary cash account has been extracted from the company's accounting records:

Summary Cash Account

		('000)
Balance at 1.4.2021		35
Receipts from customers		2,783
Issue of shares		300
Sale of fixed assets		128
		3,246
Payments to suppliers	2,047	
Payments for Property, Plant & Equipment	230	
Payments for overheads	115	
Wages and salaries	69	
Taxation	243	
Dividends	80	
Repayments of bank loan	250	(3,034)
Balance at 31.03.2022		212

Prepare Cash Flow Statement of this company Hills Ltd. for the year ended 31st March, 2022 in accordance with AS-3. The company does not have any cash equivalents.

Question 4 *(ICAI Study Material)* *Pg no._____*

The balance sheets of Sun Ltd. as at 31st March 2021 and 2020 were as:

Particulars	Notes	2021	2020
Equity and Liabilities			
1. Shareholder's funds			
(a) Share capital	1	60,000	50,000
(b) Reserve & surplus	2	5,000	4,000
2. Current liabilities			
(a) Trade Payables		4,000	2,500
(b) Other current liabilities	3	-	1,000
(c) Short term provision (provision for tax)		1,500	1,000
Total		70,500	58,500
Assets			
1 Non-current assets			
(a) Property, Plant & Equipment	4	39,500	29,000
2 Current assets			
(a) Current investments		2,000	1,000
(b) Inventories		17,000	14,000
(c) Trade receivables		8,000	6,000
(d) Cash & cash equivalents	5	4,000	8,500
Total		70,500	58,500

Notes to accounts

		2021	2020
1	Share Capital		
	Equity Shares of ₹10 each	60,000	50,000
2	Reserve & surplus		
	Profit and Loss Account	5,000	4,000

3	Other current liabilities		
	Dividend Payable	-	1,000
4	Property, plant and equipment (at WDV)		
	Building	10,000	10,000
	Fixtures	17,000	11,000
	Vehicles	12,500	8,000
	Total	39,500	29,000
5	Cash and cash equivalents		
	Cash and Bank	4,000	8,500

The profit and loss statement for the year ended 31st March, 2021 disclosed:

Particulars	₹
Profit before tax	4,500
Tax expense: Current tax	(1,500)
Profit for the year	3,000
Declared dividend	(2,000)
Retained Profit	1,000

Further information is available:

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

Prepare a Cash Flow Statement for the year ended 31st March, 2021.

Question 5

Pg no._____

The following are the summarized Balance Sheet of Star Ltd. as on 31st March, 2021 and 2022:

(₹ in '000)

Liabilities	31.03.2021	31.03.2022	Assets	31.03.2021	31.03.2022
Equity share capital of ₹ 10 each	3,400	3,800	Sundry Fixed Assets:		
Profit & Loss A/c	400	540	Gross Block	3,200	4,000
Securities Premium	40	80	Less: Depreciation	(640)	(1,440)
14% Debentures	800	900	Net Block	2,560	2,560
Long term borrowings	180	240	Investment	1,200	1,400
Trade payables	360	440	Inventories	1,000	1,400
Provision for Taxation	20	40	Trade receivables	640	900
Dividend payable	300	480	Cash & Bank Balance	100	260
	5,500	6,520		5,500	6,520

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

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

The following information are also available:
a) 40,000 equity shares issued at a premium of ₹ 1 per share.
b) The Company paid taxes of ₹ 1,40,000 for the year 2021-22.
c) During the period, it discarded fixed assets costing ₹ 4 lacs, (accumulated depreciation ₹ 80,000) at ₹ 40,000 only.
You are required to prepare cash flow statement as per AS 3, using indirect method.

Question 6 — *Pg no._____*

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

Profit & Loss Account of Surya Ltd. for the year ended 31st March, 2022

Particulars	₹	Particulars	₹
To Depreciation	86,700	By Operating Profit before dep.	11,01,600
To Patents written off	35,000	By Profit on Sale on Investments	10,000
To Provision for Tax	1,25,000	By Refund of Tax	3,000
To Dividend declared	72,000	By Insurance Claim-Major Fire Settlement	1,00,000
To Transfer to Reserve	87,000		
To Net Profit	8,08,900		
	12,14,600		12,14,600

Additional information:

	31.03.2021	31.03.2022
Stock	1,20,000	1,60,000
Trade Debtors	7,500	75,000
Trade Creditors	23,735	87,525
Provision for Tax	1,18,775	1,25,000
Prepaid Expenses	15,325	12,475
Marketable Securities	11,775	29,325
Cash Balance	25,325	35,340

Question 7 *(ICAI Study Material) / (RTP May 2022) (Similar)* — *Pg no._____*

From the following Balance sheet of Grow More Ltd., prepare Cash Flow Statement for the year ended 31st March, 2021 :

	Particulars	Notes	31st March, 2021	31st March, 2020
	Equity and Liabilities			
1	Shareholders' funds			
A	Share capital		10,00,000	8,00,000
B	Reserves and Surplus	1	3,00,000	2,10,000
2	Non-current liabilities			
	Long term borrowings	2	2,00,000	-
3	Current liabilities			
A	Trade Payables		7,00,000	8,20,000
B	Other current liabilities	3	-	1,00,000
C	Short term provision (provision for tax)		1,00,000	70,000
	Total		23,00,000	20,00,000
	Assets			
1	Non-current assets			
A	Property, plant and Equipment	4	13,00,000	9,00,000
B	Non-Current Investments		1,00,000	-

2	Current assets			
A	Inventories		4,00,000	2,00,000
B	Trade receivables		5,00,000	7,00,000
C	Cash and Cash equivalents		-	2,00,000
	Total		23,00,000	20,00,000

Notes to accounts

No.	Particulars	31st March, 2021	31st March, 2020
1	Reserves and Surplus		
	General reserve	2,00,000	1,50,000
	Profit and Loss account	1,00,000	60,000
	Total	3,00,000	2,10,000
2	Long term borrowings		
	Debentures (issued at end of year)	2,00,000	--
3.	Other current liabilities		
	Dividend payable	-	1,00,000
4	Property, plant and equipment		
	Plant and machinery	7,00,000	5,00,000
	Land and building	6,00,000	4,00,000
	Net carrying value	13,00,000	9,00,000

a. Depreciation @ 25% was charged on the opening value of Plant and Machinery.
b. At the year end, one old machine costing ₹ 50,000 (WDV ₹ 20,000) was sold for ₹ 35,000. Purchase was also made at the year end.
c. ₹ 50,000 was paid towards Income tax during the year.
d. Construction of the building got completed on 31.03.2021 and hence no depreciation may be charged on the same.

Prepare Cash flow Statement.

Question 8 *(ICAI Study Material)* Pg no._____

ABC Ltd. gives you the Balance sheets as at 31st March 2020 and 31st March 2021. You are required to prepare Cash Flow Statement by using indirect method as per AS 3 for the year ended 31st March 2021:

	Particulars	Notes	31st March 2020	31st March 2021
	Equity and Liabilities			
1	Shareholders' funds			
A	Share capital		50,00,000	50,00,000
B	Reserves and Surplus		26,50,000	36,90,000
2	Non-current liabilities			
	Long term borrowings	1	-	9,00,000
3	Current liabilities			
A	Short-term borrowings (Bank loan)		1,50,000	3,00,000
B	Trade payables		8,80,000	8,20,000
C	Other current liabilities	2	4,80,000	2,70,000
	Total		91,60,000	1,09,80,000
	Assets			
1	Non-current assets			
A	Property, plant and Equipment	3	21,20,000	32,80,000
2	Current assets			

A	Current Investments		11,80,000	15,00,000
B	Inventory		20,10,000	19,20,000
C	Trade receivables		22,40,000	26,40,000
D	Cash and Cash equivalents	4	15,20,000	15,20,000
E	Other Current assets (Prepaid expenses)		90,000	1,20,000
	Total		91,60,000	1,09,80,000

Notes to accounts

No.	Particulars	2020	2021
1	Long term borrowings		
	9% Debentures (issued at the end of year)	-	9,00,000
	Total	-	9,00,000
2.	Other current liabilities		
	Dividend payable	1,50,000	-
	Liabilities for expenses	3,30,000	2,70,000
	Total	4,80,000	2,70,000
3	Property, plant and equipment		
	Plant and machinery	27,30,000	40,70,000
	Less: Depreciation	(6,10,000)	(7,90,000)
	Net carrying value	21,20,000	32,80,000
4	Trade receivables		
	Gross amount	23,90,000	28,30,000
	Less: Provision for doubtful debts	(1,50,000)	(1,90,000)
	Total	22,40,000	26,40,000

Additional Information:

a) Net profit for year ended 31st March, 2021, after charging depreciation 1,80,000 is ₹ 10,40,000.

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

Question 9 *(ICAI Study Material)* Pg no.______

Following are extracts of the Balance Sheets of Ajay Ltd.:

	Particulars	Notes	31.3.2021 ₹	31.3.2022 ₹
	Equity and Liabilities			
	Shareholder's funds			
(a)	Share capital	1	5,00,000	5,00,000
(b)	Reserve & surplus	2	50,000	90,000
	Non-current liabilities			
(a)	Long-term borrowings	3	5,00,000	7,50,000
	Current liabilities			
(a)	Other current liabilities	4	---	5,000
	Assets			
	Non-current assets			
(a)	Intangible assets	5	2,05,000	1,80,000

Notes to accounts

		31.3.2021 ₹	31.3.2022 ₹
1	Share Capital		
	50,000 Equity Shares of ₹10 each	5,00,000	5,00,000
2	Reserve & surplus		
	Profit & Loss A/c	50,000	90,000
3	Long-term borrowings		

	10% Debentures	5,00,000	7,50,000
4	Other current liabilities		
	Unpaid interest	---	5,000
5	Intangible assets		
	Goodwill	2,05,000	1,80,000

You are required to show the related items in Cash Flow Statement.

Question 10 *(ICAI Study Material)* *Pg no._____*

Ryan Ltd provides you the following information at the year-end, March 31, 2022

		₹
Sales		6,98,000
Cost of Goods Sold		(5,20,000)
		1,78,000
Operating Expenses (incl. Depreciation Expense of ₹ 37,000)		(1,47,000)
		31,000
Other Income / (Expenses)		
Interest Expense paid	(23,000)	
Interest Income received	6,000	
Gain on Sale of Investments	12,000	
Loss on Sale of Plant	(3,000)	(8,000)
		23,000
Income tax		(7,000)
		16,000

Information Available:

	31.03.2022	31.03.2021
Plant Assets	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
	6,12,000	4,37,000
Investments (Long term)	1,15,000	1,27,000
Inventory	1,44,000	1,10,000
Trade receivables	47,000	55,000
Cash	46,000	15,000
Prepaid expenses	1,000	5,000
Share Capital	4,65,000	3,15,000
Reserves and surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Trade payables	50,000	43,000
Outstanding liabilities	12,000	9,000
Income taxes payable	3,000	5,000

Analysis of selected accounts and transactions during 2021-22

1) Purchased investments for ₹ 78,000.
2) Sold investments for ₹ 1,02,000. These investments cost ₹ 90,000.
3) Purchased plant assets for ₹ 1,20,000.
4) Sold plant assets that cost ₹ 10,000 with accumulated depreciation of ₹ 2,000 for ₹ 5,000.
5) Issued ₹ 1,00,000 of bonds at face value in an exchange for plant assets on 31st March, 2022.
6) Repaid ₹ 50,000 of bonds at face value at maturity.
7) Issued 15,000 shares of ₹ 10 each.
8) Paid cash dividends ₹ 8,000.

Prepare Cash Flow Statement as per AS-3 using indirect method.

Question 11 *(ICAI Study Material)* Pg no._____

The Balance Sheet of New Light Ltd. as at 31st March, 2021 and 2020 (for the years ended) are as follows:

		Notes	31st March 2020	31st March 2021
	Equity and Liabilities			
1	Shareholders' funds			
A	Share capital	1	16,00,000	18,80,000
B	Reserves and Surplus	2	8,40,000	11,00,000
2	Non-current liabilities			
	Long term borrowings	3	4,00,000	2,80,000
3	Current liabilities			
A	Other current liabilities	4	6,00,000	5,20,000
B	Short term provision (provision for tax)		3,60,000	3,40,000
	Total		38,00,000	41,20,000
	Assets			
1	Non-current assets			
A	Property, plant and Equipment	5	22,80,000	26,40,000
B	Non-Current Investments		4,00,000	3,20,000
2	Current assets			
A	Cash and Cash equivalents		10,000	10,000
B	Other Current assets		11,10,000	11,50,000
	Total		38,00,000	41,20,000

Notes to accounts

No.	Particulars	31st March, 2020	31st March, 2021
1.	Share capital		
	Equity share capital	12,00,000	16,00,000
	10% Preference share capital	4,00,000	2,80,000
	Total	16,00,000	18,80,000
2	Reserves and Surplus		
	General reserve	6,00,000	7,60,000
	Profit and Loss account	2,40,000	3,40,000
	Total	8,40,000	11,00,000
3	Long term borrowings		
	9% Debentures	4,00,000	2,80,000
	Total	4,00,000	2,80,000
4.	Other current liabilities		
	Dividend payable	1,20,000	-
	Current Liabilities	4,80,000	5,20,000
	Total	6,00,000	5,20,000
5	Property, plant and equipment		
	Property, plant and equipment	32,00,000	38,00,000
	Less: Depreciation	(9,20,000)	(11,60,000)
	Net carrying value	22,80,000	26,40,000

Additional information:

a. The company sold one property, plant and equipment for ₹ 1,00,000, the cost of which was ₹ 2,00,000 and the depreciation provided on it was ₹80,000.

b. The company also decided to write off another item of property, plant and equipment costing ₹ 56,000 on which depreciation amounting to ₹ 40,000 has been provided.
c. Depreciation on property, plant and equipment provided ₹ 3,60,000.
d. Company sold some investment at a profit of ₹ 40,000.
e. Debentures and preference share capital redeemed at 5% premium. Debentures were redeemed at the year end.
f. 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 31.3.2020 was ₹ 2,16,000. The inventory on 31.3.2021 was correctly valued at ₹ 3,00,000.

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

Question 12 *(ICAI Study Material)* **Pg no._____**

Ms. Jyoti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31st March, 2022:

	(₹ in lakhs)
Net Profit	25,000
Dividend paid	8,535
Provision for Income tax	5,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40
Book value of the assets sold	185
Depreciation charged to Profit & Loss Account	20,000
Profit on sale of Investments	100
Carrying amount of Investment sold	27,765
Interest income on investments	2,506
Interest expenses of the year	10,000
Interest paid during the year	10,520
Increase in Working Capital (excluding Cash & Bank Balance)	56,081
Purchase of fixed assets	14,560
Investment in joint venture	3,850
Expenditure on construction work in progress	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long-term borrowings	25,980
Proceeds from short-term borrowings	20,575
Opening cash and Bank balance	5,003
Closing cash and Bank balance	6,988

Prepare Cash Flow Statement for year ended 31st March 2022 in accordance with AS 3. (Make necessary assumptions).

Question 13 *(RTP May 2020)* **Pg no._____**

The following figures have been extracted from the Books of X Limited for the year ended on 31.3.2022. You are required to prepare a cash flow statement.

a) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 20 lakhs:
   (i) Depreciation on Fixed Assets ₹ 5 lakhs.
   (ii) Discount on issue of Debentures written off ₹ 30,000.
   (iii) Interest on Debentures paid ₹ 3,50,000.
   (iv) Book value of investments ₹ 3 lakhs (Sale of Investments for ₹ 3,20,000).
   (v) Interest received on investments ₹ 60,000.

b) Compensation received ₹ 90,000 by the company in a suit filed.
c) Income tax paid during the year ₹ 10,50,000.
d) 15,000, 10% preference shares of ₹ 100 each were redeemed on 31.3.2022 at a premium of 5%. Further the company issued 50,000 equity shares of ₹ 10 each at a premium of 20% on 2.4.2021. Dividend on preference shares were paid at the time of redemption.
e) Dividends paid for the year 2020-2021 ₹ 5 lakhs and interim dividend paid ₹ 3 lakhs for the year 2021-2022.
f) Land was purchased on 2.4.2021 for ₹ 2,40,000 for which the company issued 20,000 equity shares of ₹ 10 each at a premium of 20% to the land owner as consideration.
g) Current assets & current liabilities in the beginning & at the end of years were as below:

	As on 31.03.2021	As on 31.03.2022
Inventory	12,00,000	13,18,000
Trade Receivables	2,58,000	2,53,100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

Question 14 *(ICAI Study Material)*

Pg no._____

Given below are the relevant extracts of the Balance Sheet and the Statement of Profit and Loss of ABC Ltd. along with additional information:

	Particulars	Notes	31.3.2021 (₹ in lakhs)	31.3.2020 (₹ in lakhs)
	Equity and Liabilities			
1	Current liabilities			
(a)	Trade Payables		250	230
(b)	Short term Provisions	1	200	180
(c)	Other current liabilities	2	70	50
	Assets			
1	Current assets			
(a)	Inventories		200	180
(b)	Trade Receivables		400	250
(c)	Other current assets	3	195	180

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

	Particulars	Notes	₹ in lakhs
I	Revenue from operations		4,150
II	Other income	4	100
III	Total income (I + II)		4,250
	Expenses:		
	Purchases of 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
IV	Total expenses		3,540
V	Profit before tax (III – IV)		710
VI	Tax expense:		
	Current tax		200
VII	Profit for the year from continuing operations		510

Appropriations:

Balance of Profit and Loss account brought forward	50
Transfer to general reserve	200
Dividend paid	330

Notes to accounts:

		2021 (₹ in lakhs)	2020 (₹ in lakhs)
1	Short term Provisions:		
	Provision for Tax	200	180
2	Other current liabilities:		
	Outstanding wages	50	40
	Outstanding expenses	20	10
	Total	70	50
3	Other current assets:		
	Advance tax	195	180
4	Other income:		
	Interest and dividend	100	
5	Finance cost:		
	Interest	60	

Compute cash flow from operating activities using both direct and indirect method.

Question 15

Pg no._____

The following particulars relate to Bee Ltd., for the year ended 31st March, 2022:

a) Furniture of book value of ₹ 15,500 was disposed off for ₹ 12,000.
b) Machinery costing ₹ 3,10,000 was purchased and ₹ 20,000 were spent on its erection.
c) Fully paid 8% preference shares of the face value of ₹ 10,00,000 were redeemed at a premium of 3%. In this connection 60,000 equity shares of ₹ 10 each were issued at a premium of ₹ 2 per share. The entire money being received with applications.
d) Dividend was paid as follows:
   On 8% preference shares ₹ 40,000 On equity shares for the year 2021-22 ₹ 1,10,000
e) Total sales were ₹ 32,00,000 out of which cash sales were ₹ 11,50,000.
f) Total purchases were ₹ 8,00,000 including cash purchase of ₹ 60,000.
g) Total expenses were ₹ 12,40,000 charged to Profit and Loss A/c.
h) Taxes paid were ₹ 3,30,000.
i) Cash and cash equivalents as on 31st March, 2022 were ₹ 1,25,000.

You are requested to prepare Cash Flow Statement as per AS 3 for the year ended 31st March, 2022 after taking into consideration the following also:

	On 31st March, 2021	On 31st March, 2022
Sundry Debtors	1,50,000	1,47,000
Sundry Creditors	78,000	83,000
Unpaid expenses	63,000	55,000

Question 16 *(ICAI Study Material)*

Pg no._____

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.2022 from following information:

1) Sales for the year amounted to ₹ 135 crores out of which 60% was cash sales.
2) Purchases for the year amounted to ₹ 55 crores out of which credit purchase was 80%.
3) Administrative & selling expenses amounted to ₹ 18 crores and salary paid amounted to ₹ 22 crores.
4) The Company redeemed debentures of ₹ 20 crores at a premium of 10%. Debenture holders were issued equity shares of ₹ 15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was ₹ 1.5 crores.

5) Dividend paid during the year amounted to ₹ 11.7 crores was also paid.
6) Investment costing ₹ 12 crores were sold at a profit of ₹ 2.4 crores.
7) ₹ 8 crores was paid towards income tax during the year.
8) A new plant costing ₹ 21 crores was purchased in part exchange of an old plant. The book value of the old plant was ₹ 12 crores but the vendor took over the old plant at a value of ₹ 10 crores only. The balance was paid in cash to the vendor.
9) The following balances are also provided: (in crores)

	1.4.2021	31.3.2022
Debtors	45	50
Creditors	21	23
Bank	6	18.2

Question 17

Pg no._____

The following information was provided by XYZ Ltd. for the year ended 31st March, 2022:

(1) Gross Profit Ratio was 25% for the year, which amounts to ₹ 7,50,000.
(2) Company sold goods for cash only.
(3) Opening inventory was lesser than closing inventory by ₹ 50,000.
(4) Wages paid during the year ₹ 11,10,000.
(5) Office expenses paid during the year ₹ 70,000.
(6) Selling expenses paid during the year ₹ 30,000.
(7) Dividend paid during the year ₹ 80,000.
(8) Bank Loan repaid during the year ₹ 4,10,000 (included interest ₹ 10,000)
(9) Trade Payables on 31st March, 2021 were ₹ 1,00,000 & on 31st March, 2022 were ₹ 70,000.
(10) Amount paid to Trade payables during the year ₹ 12,20,000
(11) Income Tax paid during the year amounts to ₹ 1,10,000 (Provision for taxation as on 31st March, 2022 ₹ 60,000)·
(12) Investments of ₹ 16,40,000 sold during the year at a profit of ₹ 40,000.
(13) Depreciation on furniture amounts to ₹ 80,000.
(14) Depreciation on other tangible assets amounts to ₹ 40,000.
(15) Plant and Machinery purchased on 15th November, 2021 for ₹ 7,00,000
(16) On 31st March, 2022 ₹ 4,00,000, 7% Debentures were issued at face value in exchange for a plant.
(17) Cash and Cash equivalents on 31st March, 2021 ₹ 4,50,000.

(A) Prepare cash flow statement for the year ended 31st March, 2022, using direct method.
(B) Calculate cash flow from operating activities, using indirect method

Question 18 *(ICAI Study Material)*

Pg no._____

Prepare Cash Flow from Investing Activities of M/s. Creative Ltd. year ended 31-3-22.

Particulars	₹
Plant acquired by the issue of 8% Debentures	1,56,000
Claim received for loss of plant in fire	49,600
Unsecured loans given to subsidiaries	4,85,000
Interest on loan received from subsidiary companies	82,500
Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment (TDS of ₹ 8,200 was deducted on the above interest)	68,000
Book value of plant sold (loss incurred ₹ 9,600)	84,000

Question 19 *(ICAI Study Material)* *Pg no.____*

From the following Balance Sheets and information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31st March, 2021:

	Particulars	Notes	31st March 2021	31st March 2020
	Equity and Liabilities			
1	Shareholders' funds			
a	Share capital	1	6,00,000	7,00,000
b	Reserves and Surplus	2	4,20,000	3,00,000
2	Non-current liabilities			
	Long term borrowings	3	2,00,000	-
3	Current liabilities			
a	Trade Payables		1,15,000	1,10,000
b	Other current liabilities	4	30,000	80,000
c	Short term provision (provision for tax)		95,000	60,000
	Total		14,60,000	12,50,000
	Assets			
1	Non-current assets			
a	Property, plant and Equipment	5	9,15,000	7,00,000
b	Non-Current Investments		50,000	80,000
2	Current assets			
a	Inventories		95,000	90,000
b	Trade receivables		2,50,000	2,25,000
c	Cash and Cash equivalents		50,000	90,000
d	Other Current assets		1,00,000	65,000
	Total		14,60,000	12,50,000

Notes to accounts

No.		31st March, 2021	31st March, 2020
1.	Share capital		
	Equity share capital	6,00,000	5,00,000
	10% Redeemable Preference share capital	--	2,00,000
	Total	6,00,000	7,00,000
2	Reserves and Surplus		
	Capital redemption reserve	1,00,000	-
	Capital reserve	70,000	-
	General reserve	1,50,000	2,50,000
	Profit and Loss account	1,00,000	50,000
	Total	4,20,000	3,00,000
3	Long term borrowings		
	9% Debentures	2,00,000	--
4.	Other current liabilities		
	Dividend payable	-	60,000
	Liabilities for expenses	30,000	20,000
	Total	30,000	80,000
5	Property, plant and equipment		
	Plant and machinery	7,65,000	5,00,000
	Land and building	1,50,000	2,00,000
	Net carrying value	9,15,000	7,00,000

Additional Information:

a. A piece of land has been sold out for ₹1,50,000 (Cost – ₹1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on revaluation of land.
b. On 1st April, 2020 a plant was sold for ₹90,000 (Original Cost – ₹70,000 and W.D.V. – ₹ 50,000) and Debentures worth ₹1 lakh were issued at par as part consideration for plant of ₹4.5 lakhs acquired.
c. Part of the investments (Cost – ₹50,000) was sold for ₹70,000.
d. Pre-acquisition dividend received ₹5,000 was adjusted against cost of investment.
e. Interim dividend was declared and paid @ 15% during the current year.
f. Income-tax liability for the current year was estimated at ₹1,35,000.
g. Depreciation @ 15% has been charged on Plant and Machinery but no depreciation has been charged on Building.

Question 20 *(ICAI Study Material)* Pg no._____

How will you disclose following items while preparing Cash Flow Statement of Gagan Ltd. as per AS-3 for the year ended 31st March, 2022?

(i) 10% Debentures issued: As on 01-04-2021 ₹ 1,10,000 As on 31-03-2022 ₹ 77,000
(ii) Debentures were redeemed at 5% premium at the end of the year. Premium was charged to the Profit & Loss Account for the year.
(iii) Unpaid Interest on Debentures: As on 01-04-2021 ₹ 275 As on 31-03-2022 ₹ 1,175
(iv) Debtors of ₹ 36,000 were written off against the Provision for Doubtful Debts A/c during the year.
(v) 10% Bonds (Investments): As on 01-04-2021 ₹ 3,50,000 As on 31-03-2022 ₹ 3,50,000
(vi) Accrued Interest on Investments: As on 31-03-2022 ₹ 10,500

Question 21 *(RTP May 2021)* Pg no._____

The following are the extracts of Balance Sheet and Statement of Profit & Loss of Supriya Ltd.

Extract of Balance Sheet

		Particulars	Notes	2022 ('000)	2021 ('000)
		Equity and Liabilities			
1		Shareholder's funds			
	a	Share capital	1	500	200
2		Non- current liabilities			
	a	Long term loan from bank		-	250
3		Current liabilities			
	a	Trade Payables		1,000	3,047
		Assets			
1		Non-current assets			
	a	Property, Plant and Equipment		230	128
2		Current assets			
	a	Trade receivables		2,000	4,783
	b	Cash & cash equivalents (Cash balance)		212	35

Extract of Statement of Profit and Loss

	Particulars	Notes	2022 ('000)	2021 ('000)
I	Expenses			
	Employee benefits expense		69	25
	Other expenses	2	115	110
II	Tax expense:			
	Current tax (paid during year)		243	140

Notes to accounts

	Particulars	2022 ('000)	2021 ('000)
1	Share Capital		
	Equity Shares of ₹ 10 each, fully paid up	500	200
2	Other expenses		
	Overheads	115	110

Prepare Cash Flow Statement of Supriya Ltd. for the year ended 31st March, 2022 in accordance with AS-3 using direct method. All transactions were done in cash only. There were no outstanding/prepaid expenses as on 31st March, 2021 & on 31st March, 2022. Dividend amounting ₹ 80,000 was paid during the year ended 31st March, 2022.
Ignore deprecation.

Question 22 *(ICAI Study Material) (Similar)* *Pg no.____*

From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-2022 as per AS-3.

Particulars	Amount
Balance as per the Bank Statement	25,000
Cheque issued but not presented in the Bank	15,000
Short Term Investment in liquid equity shares of ABC Limited	50,000
Fixed Deposit created on 01-11-2021 and maturing on15-04-2022	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund on 01-03-2022 (having maturity period of less than 3 months)	1,00,000
Bank Balance in Foreign Currency Account in India (Conversion Rate: On the day of deposit ₹69/USD As on 31-03-2022 ₹70/USD)	$ 1,000
Debentures purchased of ₹ 10 lacs of A Ltd. which are redeemable on 31st October 2022	90,000
Shares of Alpha Ltd. purchased on 1st January, 2022	60,000

Question 23 *(ICAI Study Material)* *Pg no.____*

Mayuri Ltd. acquired Plant and Machinery for ₹ 25 lakhs. During the same year, it also sold Furniture and Fixtures for ₹ 4 lakhs. Can the company disclose, Net Cash Outflow towards purchase of Fixed Assets ₹ 21 lakhs (i.e., 25 lakhs – 4 lakhs) in the Cash Flow Statement?

Solution

As per AS 3, Cash Flow Statements, an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except in the case of:

- cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and
- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

In the given case, since the purchase of Plant and Machinery and disposal of Furniture and Fixtures do not fall in the criteria of exception mentioned above, the same should be presented on a gross basis as an outflow of ₹ 25 lakhs and an inflow of ₹ 4 lakhs. Presentation of net cash outflow of ₹ 21 lakhs is not permitted as per AS 3

Question 24 *(ICAI Study Material)* *Pg no.____*

How would the following cash flows be classified in accordance with AS 3?

a) Corporate Income Tax paid amounting to ₹ 70 lakhs during the reporting period.
b) Payment of advance tax ₹ 8,75,000 out of which ₹ 75,000 was towards capital gains arising on account of sale of assets during the reporting period.
c) Fixed Deposits withdrawn by customers of State Bank of India ₹ 3 crores.

Solution

a) ₹ 70 lakhs: Operating Cash Flows
b) ₹ 8,00,000: Operating Cash Flows ₹ 75,000: Investing Cash Flows
c) ₹ 3 crores: Operating Cash Flows for State Bank of India.

Question 25 *(ICAI Study Material)* *Pg no._____*

Z Ltd. has no Foreign Currency Cash Flow during the reporting period. It held a deposit in a bank in France. The balances as at the beginning of the year and at the end of the year were € 100,000 and € 105,000 respectively. The exchange rate at the beginning of the year was € 1 = ₹ 82, and at the end of the year was € 1 = ₹ 85. The increase in the deposit balance of € 5,000 was on account of interest credited on the last day of the reporting period. The deposit was reported at ₹ 82,00,000 in the opening balance sheet and at ₹ 89,25,000 in the closing balance sheet. You are required to show how these transactions would be presented in the Cash Flow Statement as per AS 3

Solution

The Statement of Profit and Loss was credited on account of:

Interest Income: € 5,000 x ₹ 85 = ₹ 4,25,000

Exchange difference = € 100,000 x (₹ 85 – ₹ 82) = ₹ 3,00,000 In preparing the Cash Flow Statement, the exchange difference of ₹ 3,00,000 should be deducted from the Net Profit before taxes, since it is a non-cash item. However, in order to reconcile the opening balance of the Cash and Cash Equivalents with its closing balance, the Exchange Difference of ₹ 3,00,000 should be added to the opening balance in a Note to the Cash Flow Statement., Cash Flows arising from transactions in a Foreign Currency shall be recorded in Z Ltd.'s reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow.

PRACTICE QUESTIONS

Question 1 Pg no._____

Classify the following activities as
(i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities.
a) Rent received on property held as investment.
b) Selling and distribution expense paid.
c) Income tax paid.
d) Dividend paid on Preference shares.
e) Underwriting Commission paid.
f) Rent paid.
g) Brokerage paid on purchase of investments.
h) Long term Bank loan.
i) Refund of Income Tax

Question 2 *(Inter May 2018) (5 Marks)* Pg no._____

Classify the following activities as (i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents
(1) Cash receipts from Trade Receivables
(2) Marketable Securities
(3) Purchase of investment
(4) Proceeds from long term borrowings
(5) Wages and Salaries paid
(6) Bank overdraft
(7) Purchase of Goodwill
(8) Interim dividend paid on equity shares
(9) Short term Deposits
(10)Underwriting commission paid

Question 3 *(ICAI Study Material)* Pg no._____

Classify the following activities as (a) Operating activities, (b) Investing activities (c) Financing activities (d) Cash equivalents with reference to AS 3.

(a) Brokerage paid on purchase of investments
(b) Underwriting commission paid
(c) Trading commission received
(d) Proceeds from sale of investment
(e) Purchase of goodwill
(f) Redemption of preference shares
(g) Rent received from property held as investment
(h) Interest paid on long-term borrowings
(i) Marketable securities (having risk of change in value)
(j) Refund of income tax received

Question 4 *(ICAI Study Material)* Pg no._____

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2022 in accordance with AS 3 using the direct method.

Summary Cash Account for the year ended 31.3.2022

	₹ '000		₹ '000
Balance on 1.4.2021	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200

Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.2022	150
	3,250		3,250

Question 5 *(ICAI Study Material)* *Pg no._____*

Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2022:

Cash Flow (Abstract)

	₹		₹
Opening balance:		Payment for Account Payables	90,000
Cash	10,000	Salaries and wages	25,000
Bank	70,000	Payment of overheads	15,000
Share capital – shares issued	5,00,000	Fixed assets acquired	4,00,000
Collection on account of Trade Receivables	3,50,000	Debentures redeemed	50,000
Sale of fixed assets	70,000	Bank loan repaid	2,50,000
		Taxation	55,000
		Dividends	1,00,000
		Closing balance:	
		Cash	5,000
		Bank	10,000
	10,00,000		10,00,000

Prepare Cash Flow Statement for the year ended 31st March, 2022 in accordance with AS 3.

Question 6 *(Inter July 2021) (5 Marks)* *Pg no._____*

Prepare cash flow statement of Gama Limited for the year ended 31st March, 2021 in accordance with AS-3 from the following cash account summary:

Cash summary Account

Inflows	₹ ('000)	Outflows	₹ ('000)
Opening Balance	945	Payment to suppliers	54,918
Receipts from Customers	74,682	Purchase of Investments	351
Sale of Investments (Cost 4,05,000)	459	Property, plant & equipment acquired	6,210
Issue of Shares	8,100	Wages and salaries	1,863
Sale of Property, Plant & equipment	3,456	Payment of Overheads	3,105
		Taxation	6,561
		Dividends	2,160
		Repayment of Bank Overdraft	6,750
		Interest paid on Bank Overdraft	1,350
		Closing Balance	4,374
	87,642		87,642

Question 7 *(RTP Nov 2020) (Similar)* *Pg no._____*

Prepare Cash Flow Statement of Tom & Jerry Ltd. for the year ended 31st March, 2022

Summary Cash Account

		('000)
Balance at 1.4.2021		210
Receipts from customers		16,596
Sale of Investments (Cost ₹ 90,000)		102
Issue of shares		1,800
Sale of fixed assets		768
		19,476
Payments to suppliers	12,204	
Purchase of Investments	78	
Purchase of Fixed Assets	1,380	
Wages and salaries	414	
Selling & Administration Exp.	690	
Payment of Income Tax	1,458	
Payment of Dividends	480	
Repayment of Bank Loan	1,500	
Interest paid on Bank Loan	300	(18,504)
Balance at 31.03.2022		972

Question 8

Pg no._____

The following are the summarized Balance Sheets of 'X' Ltd. as on March 31, 2021 and 2022:

Liabilities	As on 31.03.2021	As on 31.03.2022
Equity share capital	10,00,000	12,50,000
Capital Reserve	-	10,000
General Reserve	2,50,000	3,00,000
Profit and Loss A/c	1,50,000	1,80,000
Long term loan from the bank	5,00,000	4,00,000
Trade Payables	5,00,000	4,00,000
Provision for Taxation	50,000	60,000
Dividend payable	1,00,000	1,25,000
	25,50,000	27,25,000
Assets	**As on 31.03.2021**	**As on 31.03.2022**
Land and Building	5,00,000	4,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Inventory	3,00,000	2,80,000
Trade Receivables	4,00,000	4,20,000
Cash in Hand	2,00,000	1,65,000
Cash at Bank	3,00,000	4,10,000
	25,50,000	27,25,000

Additional Information:

a) Dividend of ₹ 1,00,000 was paid during the year ended March 31, 2022.
b) Machinery during the year purchased for ₹ 1,25,000.
c) Machinery of another company was purchased for a consideration of ₹ 1,00,000 payable in equity shares.
d) Income-tax provided during the year ₹ 55,000.
e) Company sold some investment at profit of ₹ 10,000, which was credited to Capital reserve.
f) There was no sale of machinery during the year.
g) Depreciation written off on Land and Building ₹ 20,000.

From the above particulars, prepare a cash flow statement for the year ended March, 2022 as per AS 3 (Indirect method).

Question 9 *(RTP May 2023)* Pg no._____

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

Particulars	Note No.	31st March,2021	31st March,2020
(I) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share capital	1	5,60,000	3,00,000
(b) Reserve and Surplus	2	35,000	25,000
2. Current Liabilities			
(a) Trade payables		1,50,000	60,000
(b) Short-term provisions (Provision for taxation)		8,000	5,000
Total		7,53,000	3,90,000
(II) Assets			
1. Non-current assets			
(a) Property, Plant and Equipment		3,50,000	1,80,000
2. Current assets			
(a) Inventories		1,20,000	50,000
(b) Trade receivables		1,00,000	25,000
(c) Cash and cash equivalents		1,05,000	90,000
(d) Other current assets		78,000	45,000
Total		7,53,000	3,90,000

Notes to Accounts

Particulars	31st March,2021	31st March,2020
1. Share capital		
(a) Equity share capital	4,10,000	2,00,000
(b) Preference share capital	1,50,000	1,00,000
2. Reserve and surplus	5,60,000	3,00,000
Surplus in statement of profit and loss at the beginning of the year	25,000	
Add: Profit of the year	20,000	
Less: Dividend	(10,000)	
Surplus in statement of profit and loss at the end of the year	35,000	25,000

Additional Information:

1. Dividend paid during the year ₹ 10,000
2. Depreciation charges during the year ₹ 40,000.

Question 10 *(ICAI Study Material)* Pg no._____

From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.2022:

Ledger Balances of Mr. Zen

	As on 01.04.2021	As on 31.03.2022
Zen's Capital A/c	10,00,000	12,24,000
Trade payables	3,20,000	3,52,000

Mrs. Zen's loan	2,00,000	-
Loan from Bank	3,20,000	4,00,000
Land	6,00,000	8,80,000
Plant and Machinery (net block)	6,40,000	4,40,000
Inventories	2,80,000	2,00,000
Trade receivables	2,40,000	4,00,000
Cash	80,000	56,000

Additional information:

A machine costing ₹ 80,000 (accumulated depreciation there on ₹ 24,000) was sold for ₹ 40,000. The provision for depreciation on 1.4.2021 was ₹ 2,00,000 and 31.3.2022 was ₹ 3,20,000. The net profit for the year ended on 31.3.2022 was ₹ 3,60,000.

Question 11

Pg no._____

The Balance Sheets of X Ltd. as on 31st March, 2021 and 31st March, 2022 are as follows:

Liabilities	31.03.2021	31.03.2022	Assets	31.03.2021	31.03.2022
Share Capital	5,00,000	7,00,000	Land and Buildings	80,000	1,20,000
General Reserve	50,000	70,000	Plant and Machinery	5,00,000	8,00,000
Profit and Loss A/c	1,00,000	1,60,000	Inventory	1,00,000	75,000
Trade payables	1,93,000	2,40,000	Trade receivables	1,50,000	1,60,000
O/s Expenses	7,000	5,000	Cash	20,000	20,000
	8,50,000	11,75,000		8,50,000	11,75,000

Additional Information:

a) 50,000 depreciation has been charged to Plant & Machinery during year ended 31st Mar 22.

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

Prepare Cash flow statement for year ended 31st March 2022 as per AS 3 using indirect method

Question 12

Pg no._____

Prepare cash flow statement of A (P) Ltd. as at 31st March, 2022 by using indirect method:

Balance Sheet

	31.03.2021	31.03.2022
Liabilities		
Share capital	12,00,000	12,00,000
Profit and loss account	8,50,000	10,00,000
Long term loans	10,00,000	10,60,000
Trade payables	3,50,000	4,00,000
	34,00,000	36,60,000
Assets		
Fixed assets	17,00,000	20,00,000
Investment in shares	2,00,000	2,00,000
Inventory	6,80,000	7,00,000
Trade receivables	7,60,000	6,90,000
Cash	60,000	70,000
	34,00,000	36,60,000

Income Statement for the year ended 31st March, 2022

	₹
Sales	40,80,000
Less: Cost of sales	(27,20,000)
Gross profit	13,60,000
Less: Operating expenses:	

Administrative expenses	(4,60,000)
Depreciation	(2,20,000)
Operating profit	6,80,000
Add: Non-operating incomes (dividend received)	50,000
	7,30,000
Less: Interest paid	(1,40,000)
Profit before tax	5,90,000
Less: Income-tax	(2,60,000)
Profit after tax	3,30,000

Statement of Retained Earnings

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

Question 13 *(RTP Nov 2018) / (RTP Nov 2022) (Similar)* **Pg no._____**

Balance Sheet of Harry Ltd. for year ending 31st March, 2022 & 31st March, 2021 were as:

	2022	2021
Equity Share Capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000
Current Liabilities:		
Trade payables	8,000	5,000
Income Tax Payable	3,000	2,000
Dividend Payable	4,000	2,000
	1,44,000	1,17,000
Fixed Assets (at w.d.v.)		
Building	19,000	20,000
Furniture & Fixtures	34,000	22,000
Cars	25,000	16,000
Long-term investments	32,000	28,000
Current Assets		
Inventory	14,000	8,000
Trade receivables	8,000	6,000
Bank and Cash	12,000	17,000
	1,44,000	1,17,000

The profit and loss account for the year ended 31st March, 2022 disclosed

Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Declared dividends	(4,000)
Retained profit	1,000

Further Information is available:

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

4. Purchase investments for ₹ 6,000.
5. Sold investments for ₹ 10,000, these investments cost ₹ 2,000.

Prepare Cash Flow Statements as per AS-3 using indirect method.

Question 14

Pg no._____

The following are the summarized Balance Sheets of 'Fan' Ltd. as on March 31, 2021 and 2022:

Liabilities	As on 31.03.2021	As on 31.03.2022
Equity share capital	5,00,000	6,25,000
Capital Reserve	-	5,000
Profit and Loss A/c	2,00,000	2,40,000
Long term loan from the bank	2,50,000	2,00,000
Trade Payables	2,50,000	2,00,000
Provision for Taxation	25,000	30,000
	12,25,000	13,00,000
Assets	**As on 31.03.2021**	**As on 31.03.2022**
Land and Building	2,00,000	1,90,000
Machinery	3,75,000	4,60,000
Investment	50,000	25,000
Inventory	1,50,000	1,40,000
Trade Receivables	2,00,000	2,10,000
Cash in Hand	1,00,000	70,000
Cash at Bank	1,50,000	2,05,000
	12,25,000	13,00,000

Additional information:

a) Depreciation written off on land and building ₹ 10,000.
b) Company sold some investment at profit of ₹ 5,000, which was credited to Capital Reserve.
c) Income-tax provided during the year ₹ 27,500.
d) During the year, the company purchased a machinery for ₹ 1,12,500. They paid ₹ 62,500 in cash and issued 5,000 equity shares of ₹ 10 each at par.

Prepare cash flow statement for the year ended 31st March 2022 by using indirect method.

Question 15 *(RTP May 2019)*

Pg no._____

From the following information prepare cash flow statement for year ended 31st March, 2022:

	(₹ in lacs)
Net profit before tax provision	72,000
Dividend paid	20,404
Income-tax paid	10,200
Book value of assets sold Loss on sale of asset	444 96
Depreciation debited in P & L account	48,000
Capital grant received - amortized in P & L A/c	20
Book value of investment sold Profit on sale of investment	66,636 240
Interest income from investment credited in P & L A/c	6,000
Interest expenditure debited in P & L A/c	24,000
Interest actually paid (Financing activity)	26,084
Increase in working capital [Excluding cash and bank balance]	1,34,580
Purchase of fixed assets	44,184
Expenditure on construction work	83,376
Grant received for capital projects	36

Long term borrowings from banks	1,11,732
Provision for Income-tax debited in P & L A/c	12,000
Cash and bank balance on 1.4.2021	12,000
Cash and bank balance on 31.3.2022	16,000

Question 16 *(Inter Nov 2020) (10 Marks)* *Pg no._____*

The following figures have been extracted from the books of Manan Jo Limited for the year ended on 31.3.2022. Prepare Cash Flow statement as per AS 3 using indirect method.

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 30 lakhs:
  (a) Depreciation on Property, Plant & Equipment ₹ 7.50 lakhs.
  (b) Discount on issue of Debentures written off ₹ 45,000.
  (c) Interest on Debentures paid ₹ 5,25,000.
  (d) Book value of investments ₹ 4.50 lakhs (Sale of Investments for ₹ 4,80,000).
  (e) Interest received on investments ₹ 90,000.

(ii) Compensation received ₹ 1,35,000 by the company in a suit filed.

(iii) Income tax paid during the year ₹ 15,75,000.

(iv) 22,500, 10% preference shares of 100 each were redeemed on 02.04.21 at premium of 5%

(v) Further the company issued 75,000 equity shares of ₹ 10 each at a premium of 20% on 30.3.2022 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)

(vi) Dividend for FY 2020-21 on preference shares were paid at the time of redemption.

(vii) Dividend on Equity shares paid on 31.01.2022 for the year 2020-2021 ₹ 7.50 lakhs and interim dividend paid ₹ 2.50 lakhs for the year 2021-2022.

(viii) Land was purchased on 02.4.2021 for ₹ 3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration.

(ix) Current assets & current liabilities in the beginning & at the end of the years were as:

	As on 01.04.2021	As on 31.03.2022
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650
Cash in Hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

Question 17 *(Inter Jan 2021) (12 Marks)* *Pg no._____*

Following information was extracted from books of S Ltd. for the year ended 31st March, 2022:

(1) Net profit before taking into account income tax and after talking into account the following items was ₹ 30 lakhs;
  (i) Depreciation on Property, Plant & Equipment ₹ 7,00,000
  (ii) Discount on issue of debentures written off ₹ 45,000.
  (iii) Interest on debentures paid ₹ 4,35,000
  (iv) Investment of Book value ₹3,50,000 sold for ₹3,75,000.
  (v) Interest received on Investments ₹70,000

(2) Income tax paid during the year ₹ 12,80,000

(3) Company issued 60,000 Equity Shares of ₹ 10 each at premium of 20% on 10th April, 2021.

(4) 20,000,9% Preference Shares of ₹ 100 each were redeemed on 31st March, 2022 at a premium of 5%

(5) Dividend paid during the year amounted to ₹ 11 Lakhs

(6) A new Plant costing ₹ 7 Lakhs was purchased in part exchange of an old plant on 1st January,2022. The book value of the old plant was ₹ 8 Lakhs but the vendor took over the old plant at a value of ₹ 6 Lakhs only. The balance amount was paid to vendor through cheque on 30th March, 2022.

(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 31.03.2022 was ₹ 14,76,000. The inventory on 31.03.2021 was correctly valued at ₹ 13,50,000.

(8) Current Assets & Current Liabilities in the beginning & at the end of year 21-22 were as:

	As on 01.04.2021	As on 31.03.2022
Inventory	13,50,000	14,76,000
Trade receivables	3,27,000	3,13,200
Cash & Bank	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 31st March, 2022 as per AS 3 using the indirect method.

Question 18 *Pg no._____*

Prepare Cash Flow Statement for the year ended 31st March, 2022:

a) Total sales for the year were ₹ 199 crore out of which cash sales amounted to ₹ 131 crore.
b) Cash collections from credit customers during the year, totalled ₹ 67 crore.
c) Cash paid to suppliers of goods and services and to the employees of the enterprise amounted to ₹ 159 crore.
d) Fully paid preference shares of the face value of ₹ 16 crore were redeemed and equity shares of the face value of ₹ 16 crore were allotted as fully paid up at a premium of 25%.
e) ₹ 13 crore were paid by way of income tax.
f) Machine of the book value of ₹ 21 crore was sold at a loss of ₹ 30 lakhs and a new machine was installed at a total cost of ₹ 40 crore.
g) Debenture interest amounting ₹ 1 crore was paid.
h) Dividends totalling ₹ 11.7 crore was paid on equity and preference shares.
i) On 31st March, 2021 balance with bank and cash on hand totalled ₹ 9 crore.

Question 19 *(RTP May 2018) / (RTP Nov 2021) (Similar) / (RTP Nov 2023)* *Pg no._____*

Prepare a Cash Flow Statement for the year ended 31st March, 2023 (Using direct method):

a) Total sales for year were ₹ 796 crores out of which cash sales amounted to ₹ 524 crores.
b) Receipts from credit customers during the year, totaled ₹ 268 crores.
c) Purchases for the year amounted to ₹ 440 crores out of which credit purchase was 80%.
d) Balance in creditors as on
   1.4.2022 ₹ 168 crores 31.3.2023 ₹ 184 crores
e) Suppliers of other consumables and services were paid ₹ 38 crores in cash.
f) Employees of the enterprises were paid 40 crores in cash.
g) Fully paid 9% preference share of the face value of ₹64 crores were redeemed. Equity shares of the face value of ₹40 crores were allotted as fully paid up at premium of 20%.
h) 10% Debentures of ₹ 40 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.
i) ₹52 crores were paid by way of income tax.
j) A new machinery costing ₹ 50 crores was purchased in part exchange of an old machinery. The book value of the old machinery was ₹26 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of ₹30 crores. The balance was paid in cash to the vendor.

k) Investment costing ₹ 36 cores were sold at a loss of ₹4 crores.
l) Dividends totalling ₹ 30 crores was also paid.
m) Debenture interest amounting ₹ 4 crore was paid.
n) Non Cash expenditure incurred during the current year was 1.20 crores
o) Dividend declared during the current year was 15%on Equity share capital(ESC=120 crores)
p) On 31st March 2022, Balance with Bank and Cash on hand totaled ₹ 4 crores

Question 20 *(ICAI Study Material)* *Pg no._____*

Prepare cash flow statement of M/s MNT Ltd. for the year ended 31st March, 2022 with the help of the following information:

1) Company sold goods for cash only.
2) Gross Profit Ratio was 30% for the year, gross profit amounts to ₹ 3,82,500.
3) Opening inventory was less than closing inventory by ₹ 35,000.
4) Wages paid during the year ₹ 4,92,500.
5) Office and selling expenses paid during the year ₹ 75,000.
6) Dividend paid during the year ₹ 30,000
7) Bank loan repaid during the year ₹ 2,15,000 (included interest ₹ 15,000)
8) Trade payables on 31st March, 2021 exceed the balance on 31st March, 2022 by ₹ 25,000.
9) Amount paid to trade payables during the year ₹ 4,60,000.
10) Tax paid during the year amounts to ₹ 65,000 (Provision for taxation as on 31.03.2022 ₹ 45,000).
11) Investments of ₹ 7,00,000 sold during the year at a profit of ₹ 20,000.
12) Depreciation on fixed assets amounts to ₹ 85,000.
13) Plant and machinery purchased on 15th November, 2021 for ₹ 2,50,000.
14) Cash and Cash Equivalents on 31st March, 2021 ₹ 2,00,000.
15) Cash and Cash Equivalents on 31st March, 2022 ₹ 6,07,500.

Question 21 *(Inter May 2019) (10 Marks)* *Pg no._____*

The following information was provided by PQR Ltd. for the year ended 31st March, 2022:

(1) Gross Profit Ratio was 25% for the year, which amounts to ₹ 3,75,000.
(2) Company sold goods for cash only.
(3) Opening inventory was lesser than closing inventory by ₹ 25,000.
(4) Wages paid during the year ₹ 5,55,000.
(5) Office expenses paid during the year ₹ 35,000.
(6) Selling expenses paid during the year ₹ 15,000.
(7) Dividend paid during the year ₹ 40,000
(8) Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹ 5,000)
(9) Trade Payables on 31st March, 2021 were ₹ 50,000 and on 31st March, 2022 were ₹ 35,000.
(10) Amount paid to Trade payables during the year ₹ 6,10,000
(11) Income Tax paid during the year amounts to ₹ 55,000 (Provision for taxation as on 31st March, 2022 ₹ 30,000)·
(12) Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.
(13) Depreciation on furniture amounts to ₹ 40,000.
(14) Depreciation on other tangible assets amounts to ₹ 20,000.
(15) Plant and Machinery purchased on 15th November, 2021 for ₹ 3,50,000
(16) On 31st March, 2022 ₹ 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.
(17) Cash and Cash equivalents on 31st March, 2021 ₹ 2,25,000.

(A) Prepare cash flow statement for the year ended 31st March, 2022, using direct method.
(B) Calculate cash flow from operating activities, using indirect method

Question 22 *(ICAI Study Material)* Pg no._____

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

a) Loans and Advances given to the following and interest earned on them:
   (i) to suppliers
   (ii) to employees
   (iii) to its subsidiaries companies

b) Investment made in subsidiary Smart Ltd. and dividend received
c) Dividend paid for the year
d) TDS on interest income earned on investments made
e) TDS on interest earned on advance given to suppliers
f) Insurance claim received against loss of fixed asset by fire

Discuss in the context of AS 3 Cash Flow Statement

Question 23 *(ICAI Study Material) (Similar)* Pg no._____

Classify the following activities as per AS 3 Cash Flow Statement:

a) Interest paid by financial enterprise
b) Dividend paid
c) Tax deducted at source on interest received from subsidiary company
d) Deposit with Bank for a term of two years
e) Insurance claim received towards loss of machinery by fire

Which activity does the purchase of business falls under and whether netting off of aggregate cash flows from disposal and acquisition of business units is possible?

Question 24 *(ICAI Study Material)* Pg no._____

X Ltd. purchased debentures of ₹ 10 lacs of Y Ltd., which are redeemable within three months. How will you show this item as per AS 3 while preparing cash flow statement for year ended on 31st March, 2022?

Question 25 *(Inter Nov 2019) (5 Marks)* Pg no._____

Prepare cash flow from investing activities as per AS 3 of M/s Subham Creative Limited for year ended 31.3.2022.

Particulars	Amount
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of ₹ 8,200 was deducted on the above interest)	73,800
Purchased debentures of X Ltd., on. 1st December, 2021 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred ₹ 9,600)	90,000

Question 26 *(RTP Nov 2019)* Pg no._____

Prepare a Cash Flow Statement for the year ended 31st March, 2022.

Balance Sheets as on………

Particulars	Note No.	31.03.2022	31.03.2021
EQUITY AND LIABILITES			
(1) Shareholder's Funds			
(a) Share Capital	1	3,50,000	3,00,000
(b) Reserve & Surplus	2	82,000	38,000
(2) Current Liabilities			
Trade Payables		65,000	44,000
Other Current Liabilities	3	37,000	27,000
Short Term Provisions (Provision for Tax)		32,000	28,000
Total		5,66,000	4,37,000
ASSETS			
(1) Non Current Assets			
Tangible Fixed Assets	4	2,66,000	1,90,000
Intangible Assets (Goodwill)		47,000	60,000
Non Current Investments		35,000	10,000
(2) Current Assets			
Inventories		78,000	85,000
Trade Receivables		1,08,000	75,000
Cash & Cash Equivalents		32,000	17,000
Total		5,66,000	4,37,000

Note 1: Share Capital

Particulars	31.03.2022	31.03.2021
Equity Share Capital	2,50,000	1,50,000
8% Preference Share Capital	1,00,000	1,50,000
Total	3,50,000	3,00,000

Note 2: Reserve & Surplus

Particulars	31.03.2022	31.03.2021
General Reserve	30,000	20,000
Profit & Loss A/c	27,000	18,000
Capital Reserve	25,000	-
Total	82,000	38,000

Note 3: Current Liabilities

Particulars	31.03.2022	31.03.2021
Dividend Declared	37,000	27,000
Total	37,000	27,000

Note 4: Tangible Fixed Assets

Particulars	31.03.2022	31.03.2021
Land & Building	75,000	1,00,000
Machinery	1,91,000	90,000
Total	2,66,000	1,90,000

Additional Information:

a) ₹ 18,000 depreciation for the year has been written off on Plant and Machinery and no depreciation has been charged on land and building.

b) A piece of land has been sold out for ₹ 50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.
c) A plant was sold for ₹ 12,000 (WDV being ₹ 15,000).
d) Dividend received amounted to ₹ 2,100 which included pre acquisition dividend of ₹ 600.
e) An interim dividend of ₹ 10,000 has been paid.
f) Non-current investments given in the balance sheet represents investment in shares of other companies.

Question 27 — *Pg no._____*

Explain the meaning of the terms 'cash' and 'cash equivalent' for the purpose of Cash Flow Statement as per AS-3.

Ruby Exports had a bank balance of USD 25,000, stated in books at ₹ 16,76,250 using the rate of exchange ₹ 67.05 per USD prevailing on the date of receipt of dollars. However, on the balance sheet date, the closing rate of exchange was ₹ 67.80, and the bank balance had to be restated at ₹ 16,95,000. Comment on the effect of change in bank balance due to exchange rate fluctuation and also discuss how it will be disclosed in Cash Flow Statement of Ruby Exports with reference to AS-3.

Question 28 *(Inter Dec 2021) (5 Marks)* — *Pg no._____*

Following are the extracts from the Balance Sheet of ABC Ltd.

Liabilities	31.3.2020	31.3.2021
	(₹)	(₹)
Equity Share Capital	25,00,000	35,60,000
10% Preference Share Capital	7,00,000	6,00,000
Securities Premium Account	5,00,000	5,50,000
Profit & Loss A/c	20,00,000	28,00,000

Equity Share Capital for the year ended 31st March, 2021 includes ₹ 60,000 of equity shares issued to Grey Ltd. at par for supply of Machinery of ₹ 60,000.

Profit & Loss account on 31st March, 2021 includes ₹ 50,000 of dividend received on Equity shares invested in X Ltd. Show how the related items will appear in the Cash Flow Statement of ABC Ltd. as per AS-3.

Question 29 *(Inter May 2022) (5 Marks)* — *Pg no._____*

The following information is provided by Alpha Limited, for the year ended 31st March, 2022:

a) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 40 lakhs.
b) Depreciation on Fixed Assets ₹ 10 lakhs.
c) Discount on issue of Debentures written of ₹ 60,000.
d) Interest on Debentures paid ₹ 7,00,000.
e) Book value of investments ₹ 6 lakhs (Sale of Investments for ₹ 6,40,000).
f) Interest received on investments ₹ 1,20,000.
g) Compensation received ₹ 1,80,000 by the company in a suit filed.
h) Income tax paid ₹ 21,00,000
i) Current assets and current liabilities in the beginning and at the end of the year were as detailed below:

	As on 31.3.2021 ₹	As on 31.3.2022 ₹
Stock	24,00,000	26,36,000
Sundry Debtors	4,16,000	4,26,200
Cash in hand	3,92,600	70,600

Bills Receivable	1,00,000	80,000
Bills Payable	90,000	80,000
Sundry Creditors	3,32,000	3,42,600
Outstanding Expenses	1,50,000	1,63,600

You are required to prepare Cash Flow Statement from Operating Activities in accordance with AS-3 (revised) using the indirect method for the year ended 31st March,2022.

Question 30 *(Inter Nov 2022) (5 Marks)* **Pg no._____**

Ridgeway Limited, a Non-Financial company has the following activities:

a) Dividend paid for the year.
b) TDS on interest income earned on investments made.
c) Loans and advances given to suppliers and interest earned from them.
d) Deposit with bank for a term of two years.
e) Highly liquid Marketable Securities (without risk of change in value).
f) Investments made and dividends earned on them.
g) Insurance claims received against loss of stock or loss of profits.
h) Loans and advances given to subsidiaries and interest earned from them.
i) Issue of Bonus Shares.
j) Term loan repaid.

You are required to classify the above activities in Cash Flow Statement as per 'AS-3'.

Question 31 *(Inter May 2023) (10 Marks)* **Pg no._____**

The summarised Balance Sheet of Flora Limited for the year ended 31st March, 2022 and 31st March, 2023 are as below :

Assets	31/03/2023 (₹)	31/03/2022 (₹)
Goodwill	15,000	28,000
Land	5,75,000	6,00,000
Furniture and Fixtures	48,000	44,000
Vehicles	22,000	28,000
Office Equipment	21,000	-
Long-term Investments	60,000	1,10,000
Stock-in-hand	96,000	88,000
Bills Receivables	18,150	14,500
Trade Receivables	46,000	52,000
Cash and Bank Balances	1,29,850	34,500
Total	10,31,000	9,99,000
Liabilities	**31/03/2023 (₹)**	**31/03/2022 (₹)**
Equity Share Capital	6,80,000	5,00,000
General Reserves	90,000	60,000
Profit & Loss Account	93,000	52,000
Capital Reserve	75,000	-
8% Debenture of ₹ 100 each	-	3,00,000
Loan from Mr. Andrew	-	15,000
Bills Payable	11,000	13,000
Trade Payables	49,000	45,000
Creditors for Equipment	10,500	-
Outstanding Expenses	4,500	3,000
Provision for Taxation	18,000	11,000
Total	10,31,000	9,99,000

Additional Information:

a. On 1st April, 2022, one of the vehicles was sold for ₹ 3,000. No new purchases were made during the year.
b. A part of the total land was sold for ₹ 1,25,000 (Cost ₹ 1,00,000) and the balance land was revalued. Capital reserve consists of profit on revaluation of balance land. No new purchases were made during the year.
c. Depreciation provided during the year:
    - Furniture and Fixtures ₹ 5,000
    - Vehicles ₹ 2,200
d. Interim dividend of ₹ 5,000 was paid during the year.
e. Provision for taxation for the year 2022-2023 was ₹ 16,000.
f. 8% Debentures were redeemed at par after half year interest payment on 30th September, 2022.
g. Part of the long-term investments were sold at a profit of ₹ 8,000.
h. Interest income received during the year on long-term investment was ₹ 6,500.

You are required to prepare Cash Flow Statement from Operating Activities for the year ended 31st March, 2023 using indirect method. (All workings should form part of the answer)

BUYBACK OF SECURITIES

CH 3

"You can't go back and change the beginning, but you can start where you are and change the ending."

TOPIC 1 INTRODUCTION: BUYBACK OF SHARES

Meaning:

Buyback means purchase of its own shares by a company. When shares are bought back by a company they have to be cancelled by the company. Thus shares bought back results in decrease in share capital of the company. A company having sufficient cash may decide to buyback its own shares.

Objectives/Advantages of Buyback:

a) To increase Earning per share if there is no dilution in company's earnings as the buyback of shares reduces the outstanding number of shares.
b) To increase promoters holding as the shares bought back are cancelled & also discourage others to make hostile bid to takeover the company (i.e. to eliminate threats by shareholders who are looking for a controlling stake)
c) To support the share price on the stock exchange when the share price in the opinion of company management is less than its worth, especially in depressed market (i.e to take the advantage of undervaluation. For instance, if a company is undervalued due to any microeconomic & macroeconomic reason, it buys its shares back at the current market price & issues those later when the prices go up)
d) To pay surplus cash to the shareholders when the company does not need it for the business.

TOPIC 1A BUYBACK OF SHARES: LEGAL PROVISIONS & JOURNAL ENTRIES

Basic Conditions:

Section 68 (2) further states that no company shall purchase its own shares or other specified securities unless—

(i) the buy-back is authorised by its articles
(ii) a special resolution has been passed in general meeting of the company authorizing the buy-back
Exception: In case the buy back is upto 10% of paid up equity + free reserves, the same may be done with the authorization of the Board Resolution
(iii) There shall be a minimum gap of 1 year in buyback offer from the date of closure of the previous buy back
(iv) All the shares or other specified securities for buy-back are fully paid-up
(v) Every buy-back shall be completed within 12 months from the date of passing the special resolution, or the resolution passed by the board of directors.

As per Section 68 (1) of the Companies Act 2013, buy back of shares can be made out of: its free reserves; or the securities premium account; or the proceeds of any shares or other specified securities.

Provided that no buyback of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or other specified securities

Note:

1) Specified securities include Employees stock option or other securities as may be notified by the Central Government from time to time.
2) Free Reserves includes Securities Premium Account

Three Test Conditions

(i) Maximum Limit of number of equity shares to be bought back must not exceed 25% of total paid up equity capital.

(ii) Maximum Limit of amount of equity shares to be bought back must not exceed 25% of (Paid up capital & Free reserves)

(iii) Debt Equity ratio must not be > 2:1 after buyback

where Debt = Secured + Unsecured Debt (both long term & short term)

Equity = Capital + Free Reserves

PROVISIONS OF SECTION 70 OF THE COMPANIES ACT 2013

(1) No company shall directly or indirectly purchase its own shares or other specified securities—

a. through any subsidiary company including its own subsidiary companies; or
b. through any investment company or group of investment companies; or
c. if a default is subsisting, in repayment of deposit or interest payable thereon, redemption of debentures or preference shares or payment of dividend to any shareholder or repayment of any term loan or interest payable thereon to any financial institutions or bank. Provided that buy-back is not prohibited if the default is remedied and a period of 3 years has elapsed since the cessation of the default.

(2) In accordance with schedule III, no company shall directly or indirectly purchase its own shares or other specified securities in case such company has not complied with provisions of Sections 92 (filling of annual return), 123 (payment of dividend within 30 days of declaration), 127 (failure to distribute dividend) and 129 (preparation of financial statement of the company).

JOURNAL ENTRIES

S.No	Particulars	Journal Entry
1.	To make partly paid equity shares fully paid up	Equity Share Final Call A/c Dr. To Equity Share Capital A/c Bank A/c Dr. To Equity Share Final Call A/c
2.	To realize investments to provide cash for buyback	Bank A/c Dr. P&L A/c (Loss) Dr. To Investments A/c To P&L A/c (Profit)
3.	To issue Preference shares	Bank A/c Dr. To Preference Share Capital A/c To Securities Premium A/c

4.	To cancel the shares bought back	Equity Share Capital A/c Dr. Premium on Buyback A/c Dr. To Equity Share Buyback A/c Equity Share Buyback A/c Dr. To Bank A/c
5.	For closing the premium on buyback account	Securities Premium A/c Dr. General (Revenue) Reserve/ P&L A/c Dr. To Premium on Buyback A/c
6.	Transfer to CRR (Capital Redemption Reserve)*	General (Revenue) Reserve A/c Dr. P&L A/c Dr. Free Reserve (any) A/c Dr. To CRR A/c

*<u>Note:</u> CRR can be utilized for issuing fully paid bonus shares to its members.

Face Value of Equity Shares bought back	XX
Less: Face Value of shares issued	(XX)
Amount to be transferred to CRR	XX

CREATION OF CRR

Case 1:

Balance sheet

Liabilities	Lakhs	Assets	Lakhs
Share capital	10	Sundry Assets	30
P&L A/c	10		
Creditors	10		
	30		30

Case 2: Buyback of 2 Lacs: No CRR

Balance sheet

Liabilities	Lakhs	Assets	Lakhs
Share capital	~~10~~ 8	Sundry Assets	~~30~~ 28
P&L A/c	10		
Creditors	10		
	~~30~~ 28		~~30~~ 28

Case 3: Buyback of 2 Lacs: CRR Created

Balance sheet

Liabilities	Lakhs	Assets	Lakhs
Share capital	~~10~~ 8	Sundry Assets	~~30~~ 28
P&L A/c	10		
CRR			
Creditors	10		
	~~30~~ 28		~~30~~ 28

ASSIGNMENT QUESTIONS

TOPIC 1 BUYBACK OF SHARES

Question 1 Pg no._____

The Balance Sheet of X Ltd. as at 31st March, 2021 is given below:-

Liabilities	(In Lakhs)	Assets	(In Lakhs)
Paid up Share Capital		Freehold Property	200
20 Lakhs Equity shares of ₹ 10 each	200	Stock	120
Securities Premium	20	Debtors	100
General Reserve	180	Cash & Bank Balance	180
14% Redeemable Debentures	100		
Current Liabilities	100		
	600		600

It was resolved at the meeting of shareholders to buyback 20% of equity shares @ ₹ 12 per share. Pass necessary journal entries.

Question 2 Pg no._____

Sohan Ltd. provides you the following information:

Issued capital	1,00,000 equity shares of ₹ 10 each
<u>Reserves and surplus</u>	
Capital reserve	₹ 5,00,000
Securities premium	₹ 9,00,000
Revenue reserve	₹ 15,00,000

The company resolved to buy 10% of its equity share capital @ ₹ 60 per share. Give the necessary journal entries in the books of Sohan Ltd.

Question 3 Pg no._____

The Balance Sheet of X Ltd. as at 31st March, 2021 is as follows:-

Liabilities	₹	Assets	₹
Share Capital of ₹ 10 each	50,00,000	Property, Plant & Equipment	66,00,000
General Reserve	6,50,000	Investments	18,00,000
Securities Premium	5,40,000	Stock	11,87,000
P&L Account	3,75,000	Debtors	9,60,000
12% Debentures	25,00,000	Cash & Bank Balance	7,10,000
Term Loan	13,25,000		
Current Liabilities & Provisions	8,67,000		
	1,12,57,000		1,12,57,000

The shareholders adopted the resolution on the date of above mentioned balance sheet to:-

a) Buyback 20% of the paid up capital @ ₹ 15 each
b) Issue 13% Preference shares of ₹ 5,00,000 at a premium of 10% to finance the buyback of shares
c) Issue 10% Debentures of ₹ 2,00,000 at a premium of 10% to finance the buyback of shares
d) Maintain a balance of ₹ 3,00,000 in general reserve account
e) Sell investments worth ₹ 3,00,000 for ₹ 1,90,000.
f) Buyback expenses were ₹ 2,000

Pass necessary journal entries.

Question 4 *(ICAI Study Material)* *Pg no._____*

KG Limited furnishes the following summarized Balance Sheet as at 31st March, 2021.

	Note	Amount (Lakhs)
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	1,200
(b) Reserves & Surplus	2	810
2. Non-current Liabilities		
(a) Long Term Borrowings	3	750
3. Current Liabilities		
(a) Trade Payables		745
(b) Other Current Liabilities		195
Total		3,700
B. Assets		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	4	2,026
(b) Non Current Investments		74
2. Current Assets		
(a) Inventories		600
(b) Trade Receivables		260
(c) Cash & Cash Equivalents		740
Total		3,700

Notes to Accounts

		Amount (Lakhs)
1.	Share Capital	
	Authorised, Issued & Subscribed Capital	
	Equity shares of ₹ 10 each	1,200
2.	Reserves and Surplus	
	Securities Premium	175
	Revenue Reserve	265
	Capital Redemption Reserve	200
	Profit & Loss Account	170
		810
3.	Long Term borrowings	
	12% Debentures	750
4.	Property, Plant & Equipment	
	Land & Building	1,800
	Plant & Machinery	226
		2,026

On 1st April, 2021, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 75 lakhs.

On 5th April, 2021, the company achieved the target of buy back. On 30th April, 2021 the company issued one fully paid up equity share of ₹ 10 by way of bonus for every four equity shares held by the equity shareholders. You are required to:

(1) Pass necessary journal entries for the above transactions.

(2) Prepare Balance Sheet of KG Limited after bonus issue of the shares

Question 5 *(ICAI Study Material)* *Pg no._____*

Dee Limited furnishes the following summarized Balance Sheet as at 31st March, 2021:

	Note	Amount (000)
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	2,700
(b) Reserves & Surplus	2	9,700
2. Current Liabilities		
(a) Trade Payables		1,400
Total		13,800
B. Assets		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment		9,300
(b) Non Current Investments		3,000
2. Current Assets		
(a) Inventories		500
(b) Trade Receivables		200
(c) Cash & Cash Equivalents		800
Total		13,800

Notes to Accounts

		Amount (000)
1.	Share Capital	
	Authorised, Issued & Subscribed Capital	
	2,50,000 equity shares of ₹ 10 each	2,500
	2,000 10% preference shares of ₹ 100 each	200
	(Issued 2 months back for the purpose of buyback)	
		2,700
2.	Reserves and Surplus	
	Capital Reserve	1,000
	Revenue Reserve	3,000
	Securities Premium	2,200
	Profit & Loss Account	3,500
		9,700

The company passed resolution to buy back 20% of its equity capital @ ₹ 50 per share. For this purpose, it sold all of its investment for ₹ 22,00,000. Pass necessary journal entries & prepare the Balance Sheet

Question 6 *Pg no._____*

The following was the summarized balance sheet of Mukta Ltd. as on 31st March, 2021:

Liabilities	(In Lakhs)	Assets	(In Lakhs)
Authorised capital:		Property, Plant & Equipment	1,12,000
Equity shares of ₹ 10 each	80,000	Investments	24,000
Issued capital:		Cash at Bank	13,200
Equity Shares -₹ 10 each Fully Paid Up	64,000	Trade Receivables	66,000

10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		
9% Debentures	40,000		
Trade payables	26,400		
	2,15,200		2,15,200

On 1st April, 2021, the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹ 20 per Share. In order to make Cash available, the Company sold all the Investments for ₹ 25,200 Lakhs and raised a Bank Loan amounting to ₹ 16,000 lakh on the security of Company's Plant. Pass necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company. Securities premium will be utilized to the maximum extent allowed by law.

Question 7 *(RTP May 2018)/ (RTP May 2022)* *Pg no._____*

Complicated Ltd.(unlisted company) gives following information as on 31st March, 2021:

Liabilities	Amount
Equity shares of ₹ 10 each fully paid up	13,50,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Long Term- Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Property, Plant & Equipment	46,50,000
Current Assets	40,00,000
	86,50,000

The Company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2021 at ₹ 20 per share. Buy back of shares is duly authorised by its Articles and necessary resolution has been passed by the Company towards this. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets. Pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

Question 8 *(ICAI Study Material)* *Pg no._____*

Extra Ltd. furnishes you with the following summarized Balance Sheet as on 31st March, 2021:

	Note	Amount (Lakhs)
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	120
(b) Reserves & Surplus	2	118

2. Non-current Liabilities (a) Long Term Borrowings	3	4
3. Current Liabilities (a) Trade Payables		70
Total		312
B. Assets		
1. Non-current assets (a) Property, Plant & Equipment & Intangible Assets i. Property, Plant & Equipment (b) Non Current Investments		 50 120
2. Current Assets (a) Cash & Cash Equivalents		142
Total		312

Notes to Accounts

		Amount (Lakhs)
1.	Share Capital Authorised, Issued & Subscribed Capital Equity shares of ₹ 10 each fully paid up 9% preference shares of ₹ 100 each fully paid up	 100 20 120
2.	Reserves and Surplus Capital Reserve Revenue Reserve Securities Premium	 8 50 60 118
3.	Long Term borrowings 10% Debentures	 4

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

(ii) It also bought back 3 lakhs equity shares of ₹ 10 each at ₹ 30 per share. The payment for the above was made out of huge bank balances.

(iii) Included in its investment were "investments in own debentures" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 2021.

(iv) The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at ₹ 20 when the market price was ₹ 30 (This was included under current liabilities). On 1.04.2021 employees exercised their options for 50,000 shares.

Pass the journal entries to record the above & Prepare Balance Sheet as at 01.04.2021.

TOPIC 2 BUYBACK OF SHARES: 3 Test Conditions

Question 9 *(ICAI Study Material)* Pg no._____

Following is the Balance Sheet of M/s Competent Limited as on 31st March, 2021:

	Note	Amount
A. Equity and Liabilities 1. Shareholders' Fund (a) Share Capital (b) Reserves & Surplus	 1 2	 12,50,000 18,75,000
2. Non-current Liabilities (a) Long Term Borrowings	 3	 28,75,000

3. Current Liabilities (a) Short Term Borrowings		16,50,000
Total		76,50,000
B. Assets		
1. Non-current assets (a) Property, Plant & Equipment & Intangible Assets i. Property, Plant & Equipment	4	46,50,000
2. Current Assets (a) Other Current Assets		30,00,000
Total		76,50,000

Notes to Accounts

		Amount
1.	Share Capital Authorised, Issued & Subscribed Capital Equity shares of ₹ 10 each fully paid up	12,50,000
2.	Reserves and Surplus Securities Premium Profit & Loss Account Revenue Reserve	 2,50,000 1,25,000 15,00,000 18,75,000
3.	Long Term borrowings 14% Debentures Unsecured Loans	 18,75,000 10,00,000 28,75,000
4	Property, Plant & Equipment Land & Building Plant & Machinery Furniture & Fittings	 19,30,000 18,00,000 9,20,000 46,50,000

The company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2021 at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of Current Assets.

Comment with your calculations, whether buy back of shares by company is within the provisions of the companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

Question 10 *(ICAI Study Material)* Pg no.______

Perrotte Ltd. (non listed company) has the following Capital Structure as on 31.03.2021:

S.No.	Particulars	(₹ In crores)	
(1)	Equity Share Capital (Shares of ₹ 10 each fully paid)	-	330
(2)	Reserves and Surplus		
	General Reserve	240	-
	Securities Premium Account	90	-
	Profit & Loss Account	90	-
	Infrastructure Development Reserve	180	600
(3)	Loan Funds		1,800

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2021 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.
The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.
You are also informed that the Infrastructure Reserve is created to satisfy Income-tax Act requirements. You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores. Assuming that the entire buy back is completed by 09.12.2021, show the accounting entries in the company's books in each situation.

Question 11 *(Inter Dec 2021) (10 Marks)* — *Pg no.______*

Mohan Ltd. furnishes the following summarised Balance Sheet as on 31st March 2021,

	Amount (₹ in Lakhs)
Equity & Liabilities:	
Shareholder's Fund	
Share Capital	
Equity Shares of 10 each fully paid up	780
6% Redeemable Preference shares of 50 each fully paid up	240
Reserve & Surplus	
Capital Reserve	58
General Reserve	625
Security Premium	52
Profit & Loss	148
Revaluation Reserve	34
Infrastructure Development Reserve	16
Non Current Liabilities	
7% Debentures	268
Unsecured Loans	36
Current Liabilities	395
Total	2652
Assets :	
Non Current Assets	
Plant and Equipment less depreciation	725
Investment at cost	720
Current Assets	1207
Total	2652

Other Information :

a) The Company redeemed Preference shares at a premium of 10% on 1st April, 2021.
b) It is also offered buyback the maximum permissible number of Equity shares of ₹10 each at ₹30 per share an 2nd April, 2021.
c) The payment for the above was made out of available account balance, which appeared as a part of the current assets.
d) The company had investment in own Debentures costing ₹60 lakhs (face value ₹75 lakhs). These Debenture were cancelled on 2nd April, 2021.
e) On 4th April 2021 company issued one fully paid up equity share of ₹10 each by way of bonus for every five equity shares held by the shareholders.

You are required to :

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

(ii) Record the Journal Entries for the above mentioned information.

Solution

(i) Statement determining the maximum number of shares to be bought back

Number of shares (in lakhs)

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

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

Working Notes:

1. **Shares Outstanding Test**

Particulars	**(Shares in lakh)**
Number of shares outstanding	78
25% of the shares outstanding	19.5

2. **Resources Test**

Particulars	
Paid up capital (₹ in lakh)	780
Free reserves (₹ in lakh) (625+52+148-24-240*)	561
Shareholders' funds (₹ in lakh)	1341
25% of Shareholders fund (₹ in lakh)	335.25
Buy-back price per share	30
Number of shares that can be bought back	11.175

*Amount transferred to CRR is excluded from free reserves. Premium on redemption also reduced.

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	**₹ In lakh**
(a)	Loan funds (₹)	304
(b)	Minimum equity to be maintained after buy- back in ratio of 2:1 (a/2)	152
(c)	Present equity shareholders fund (₹)	1341
(d)	Future equity shareholders fund (₹) (see W.N.4)	1043.75 (1341-297.25)
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	891.75
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	29.725
	As per the provisions of the Companies Act, 2013, company	Qualifies

Alternatively, when current liabilities are considered as part of loan funds, in that case Debt Equity Ratio Test will be done as follows:

	Particulars	**₹ in lakh**
(a)	Loan funds (₹)	699
(b)	Minimum equity to be maintained after buy-back in ratio of 2:1 (a/2)	349.5
(c)	Present equity shareholders fund (₹)	1341

(d)	Future equity shareholders fund (₹) (see W.N.4)	1093.125 (1341-247.875)
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	743.625
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	24.7875
	As per the provisions of the Companies Act, 2013, company	Qualifies

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

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

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

= (1341 – x) – 152 = y = 1189 – x =y(1)

Equation 2: Maximum Permitted Buy-Back x Nominal Value Per Share/Offer Price Per Share

y/30 x 10 = x or 3x = y (2)

by solving the above two equations we get x = ₹ 297.25 and y = ₹ 891.75

<u>Alternatively</u>, when current liabilities are considered as part of loan fund, in that case

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

= (1341 – x) – 349.5 = y = 991.5 – x =y (1)

Equation 2: Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share

y/30 x 10 = x or 3x = y (2)

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

*Loan funds have been taken without considering current liabilities. Alternatively, If current liabilities are considered, then the maximum number of shares that can be bought back as per debt equity ratio test will be 24.7875 lakhs.

(ii) Journal Entries for Buy Back (₹ in lakhs)

Date	Particulars	Debit	Credit
2021	6% Redeemable preference share capital A/c Dr.	240	
1st April	Premium on redemption of preference shares A/c Dr	24	
	To Preference shareholders A/c		264
	(Being preference share capital transferred to share holders account)		
1st April	Preference shareholders A/c Dr.	264	
	To Bank A/c		264
	(Being payment made to shareholders)		
1st April	General Reserve or P&L A/c* Dr.	24	
	To Premium on redemption of preference shares A/c		24
	(Being premium on redemption of preference shares adjusted through securities premium)		
2nd April	Equity shares buy-back A/c Dr.	335.25	
	To Bank A/c		335.25
	(Being 11.175 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)		
2nd April	Equity share capital A/c Dr.	111.75	
	Securities Premium A/c Dr.	52	
	General Reserve or P&L A/c Dr.	171.50	
	To Equity Shares buy-back A/c		335.25
	(Being cancellation of shares bought back)		

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

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

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

PRACTICE QUESTIONS

TOPIC 1 BUYBACK OF SHARES

Question 1 *(RTP Nov 2019)/ (RTP Nov 2022)* Pg no._____

Umesh Ltd. (a listed company) resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share from the open market. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.
Give necessary journal entries to record the above transactions.

Question 2 *(Inter Jan 2021) (5 Marks)* Pg no._____

The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of ₹ 10 each at ₹ 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013. For this purpose, the company
(i) Sold its investments of ₹ 30,00,000 for ₹ 25,00,000.
(ii) Issued 20,000, 12% preference shares of ₹ 100 each at par, the entire amount being payable with application.
(iii) Used ₹ 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.
(iv) The company has necessary cash balance for the payment to shareholders.
You are required to pass necessary Journal Entries (including narration) regarding buyback of shares in the books of Umang Ltd.

Question 3 *(ICAI Study Material)* Pg no._____

M Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2021:

	Note	Amount (000)
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	5,000
(b) Reserves & Surplus	2	6,310
2. Non-current Liabilities		
(a) Long Term Borrowings	3	400
3. Current Liabilities		
(a) Trade Payables		40
Total		11,750
B. Assets		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	4	2,750
(b) Non Current Investments		5,000
2. Current Assets		
(a) Inventories		1,000
(b) Trade Receivables		2,000
(c) Cash & Cash Equivalents		1,000
Total		11,750

Notes to Accounts

		Amount (000)
1.	Share Capital Authorised, Issued & Subscribed Capital 3,00,000 equity shares of ₹ 10 each 20,000 9% preference shares of ₹ 100 each	 3,000 2,000 5,000
2.	Reserves and Surplus Capital Reserve Revenue Reserve Securities Premium Profit & Loss Account	 10 4,000 500 1,800 6,310
3.	Long Term borrowings 10% Debentures	 400
4.	Property, Plant & Equipment Cost Less: Provision for Depreciation	 3,000 (250) 2,750

The company passed a resolution to buy back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 30 lakhs for ₹ 25 lakhs.
You are required to pass necessary Journal entries. *(Ans: CRR 600)*

Question 4 *(RTP May 2019)* Pg no.______

Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2021.

Liabilities	(In Lakhs)	Assets	(In Lakhs)
Equity share capital (fully paid up shares of ₹ 10 each)	2,400	Machinery	3,600
Securities premium	350	Furniture	450
General reserve	530	Investment	148
Capital redemption reserve	400	Stock	1,200
Profit & loss A/c	340	Trade receivables	500
12% Debentures	1,500	Cash at bank	1,500
Trade Payables	1,400		
Other current liabilities	478		
	7,398		7,398

On 1st April, 2021, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 150 lakhs.
On 5th April, 2021, the company achieved the target of buy back.
You are required to:
(1) Pass necessary journal entries for the buyback.
(2) Prepare Balance Sheet of Alpha Limited after buyback of the shares

Question 5 *(Inter Nov 2022) (5 Marks)* Pg no.______

PG Limited furnishes the following Balance Sheet as at 31st March,2022:

	Particulars	Notes	₹ (in Lakhs)
	Equity and Liabilities		
1.	Shareholders' funds		
	(a) Share Capital	1	12,000
	(b) Reserves and Surplus	2	8,100
2.	Current liabilities		

	(a) Trade Payables		7,450
	(b) Other Current Liabilities		1,950
	Total		29,500
	Assets		
1	Non-current assets		
	(a) Property, Plant and Equipment		12,760
	(b) Non-current Investments		740
2.	Current assets		
	(a) Inventories		6,000
	(b) Trade receivables		2,600
	(c) Cash and cash equivalents		7,400
	Total		29,500

Notes to accounts:

	Particulars	₹ (in Lakhs)
1.	Share Capital	
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid-up shares of ₹ 10 each)	12,000
2.	Reserves and Surplus:	
	Securities premium	1,750
	General reserve	2,650
	Capital redemption reserve	2,000
	Profit and Loss account	1,700
	Total	8,100

On 1st April, 2022, the company announced the buy-back of 25% of its Equity Shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 750 lakhs.

On 5th April, 2022, the company achieved the target of buy-back. You are required to pass necessary journal entries for the above transactions.

Question 6 *(RTP May 2021)* Pg no._____

Following is the Summarized Balance Sheet of M/s. Vriddhi Infra Ltd. as on 31st March, 2021:

Equity & Liabilities	Amount	Assets	Amount
Shareholders Fund		Non Current Assets	
(a) Share Capital:		(a) PPE	
1,00,000 Equity Sh. of 10 each	10,00,000	Land & Building	21,50,000
(b) Reserve & Surplus:		Plant & Machinery	15,00,000
Securities Premiums	3,00,000	(b) Non- current Investment	2,00,000
General Reserve	2,50,000		
Profit & Loss A/c (Surplus)	1,50,000	Current Assets	
Non-Current Liabilities		(a) Trade Receivables	5,50,000
Long-Term Borrowings:		(b) Inventories	1,80,000
10% Debentures (Secured by floating charge on all assets)	20,00,000	(c) Cash and Cash Equivalents	40,000
Unsecured Loans	8,00,000		
Current Liability & Provisions			
Trade Payables	1,20,000		
	46,20,000		46,20,000

On 21st April, 2021 the Company announced the buy back of 15,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 2.50 lakhs.

On 25th April, 2021, the company achieved the target of buy back. On 1st May, 2021 the company issued one fully paid up share of ₹ 10 each by way of bonus for every eight equity shares held by the equity shareholders.
You are requested to pass necessary Journal Entries for the above transactions.

Question 7 *(Inter May 2018) (10 Marks)* Pg no._____

Alpha Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2021:

	₹ In Lakhs	₹ In Lakhs
Equity & Liabilities		
Shareholders' Funds		
Equity share capital (fully paid up shares of ₹ 10 each)		2,400
Reserves and Surplus		
Securities Premium	350	
General Reserve	530	
Capital Redemption Reserve	400	
Profit & Loss Account	340	1,620
Non-current Liabilities		
12% Debentures		1,500
Current Liabilities		
Trade Payables'	1,490	
Other Current Liabilities	390	1,880
Total		7,400
Assets		
Non-current Assets		
Property, Plant & Equipment		4,052
Current Assets		
Current Investments	148	
Inventories	1,200	
Trade Receivables	520	
Cash and Bank	1,480	3,348
Total		7,400

(i) On 1st April, 2021, the company announced buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 150 lakhs.
(ii) On 10th April, 2021 the company achieved the target of buy-back.
(iii) On 30th April, 2021, the company issued one fully paid up equity share of ₹ 10 each by way of bonus for every four equity shares held by the equity shareholders by capitalization of Capital Redemption Reserve.

Pass necessary journal entries and prepare the Balance Sheet of Alpha Ltd. after bonus issue.

Question 8 *(RTP Nov 2018)* Pg no._____

The following Balance Sheet Pee Limited (a non-listed company) as at 31st March, 2021

	Amount (in ₹)	
Equity & Liabilities		
Share Capital: Authorised capital		
2,50,000 Equity shares of ₹ 10 each fully paid up	25,00,000	
5,000, 10% Preference shares of ₹ 100 each	5,00,000	30,00,000
Issued and subscribed capital:		
2,40,000 Equity shares of ₹ 10 each fully paid up	24,00,000	
3,000, 10% Preference shares of ₹ 100 each (Issued two months back for the purpose of buy back)	3,00,000	27,00,000

Reserves and surplus:		
Capital reserve	10,00,000	
Revenue reserves	25,00,000	
Securities premium	27,00,000	
Profit and loss account	35,00,000	97,00,000
Current liabilities		
Trade payables	13,00,000	
Other current Liabilities	3,00,000	16,00,000
		1,40,00,000
Assets		
Property, Plant & Equipment		
Building	25,00,000	
Machinery	31,00,000	
Furniture	20,00,000	76,00,000
Non-current Investments		30,00,000
Current assets		
Inventory	12,00,000	
Trade receivables	7,00,000	
Cash and bank balance	15,00,000	34,00,000
		1,40,00,000

On 1st April, 2021, the company passed a resolution to buy back 20% of its equity capital @ ₹ 60 per share. For this purpose, it sold all of its investment for ₹ 25,00,000. The company achieved its target of buy-back. You are required to:

a) Give necessary journal entries and

b) Give the Balance Sheet of the company after buy back of shares.

Question 9 *(RTP May 2020) / (RTP Nov 2023) (Similar)* *Pg no._____*

The following was the Balance Sheet of C Ltd. as on 31st March, 2021

Liabilities	(in Lakhs)	Assets	(in Lakhs)
Share Capital:		Property, Plant & Equipm.	14,000
Equity shares ₹10 each Fully Paid Up	8,000	Investments	2,350
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	2,500	Cash at Bank	2,300
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans: 9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2021 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 2,500 lakhs.

You are required to

(i) pass journal entries for the above and

(ii) prepare the Company's Balance sheet immediately thereafter.

Question 10 *(ICAI Study Material)* Pg no._____

Anu Ltd. furnishes you with the following summarized balance sheet as at 31st March, 2021:

	Note	Amount (crores)
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	100
(b) Reserves & Surplus	2	300
2. Current Liabilities		
(a) Trade Payables		40
Total		440
B. Assets		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	3	-
(b) Non Current Investments	4	100
2. Current Assets		
(a) Trade Receivables		140
(b) Cash & Cash Equivalents		200
Total		440

Notes to Accounts

		Amount (crores)
1.	Share Capital	
	Authorised, Issued & Subscribed Capital	
	Equity shares of ₹ 10 each	25
	12% preference shares of ₹ 100 each	75
		100
2.	Reserves and Surplus	
	Capital Reserve	15
	Revenue Reserve	260
	Securities Premium	25
		300
3.	Property, Plant & Equipment	
	Cost	100
	Less: Provision for Depreciation	(100)
		Nil
4.	Non Current Investments	
	At Cost (Market Value 400 crores)	100

The company redeemed preference shares on 1st April, 2021. It also bought back 50 lakhs equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

(i) Pass journal entries to record the above.

(ii) Prepare balance sheet as at 1.4.2021.

Question 11 *(RTP May 2023)* Pg no._____

Pay Limited provides you with the following information as at 31st March, 2022:

		(₹ in Lakhs)
Share Capital:		300
Authorised		
Issued:		
11% Redeemable preference shares of ₹ 100 each fully paid	125	
Equity shares of ₹ 10 each fully paid	175	300
Reserves and surplus:		
Capital reserve	35	
Securities premium	105	
Revenue reserves	460	
Profit and loss account	50	650
Current liabilities and provisions		50
Fixed assets: cost	100	
Less: Accumulated depreciation	(90)	10
Non-current investments at cost (Market value₹ 400 Lakhs)		200
Current assets		790

a) The company redeemed preference shares at a premium of 4% on 1st April, 2022.
b) It also bought back 2.5 lakhs equity shares of ₹ 10 each at ₹ 40 per share. The payments for the above were made out of bank balances, which appeared as a part of current assets.

You are asked to:

i. Pass journal entries to record the above.
ii. Prepare balance sheet as at 01.04.2022.

Question 12 *(Inter Nov 2019) (15 Marks) / (RTP Nov 2021)* Pg no._____

X Ltd. furnishes the following summarized Balance Sheet as at 31-03-2021.

	Amount (in ₹)	
Equity & Liabilities		
Share Capital:		
Equity Shares of ₹ 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of ₹ 100 each fully paid up	10,00,000	60,00,000
Reserves and surplus:		
Capital Reserve	1,00,000	
Securities premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and loss account	20,00,000	
Dividend Equalization Fund	5,50,000	43,50,000
Non-Current Liabilities		
12% Debentures		12,50,000
Current Liabilities and Provisions		5,50,000
		1,21,50,000
Assets		
Non Current Assets		
Property, Plant & Equipment & Intangible Assets		
Property, Plant & Equipment		1,00,75,000
Current assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash & Bank	15,75,000	20,75,000
		1,21,50,000

The shareholders adopted the resolution on the date of above mentioned Balance Sheet to:
(1) Buy back 25% of the paid up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is ₹ 30 per share.
(2) To finance the buy-back of shares, company:
  (a) Issues 3000, 14% debentures of ₹ 100 each at a premium of 20%.
  (b) Issues 2500, 10% preference shares of ₹ 100 each.
(3) Sell investment worth ₹ 1,00,000 for ₹ 1,50,000.
(4) Maintain a balance of ₹ 2,00,000 in Revenue Reserve.
(5) Later the company issue three fully paid up equity share of ₹ 20 each by way of bonus share for every 15 equity share held by the equity shareholders.
You are required to pass the necessary journal entries to record the above transactions and prepare Balance Sheet after buy back.

TOPIC 2 BUYBACK OF SHARES: 3 Test Conditions

Question 13 *(Inter May 2019) (10 Marks)* Pg no._____

Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2021.

	Amount (in ₹)	
Equity & Liabilities		
Share Capital:		
Equity Shares of ₹ 10 each fully paid up		17,00,000
Reserves and surplus:		
Revenue reserves		23,50,000
Securities premium		2,50,000
Profit and loss account		2,00,000
Infrastructure Development Reserve		1,50,000
Secured Loan		
9% Debentures		22,50,000
Unsecured Loan		8,50,000
Current Maturities of Long term borrowings		15,50,000
		93,00,000
Assets		
Non Current Assets		
Property, Plant & Equipment & Intangible Assets		
Property, Plant & Equipment		58,50,000
Current assets		
Current assets		34,50,000
		93,00,000

Super Limited wants to buy back 35,000 equity shares of ₹ 10 each fully paid up on 1st April, 2021 at ₹ 30 per share. Buy Back of shares is fully authorised by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets. Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013

Question 14 *(ICAI Study Material)* Pg no._____

SMM Ltd. has the following capital structure as on 31st March, 2021

S.No.	Particulars	₹ in crore Situation	₹ in crore Situation
(1)	Equity Share Capital (Shares of ₹ 10 each fully paid)	1,200	1,200

(2)	Reserves and Surplus		
	General Reserve	1,080	1,080
	Securities Premium Account	400	400
	Profit & Loss Account	200	200
	Infrastructure Development Reserve (Statutory reserve)	320	320
(3)	Loan Funds	3,200	6,000

The company has offered buy back price of ₹ 30 per equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries

Question 15 *(Inter July 2021) (15 Marks)* — *Pg no._____*

A company provides the following 2 possible Capital Structures as on 31st March, 2021:

Particulars	Situation 1 (₹)	Situation 2 (₹)
Equity Share Capital (Shares of ₹ 10 each, fully paid up)	30,00,000	30,00,000
Reserves & Surplus:		
General Reserve	12,00,000	12,00,000
Securities Premium	6,00,000	6,00,000
Profit & Loss	2,10,000	2,10,000
Statutory Reserve	4,20,000	4,20,000
Loan Funds	25,00,000	1,20,00,000

The company is planning to offer buy back of Equity Share at a price of ₹ 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both the situations as per Companies Act, 2013 and are also required to pass necessary Journal Entries in the situation where the buyback is possible.

Question 16 *(RTP Nov 2020) / (ICAI Study Material)* — *Pg no._____*

Pratham Ltd. (a non-listed company) has following Capital structure as on 31st March, 2021:

Particulars	₹	₹
Equity Share Capital (shares of ₹ 10 each fully paid		30,00,000
Reserves & Surplus		
General Reserve	32,50,000	
Security Premium Account	6,00,000	
Profit & Loss Account	4,30,000	
Revaluation Reserve	6,20,000	49,00,000
Loan Funds		42,00,000

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share.

Question 17 *(Inter May 2022) (10 Marks)* — *Pg no._____*

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

	Particulars	₹ in Crores	₹ in Crores
(1)	Share Capital:		462
	(Equity Shares of ₹ 10 each, fully paid)		
(2)	Reserves and Surplus:		
	General Reserve	336	
	Securities Premium Account	126	

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

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

The company had sufficient balance in its bank account for the buy-back of shares.

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

Assuming that the entire buy-back is completed by 31st December,2021, Pass the necessary accounting entries (narrations not required) in the books of the company in each situation.

Question 18 *(Inter May 2023) (10 Marks)* *Pg no._____*

VIJ Ltd. has the following capital structure as on 31st March, 2022:

Particulars		(₹ in Lakhs)
Equity share capital (Shares of ₹ 10 each, fully paid)		990
Reserve and Surplus:		
General Reserve	720	
Securities Premium Account	270	
Profit & Loss Account	270	
Infrastructure development Reserve	540	1,800
Loan Funds		5,400

On the recommendation of the Board of Directors, the shareholders of the company have approved on 2nd September 2022 a proposal to buyback the maximum permissible number of equity shares, considering the sufficient funds available at the disposal of the company.

The current market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 20% over market value.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum permissible number of equity shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 3600 lakh or ₹ 4500 lakh.

The entire buy-back is completed by 09/12/2022, show the accounting entries with full narrations in the company's books in each situation.

Question 19 *(Inter May 2023) (5 Marks)* *Pg no._____*

What are the conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares as per Companies Act, 2013? Explain.

Question 20 *(Inter Nov 2023) (5 Marks)* *Pg no._____*

The following is the extract of Balance Sheet of Yellow Limited as on 31st March 2023.

Particulars	Amount (₹)
4,00,000 Equity shares of ₹ 10 each	40,00,000
General Reserve	48,00,000
Profit & Loss Account	10,00,000
Securities Premium	18,00,000
Secured Loans	60,00,000
Unsecured Loans	32,00,000
Current Liabilities	28,00,000
Total	2,36,00,000
Property, Plant and Equipment	90,00,000
Investments	18,00,000
Current Assets	1,28,00,000
Total	2,36,00,000

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

INTERNAL RECONSTRUCTION

CH 4

"Don't downgrade your dream just to fit your reality. Upgrade your conviction to match your destiny."

TOPIC1: INTRODUCTION

When a company has been making losses for several years, the financial position does not present a true & fair view of the state of the affairs of the company. In such a company the assets are generally overvalued, as the balance sheet consists of fictitious assets, unrepresented intangible assets & debit balance in profit & loss account.

Reconstruction is a process by which affairs of a company are reorganized by revaluation of assets, reassessment of liabilities and by writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares. Such a process is called internal reconstruction which is carried out without liquidating the company and forming a new one.

Process of Internal Reconstruction

1) Scheme Framed
2) Approval of scheme by concerned parties
3) Sanction of scheme by Court
4) Implementation of scheme
   * Passing Entries in Books
   * Writing off Losses
   * Revised values to appear in B/S

TOPIC 1A: JOURNAL ENTRIES

1.	For increase or reduction in value of assets	
	a) Increase	
	b) Decrease	
2.	For increase or reduction in liabilities:	
	a) Increase	
	b) Decrease	
3.	For payment of reconstruction expenses	
	a) At the time of payment	
4.	Settlement of contingent liability *Example*: Preference dividend in arrears, Capital commitments, etc.	
	a) If waived	
	b) If paid	
5.	If any losses or deferred revenue expenditure are appearing then such amount should be written off even if question is silent. *Example of deferred revenue expenditure*: Underwriting commission, Discount on issue of debentures, Preliminary expenses, Advertisement suspense, etc.	
	a) At the time of write off	
6.	If any intangible assets appear in the balance sheet it may be written off by giving a note. *Example*: Patents, Trademarks, Goodwill, Copyrights etc.	

	a) At the time of write off	
7.	Closing of Capital Reduction Account	
	a) Credit Balance	
	b) Debit Balance	

Notes:
1) In case of fixed assets, the amount written off under the scheme of reconstruction must be shown for 5 years.
2) After the name of company, the words "and reduced" should be added only if the court so orders.

TOPIC 2: METHODS OF INTERNAL RECONSTRUCTION

Methods of Internal Reconstruction:

Alteration of share capital	Variation of shareholder's rights	Compromise/ arrangement	Reduction of share capital	Surrenders of shares

TOPIC 2A: Alteration of Share Capital, Variation of Shareholder Rights, Compromise/Arrangements & Reduction of Share Capital

ALTERATION OF SHARE CAPITAL

1. For Increase in Share Capital

Example:

X Ltd. issued 10,000 equity shares of ₹10 each at par.	

2. For Consolidation of Shares

Example:

X Ltd. having 10,000 equity shares of ₹10 each decides to convert share capital into equity shares of 100 each.	

3. For Sub-division of Shares

Example:

X Ltd. having 1,000 equity shares of ₹100 each decides to convert share capital into equity shares of 10 each.	

4. For Conversion of shares into stock

Stock is a bundle of fully paid shares put together for convenience so that it may be divided into any amount & transferred into any fractions & subdivisions without regard to the original face value of the shares.

Example:

X Ltd. having 10,000 equity shares of 10 each decides to convert the share capital into equity stock	

5. For Conversion of stock into shares

Example:

X Ltd. having equity stock of ₹1,00,000 decides to convert the equity stock into equity share capital of ₹ 10 each.	

6. For Cancelling the unissued shares

   In this case no accounting entry is passed. The authorized share capital gets reduced by the amount of unissued shares now cancelled.

VARIATION OF SHAREHOLDERS RIGHTS

Only the specific rights are changed. There is no change in the amount of capital. For example, the company may change rate of (a) dividend on preference shares or (b) convert cumulative preference shares into non-cumulative preference shares without changing the amount of share capital.

Example:

X Ltd. has 1,000 10% preference shares of 100 each. At a meeting of preference shareholders, it was decided that the rate of dividend be reduced to 9%.	

COMPROMISE/ARRANGEMENT

A scheme of compromise and arrangement is an agreement between a company and its members and outside liabilities when the company faces financial problems. Such an arrangement therefore also involves sacrifices by shareholders, or creditors and debenture holders or by all.

Example:

In the balance sheet, sundry creditors are appearing at ₹ 4,50,000. They agreed to reduce their claims to 20% and half the balance to be satisfied by issue of equity shares of ₹10 each.	

REDUCTION OF SHARE CAPITAL

a) Liability of the shareholders is extinguished or reduced in respect of unpaid amount on the shares held by them.

Number of Shares = 10,000
Face Value = 10
Paid up Value = 8
Reduce 10 per share into 8 per share fully paid up
So Cancel the unpaid amount of 2 per share

b) Paying off excess paid-up share capital

Number of Shares = 10,000
Face & Paid up Value = 10
Pay off 2 per share to make it 8 per share fully paid up

c) Writing off the lost paid up capital

Number of shares = 1,000
Face Value = 100
Paid up Value = 100

	(a)	(b)
Write off	80	80
Face Value	20	100
Paid up	20	20

__Note__: If question does not specify reduction in Face value or paid up value, then assume change in Face value and paid up value.

TOPIC 2B: SHARE SURRENDER

At the time of internal reconstruction, some people may voluntarily surrender their shares to the company. Alternatively, there can be concept of compulsorily surrender in the reconstruction scheme.

Entries:

At the time of surrender	
If the surrendered shares are cancelled	
If the surrendered shares are utilized for the payment of an obligation	

ASSIGNMENT QUESTIONS

TOPIC 1 & 2A

Question 1 *(ICAI Study Material)* Pg no._____

On 31-12-2021, Z Ltd. had 20,000, ₹ 10 Equity Shares as authorised capital and the shares were all issued on which ₹ 8 was paid up. In June, 2022 the company in general meeting decided to sub-divide each share into two shares of ₹ 5 with ₹ 4 paid up. In June, 2023 the company in general meeting resolved to consolidate 20 shares of ₹ 5, ₹ 4 per share paid up into one share of ₹ 100 each, ₹ 80 paid up. Pass entries and show how share capital will appear in notes to Balance Sheet as on 31-12-2021, 31-12-2022 and 31-12-2023.

Question 2 Pg no._____

Pass Journal Entries in the following conditions:

1) X Ltd. had 1,24,000 equity shares of ₹ 50 each on which ₹ 45 is paid up. In October, 2023 company decided to sub-divide each share into 5 shares of ₹ 10 with ₹ 9 paid up.
2) Y Ltd. had 2,10,000 equity shares of ₹ 10 each fully paid up. In December 2022 company decided to convert the issued shares into stock. But in February 2023 the company re-converted the stock into equity shares of ₹ 100 each fully paid up.
3) Z Ltd. had capital of ₹ 30,00,000 divided into 3,00,000 equity shares of ₹ 10 each on which ₹ 6 is paid up. During the year, company decided to reorganize its capital by consolidating 5 shares into one share of ₹ 50 each, ₹ 30 paid up.

Question 3 *(ICAI Study Material)* Pg no._____

The following scheme of reconstruction has been approved for Win Limited:

1. The shareholders to receive in lieu of their present holding at 1,00,000 shares of ₹ 10 each, following:
   a. New fully paid ₹ 10 Equity shares equal to 3/5th of their holding.
   b. 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.
   c. ₹ 40,000, 8% Debentures.
2. An issue of ₹ 1 lakh 12% first debentures was made and allotted, payment for the same being received in cash forthwith.
3. Goodwill which stood at ₹ 1,40,000 was completely written off.
4. Plant and machinery which stood at ₹ 2,00,000 was written down to ₹ 1,50,000.
5. Freehold property which stood at ₹ 1,50,000 was written down by ₹ 50,000.

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction.

Question 4 *(ICAI Study Material)* Pg no._____

Parth Ltd, had laid down the following terms upon the sanction of the reconstruction plan by the court

1. Furniture & Fixtures which stood at the books at ₹ 1,50,000 to be written down to ₹ 95,000. The freehold premises which was valued at ₹ 7,00,000 showed an appreciation of ₹ 55,000.
2. Plant and machinery showed fall in value of ₹ 89,000, to be recorded in the books. Investment at ₹ 2,00,000 was brought down to the existing market value at ₹ 1,05,000.
3. Debenture holders accepted to receive following in lieu of their present 9% debentures of ₹ 2,50,000-
   a. 1/5th of the total to be paid in cash to them.
   b. To take over the land and buildings of value ₹ 72,000.
   c. To forgo the remaining unpaid portion as a policy of reconstruction.

Write off the profit and loss A/c debit balance at ₹ 70,000 which had been accumulated over the years. In case of any shortfall, the balance of the General reserve of ₹ 1,50,000 can be utilized to write off the losses under reconstruction scheme.
Show the necessary journal entries as part of the reconstruction process considering that balance in general reserve utilized to write off the losses as per reconstruction scheme.

Question 5 *(ICAI Study Material)* *Pg no._____*

The Balance Sheet of A & Co. Ltd. as on 31-03-2023 is as follows:

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	11,50,000
(b) Reserves & Surplus	2	(5,35,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	3,75,000
3. Current Liabilities		
(a) Short Term Borrowings- Bank Overdraft		1,95,000
(b) Trade Payables		3,00,000
(c) Other Current Liabilities	4	1,22,500
Total		16,07,500
B. Assets		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	5	4,75,000
ii. Intangible Assets	6	1,67,500
(b) Non Current Investments	7	55,000
2. Current Assets		
(a) Inventories		4,25,000
(b) Trade Receivables		4,85,000
Total		16,07,500

Notes to Accounts

		Amount
1.	Share Capital	
	Equity Share Capital	
	75,000 equity shares of ₹ 10 each	7,50,000
	Preference Share Capital	
	4,000 6% preference shares of ₹ 100 each	4,00,000
		11,50,000
2.	Reserves and Surplus	
	Debit Balance of Profit and Loss Account	(5,35,000)
3.	Long Term borrowings	
	6% Debentures (secured on Freehold property)	3,75,000
4.	Other Current Liabilities	
	Loan from Directors	1,00,000
	Interest payable on 6% debentures	22,500
		1,22,500
5.	Property, Plant & Equipment	
	Freehold property	4,25,000
	Plant	50,000
		4,75,000

6.	Intangible Assets Goodwill Patents	 1,30,000 37,500 1,67,500
7	Non Current Investments Investments at cost	 55,000

The Court approved a Scheme of re-organisation to take effect on 1-4-2023, whereby:

a) The Preference shares to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.
b) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 2 each to be allotted for the remaining quarter.
c) Interest payable on debentures to be paid in cash.
d) Debenture-holders agreed to take over freehold property, book value ₹ 1,00,000 at a valuation of ₹ 1,20,000 in part repayment of their holdings and to provide additional cash of ₹ 1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.
e) Patents and Goodwill to be written off.
f) Stock to be written off by ₹ 65,000 and amount of ₹ 68,500 to be provided for bad debts.
g) Remaining freehold property to be re-valued at ₹ 3,87,500
h) Investments be sold for ₹ 1,40,000
i) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 2 each and as to 5% in cash, and balance 5% being waived.
j) There were capital commitments totalling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
k) Ignore taxation and cost of the scheme.

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the Scheme.

Question 6

Pg no.______

The summarized Balance Sheet of AB Ltd. as on 31st March, 2023 was as follows:

	Note	Amount	Amount
A. Equity and Liabilities			
1. Shareholders' Fund			
(a) Share Capital	1	7,50,000	
(b) Reserves & Surplus	2	(10,00,000)	(2,50,000)
2. Non-current Liabilities			
(a) Long Term Borrowings	3		5,00,000
3. Current Liabilities			
(a) Short Term Borrowings	4	5,00,000	
(b) Trade Payables		2,50,000	7,50,000
Total			10,00,000
B. Assets			
1. Non-current assets			
(a) PPE & Intangible Assets			
i. Property, Plant & Equipment	5	5,50,000	
ii. Intangible Assets	6	1,50,000	7,00,000
2. Current Assets			
(a) Inventories		1,50,000	
(b) Trade Receivables		1,25,000	
(c) Deferred revenue expenditure		25,000	3,00,000
Total			10,00,000

Notes to Accounts

		Amount	Amount
1.	Share Capital Authorised, issued & fully paid 5,000 equity shares of ₹ 100 each 2,500 8% preference shares of ₹ 100 each	 5,00,000 2,50,000	 7,50,000
2.	Reserves and Surplus Profit and Loss Account		 10,00,000
3.	Long Term borrowings 8% Debentures		 5,00,000
4.	Short Term Borrowings Loan from Directors Bank overdraft	 3,00,000 2,00,000	 5,00,000
5.	Property, Plant & Equipment Freehold property Plant	 4,00,000 1,50,000	 5,50,000
6.	Intangible Assets Goodwill Trademark	 1,00,000 50,000	 1,50,000

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

a) The preference shares to be written down to ₹ 25 each and the equity shares to ₹ 20 each. Each class of shares then to be converted into shares of ₹ 100 each.
b) The debenture holders to take over freehold property (book value ₹ 2,00,000) at a valuation of ₹ 2,50,000 in part repayment of their holdings. Remaining freehold property to be revalued at ₹ 6,00,000.
c) Loan from directors to be waived off in full.
d) Stock of ₹ 50,000 to be written off, ₹ 12,500 to be provided for bad debts.
e) Profit & Loss account balance, Trademark, goodwill & deferred revenue expenditure to be written off.

Pass Journal Entries for the above-mentioned transactions.

Question 7 *(ICAI Study Material)* — *Pg no.*______

Vaibhav Ltd. gives you the following ledger balances as on 31.3.2023:

	₹
Property, Plant & Equipment	2,50,00,000
Investments (Market value ₹ 19,00,000)	20,00,000
Current assets	2,00,00,000
P & L A/c (Dr. Balance)	12,00,000
Equity shares of ₹ 100 each	2,00,00,000
6% Cumulative Preference shares of ₹ 100 each	1,00,00,000
5% Debentures of ₹ 100 each	80,00,000
Trade Payables	1,00,00,000
Provision for taxation	2,00,000

The following scheme of reorganization is sanctioned:

a) All the existing equity shares are reduced to ₹ 40 each.
b) All preference shares are reduced to ₹ 60 each.
c) The rate of interest on debentures is increased to 6%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

d) Property, Plant & Equipment are to be written down by 20%.
e) Current assets are to be revalued at ₹ 90,00,000.
f) Investments to be brought to their market value.
g) One of the creditors of the company (included under trade payables in the above balance sheet) to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. He is allotted 60,000 equity shares of ₹ 40 each in full & final settlement of his claim.
h) The taxation liability of the company is settled at ₹ 3,00,000.
i) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and prepare Balance sheet of the company after giving effect to above.

Question 8

Pg no._____

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

Liabilities	₹	Assets	₹
15,000, 10% Pref. shares of 100 each	15,00,000	Goodwill	3,50,000
35,000 Equity shares of ₹ 100 each	35,00,000	Land & Buildings	15,00,000
Securities Premium account	1,00,000	Plant & Machinery	10,00,000
7% Debentures of ₹ 100 each	5,00,000	Stock	6,00,000
Trade Payables	12,50,000	Trade Receivables	15,00,000
Loan from Director	1,50,000	Cash at bank	1,00,000
		Profit & Loss A/c	19,50,000
	70,00,000		70,00,000

No dividend on Preference shares has been paid for the last 5 years. The following scheme of reorganization was duly approved by the court:

a) Each Equity share to be reduced to ₹ 25.
b) Each existing Preference share to be reduced to ₹ 75 and then exchanged for 1 new 13% Preference share of ₹ 50 each and 1 Equity share of ₹ 25 each.
c) Preference shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity Shares of ₹ 25.
d) The Debentureholders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of ₹ 50 each issued at par. One half (in value) of the debentureholders accepted Preference shares for their claims. The rest were paid cash.
e) Contingent liability of ₹ 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of loan given by Director to company.
f) Goodwill does not have any value in the present. Decrease the value of Plant and Machinery, Stock and Trade Receivables by ₹ 4,00,000, ₹ 1,00,000 and ₹ 1,50,000 respectively. Increase the value of Land and Buildings to ₹ 18,00,000.
g) 40,000 new Equity shares of ₹ 25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.
h) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to ₹ 15,000.

Pass necessary Journal Entries to record the above transactions.

Question 9 *(ICAI Study Material)*

Pg no._____

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

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	26,00,000
(b) Reserves & Surplus	2	(4,05,000)

2. Non-current Liabilities (a) Long Term Borrowings	3	12,00,000
3. Current Liabilities (a) Trade Payables (b) Short term Borrowings- Bank Overdraft		 5,92,000 1,50,000
Total		41,37,000
B. Assets		
1. Non-current assets (a) Property, Plant & Equipment & Intangible Assets i. Property, Plant & Equipment ii. Intangible Assets (b) Non Current Investments	 4 5 6	 11,50,000 70,000 68,000
2. Current Assets (a) Inventories (b) Trade Receivables (c) Cash & Cash Equivalents		 14,00,000 14,39,000 10,000
Total		41,37,000

Notes to Accounts

		Amount
1.	Share Capital Equity Share Capital 2,00,000 equity shares of ₹ 10 each Preference Share Capital 6,000 8% preference shares of ₹ 100 each	 20,00,000 6,00,000 26,00,000
2.	Reserves and Surplus Debit Balance of Profit and Loss Account	 (4,05,000)
3.	Long Term borrowings 9% Debentures	 12,00,000
4.	Property, Plant & Equipment Plant & Machinery Furniture & Fixtures	 9,00,000 2,50,000 11,50,000
5.	Intangible Assets Patents & Copyrights	 70,000
6	Non Current Investments Investments (Market Value of 55,000)	 68,000

The following scheme of reconstruction was finalized:

a) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
b) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
c) Stock equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
d) Investment value to be reduced to market price.
e) The company would issue 11% Debentures for ₹ 3,00,000 to augment its working capital requirement after settlement of bank overdraft.

Pass necessary journal entries in the books of the company. Prepare Capital Reduction account and Balance Sheet of company after internal reconstruction.

Question 10 *(ICAI Study Material) / (RTP May 2021)* *Pg no._____*

Recover Ltd decided to reorganize its capital structure owing to accumulated losses & adverse market condition. The Balance Sheet of company as on 31st March 2023 is as follows:

		Particulars	Notes	Amount
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	3,50,000
	B	Reserves and surplus	2	(70,000)
2		Non-current liabilities		
	A	Long-term borrowings	3	50,000
3		Current liabilities		
	A	Trade Payables		80,000
	B	Short term Borrowings – Bank overdraft		90,000
	C	Other Current Liabilities- Interest payable on Debentures		5,000
				5,05,000
		Assets		
1		Non-current assets		
	A	Property, Plant Equipment & Intangible Assets		
		a) Property, Plant Equipment	4	3,35,000
		b) Intangible Assets	5	50,000
	B	Non-current investments	6	40,000
2		Current assets		
	A	Inventories		30,000
	B	Trade receivables		50,000
				5,05,000

Notes to Accounts:

1	Share Capital	
	<u>Equity share capital:</u>	
	20,000 Equity Shares of ₹ 10 each	2,00,000
	<u>Preference share capital:</u>	
	15,000 8% Cumulative Preference Shares of ₹ 10 each (preference dividend has been in arrears for 4 years)	1,50,000
		3,50,000
2	Reserves and surplus	
	Profit and loss account (debit balance)	(70,000)
		(70,000)
3	Long-term borrowings	
	<u>Secured</u> 10% Debentures (secured on the freehold property)	50,000
		50,000
4	Property, Plant and Equipment	
	Freehold property	1,20,000
	Leasehold property	85,000
	Plant and machinery	1,30,000
		3,35,000
5	Intangible assets	

	Goodwill	50,000
6	Non-current investments	
	Non-Trade investments at cost	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 ₹ 2.5 per share, & equity shares to ₹ 1 per share.
ii. 1 new equity share of ₹ 1 was issued for arrears of preferred dividend for past 4 years.
iii. The debenture holders took over the freehold property at an agreed figure of ₹ 75,000 and paid the balance to the company after deducting the amount due to them.
iv. Plant and Machinery was written down to ₹ 1,00,000.
v. Non-trade Investments were sold for ₹ 32,000.
vi. Goodwill and obsolete stock (included in the value of inventories) of ₹ 10,000 were written off.
vii. A contingent liability of which no provision had been made was settled at ₹ 7,000 and of this amount, ₹ 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.

Question 11 *(ICAI Study Material)* Pg no._____

Given below is the summarized balance sheet of Rebuilt Ltd. as on 31.3.2023:

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	13,50,000
(b) Reserves & Surplus	2	(4,51,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	5,73,000
3. Current Liabilities		
(a) Trade Payables		2,07,000
(b) Other Current Liabilities		35,000
Total		17,14,000
B. Assets		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	4	6,68,000
ii. Intangible Assets	5	3,18,000
2. Current Assets		
(a) Inventories		4,00,000
(b) Trade Receivables		3,28,000
Total		17,14,000

Notes to Accounts

		Amount
1.	Share Capital Equity Share Capital 15,000 equity shares of ₹ 50 each Preference Share Capital 12,000 7% Cumulative preference shares of ₹ 50 each (Preference dividend is in arrears for 5 years)	 7,50,000 6,00,000 13,50,000
2.	Reserves and Surplus	

	Debit Balance of Profit and Loss Account	(4,51,000)
3.	Long Term borrowings Loan	 5,73,000
4.	Property, Plant & Equipment Building at cost less depreciation Plant at cost less depreciation	 4,00,000 2,68,000 6,68,000
5.	Intangible Assets Trademarks & Goodwill	 3,18,000

The Company is short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

(a) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 2.50 by cancellation of ₹ 47.50 per share. They have also agreed to subscribe for three new equity shares of ₹ 2.50 each for each equity share held.

(b) The preference shareholders have agreed to cancel the arrears of dividends and to accept for each ₹ 50 share, 4 new 5% preference shares of ₹ 10 each, plus 6 new equity shares of ₹ 2.50 each, all credited as fully paid.

(c) Lenders to the company for ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹ 10 each and 12,000 new equity shares of ₹ 2.50 each.

(d) The directors have agreed to subscribe in cash for 40,000, new equity shares of ₹ 2.50 each in addition to any shares to be subscribed by them under (a) above.

(e) Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the company.

(f) The equity share capital cancelled is to be applied:
   a. to write off the debit balance in the profit and loss A/c; and
   b. to write off ₹ 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction. Nominal capital as reduced is to be increased to ₹ 6,50,000 for preference share capital and ₹ 7,50,000 for equity share capital.

Question 12

Pg no._____

The Balance Sheet of R Ltd., at 31st March, 2023 was as follows:

Liabilities	₹	Assets	₹
Share capital Authorised:	14,00,000	Intangibles	68,000
Issued: 64,000, 8% Cum. Preference shares of ₹ 10 each, fully paid	6,40,000	Freehold premises at cost	1,40,000
64,000 Equity shares of ₹ 10 each, ₹ 7.5 paid	4,80,000	Plant & Equipment at cost less depreciation	2,40,000
Loans from directors	60,000	Investments in shares in Q Ltd. at cost	3,24,000
Sundry creditors	4,40,000	Stocks	2,48,000
Bank overdraft	2,08,000	Debtors	3,20,000
		Deferred revenue expenditure	48,000
		Profit and loss account	4,40,000
	18,28,000		18,28,000

Note: The arrears of preference dividends amount to ₹ 51,200. A scheme of reconstruction was duly approved with effect from 1st April, 2023 under the conditions stated below:

a) The unpaid amount on the equity shares would be called up.
b) The preference shareholders would forego their arrear dividends. In addition, they would accept a reduction of ₹ 2.5 per share. The dividend rate would be enhanced to 10%.
c) The equity shareholders would accept a reduction of ₹ 7.5 per share.
d) R Ltd. holds 21,600 shares in Q Ltd. This represents 15% of the share capital of that company. Q Ltd. is not a quoted company. The average net profit (after tax) of the company is ₹ 2,50,000. The shares would be valued based on 12% capitalization rate.
e) A bad debt provision at 2% would be created.
f) The other assets would be valued as under:

Intangibles	48,000
Plant	1,40,000
Freehold premises	3,80,000
Stocks	2,50,000

g) The profit and loss account debit balance and the balance standing to the debit of the deferred revenue expenditure account would be eliminated.
h) The directors would have to take equity shares at the new face value of ₹ 2.5 per share in settlement of their loan.
i) The equity shareholders, including the directors, who would receive equity shares in settlement of their loans, would take up two new equity shares for every one held.
j) The preference shareholders would take up one new preference share for every four held.
k) The authorised share capital would be restated to ₹ 14,00,000.
l) New face values of shares–preference & equity will be maintained at their reduced levels.

Prepare necessary ledger accounts to effect the above.

Question 13 *(ICAI Study Material)* Pg no.______

Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. Following is summarized Balance Sheet of Company on 31.3.23 before reconstruction.

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	65,00,000
(b) Reserves & Surplus	2	(20,00,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	15,00,000
3. Current Liabilities		
(a) Trade Payables		5,00,000
Total		65,00,000
B. Assets		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	4	45,00,000
ii. Intangible Assets	5	20,00,000
2. Current Assets		Nil
Total		65,00,000

Notes to Accounts

		Amount
1.	Share Capital Authorized Share Capital 1,50,000 equity shares of ₹ 50 each Issued, Subscribed and Paid up Share Capital	75,00,000

	50,000 equity shares of ₹ 50 each 1,00,000 equity shares of ₹ 50 each, 40 paid up	25,00,000 40,00,000 65,00,000
2.	Reserves and Surplus Debit Balance of Profit and Loss Account	(20,00,000)
3.	Long Term borrowings 12% First Debentures 12% Second Debentures	5,00,000 10,00,000 15,00,000
4.	Property, Plant & Equipment Building Plant Computers	10,00,000 10,00,000 25,00,000 45,00,000
5.	Intangible Assets Goodwill	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
Sundry Creditors	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:

(a) 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.

(b) Mr. X is to cancel ₹ 7,00,000 of his total debt (other than share amount) and to pay ₹ 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.

(c) 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.

(d) The amount thus rendered available by the scheme shall be utilized in writing off of Goodwill, Profit and Loss A/c 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.

Question 14

Pg no._____

The draft Balance Sheet of Moon Limited as on 31st March, 2023 was as follows:

Liabilities	₹	Assets	₹
2,50,000 Equity shares of ₹ 10 each fully paid	25,00,000	Goodwill	5,00,000
9% 10,000 Preference shares of ₹100 each fully paid	10,00,000	Patent	2,50,000
10% First debentures	3,00,000	Land and Building	15,00,000
10% Second debentures	5,00,000	Plant and Machinery	5,00,000
Debentures interest outstanding	80,000	Furniture and Fixtures	1,00,000
Trade payables	2,50,000	Computers	1,50,000
Directors' loan	50,000	Trade Investment	2,50,000
Bank Overdraft	50,000	Trade receivables	2,50,000

Outstanding liabilities	20,000	Stock	5,00,000
Provision for tax	50,000	Profit and Loss Account (Loss)	8,00,000
	48,00,000		48,00,000

Note: Preference dividend is in arrears for last three years.

A holds 10% first debentures for ₹ 2,00,000 and 10% second debentures for ₹3,00,000. He is also creditors for ₹ 50,000. B holds 10% first debentures for ₹ 1,00,000 and 10% second debentures for ₹ 2,00,000 and is also creditors for ₹ 25,000.

The following scheme of reconstruction has been agreed upon and duly approved by the court.

a) All the equity shares be converted into fully paid equity shares of ₹5 each.
b) The preference shares be reduced to ₹ 50 each and the preference shareholders agree to forego their arrears of preference dividends in consideration of which 9% preference shares are to be converted into 10% preference shares.
c) Mr. ‘A’ is to cancel ₹ 3,00,000 of his total debt including interest on debentures and to pay ₹ 50,000 to the company and to receive new 12% debentures for the Balance amount.
d) Mr. ‘B’ is to cancel ₹ 1,50,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.
e) Trade creditors (other than A and B) agreed to forego 50% of their claim.
f) Directors to accept settlement of their loans as to 60% thereof by allotment of equity shares and balance being waived.
g) There were capital commitments totalling ₹ 1,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
h) The Directors refund ₹ 55,000 of the fees previously received by them.
i) Reconstruction expenses paid ₹5,000.
j) The taxation liability of the company is settled at ₹ 40,000 and the same is paid immediately.
k) The assets are revalued as under:

	₹
Land and building	14,00,000
Plant and Machinery	2,00,000
Stock	3,50,000
Trade receivables	1,50,000
Computers	90,000
Furniture & Fixtures	50,000
Trade Investment	2,00,000

Pass Journal entries for all transactions incl. amounts to be w/off of Goodwill, Patents, Loss in P&L A/c. Prepare Bank A/c & working of Interest on Debentures allocation between A & B

Question 15

Pg no._____

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, 2023:

Liabilities	₹	Assets	₹
6,000 shares of ₹ 60 each, ₹ 30 paid up		Property, machinery and plant etc. (Cost ₹ 3,90,000) Estimated at	1,50,000
First debentures	3,00,000	Cash in hand of the receiver	2,70,000
Second debentures	6,00,000	Charged under debentures	4,20,000
Unsecured creditors	4,50,000	Uncalled capital	1,80,000
		Deficiency	7,50,000
	13,50,000		13,50,000

A holds the first debentures for ₹ 3,00,000 and second debentures for ₹ 3,00,000. He is also an unsecured creditor for ₹ 90,000. B holds second debentures for ₹ 3,00,000 and is an unsecured creditor for ₹ 60,000.

The following scheme of reconstruction is proposed:

a. A is to cancel ₹ 2,10,000 of the total debt owing to him, to bring ₹ 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 5,10,000 in satisfaction of all his claims.
b. B is to accept ₹ 90,000 in cash in satisfaction of all claims by him.
c. In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of ₹ 7.50 each, fully paid against their claim for each share of ₹ 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.
d. Uncalled capital is to be called up in full and ₹ 52.50 per share cancelled, thus making the shares of ₹ 7.50 each.

Assuming that the scheme is duly approved by all parties interested & by the Court, give necessary journal entries

Question 16 *(RTP May 2020)* *Pg no._____*

The following is the Balance Sheet of Star Ltd. as on 31st March, 2023:

	Amount	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital		
10,000 equity shares of ₹ 100 each fully paid		10,00,000
9,000, 7% pref. shares of ₹ 100 each fully paid		9,00,000
(b) Reserves & Surplus		
Profit & Loss Account		(2,00,000)
2. Non-current Liabilities		
(a) Long Term Borrowings		
"A" 6% Debentures (Secured on Bombay Works)		3,00,000
"B" Debentures (Secured on Chennai Works)		3,50,000
3. Current Liabilities		
(a) Workmen's Compensation Fund:		
Bombay Works		10,000
Chennai Works		5,000
(b) Trade Payables		1,25,000
Total		24,90,000
B. Assets		
1. Non-current assets		
Property, Plant & Equipment		
Bombay Works	9,50,000	
Chennai Works	7,75,000	17,25,000
2. Investment		
Investments for Workman's Compensation Fund		15,000
3. Current Assets		
(a) Inventories	4,50,000	
(b) Trade Receivables	2,50,000	
(c) Cash at Bank	50,000	18,50,000
Total		24,90,000

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

a) Paid up value of 7% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.
b) Paid up value of Equity Shares to be reduced to ₹ 10.
c) The directors to refund ₹ 50,000 of the fees previously received by them.
d) Debenture holders forego their interest of ₹ 26,000 which is included among the Sundry Creditors.
e) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.
f) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 equity shares of ₹ 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 ₹ 10 each fully paid at par to Star Ltd.
g) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of ₹ 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.
h) Stock was to be written off by ₹ 1,90,000 and a provision for doubtful debts is to be made to the extent of ₹ 20,000.
i) Chennai works completely written off.
j) 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.

TOPIC 2B: SHARE SURRENDER

Question 17 *(RTP Nov 2023)* *Pg no._____*

Following information from Balance Sheet of Ruby Limited as on March 31, 2023:

Particulars	Amount
Authorised & Issued Equity share capital	
60,000 shares of ₹ 100 each fully paid	60,00,000
40,000 7% cumulative preference shares of ₹ 100 each fully paid	40,00,000
General Reserve	12,00,000
Loan from director	8,80,000
Trade Payables	49,20,000
Outstanding Expenses	6,40,000
Bank Loan	6,00,000
Patents	8,00,000
Plant and Machinery	60,00,000
Building	11,00,000
Trade Receivables	47,00,000
Inventory	32,60,000
Cash	2,40,000
Bank Balance	4,60,000
Profit & Loss A/c	16,80,000

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

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

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

1) Equity shares to be converted into 6,00,000 shares of ₹10 each.
2) Equity shareholders to surrender to the company 80 percent of their holdings.
3) Preference shareholders agree to forgo their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 8% preference shares.
4) Trade payables agree to reduce their claim by one fourth in consideration of their getting shares of ₹ 10,00,000 out of the surrendered equity shares.
5) Directors agree to forego the amounts due on account of loan.
6) Surrendered shares not otherwise utilized to be cancelled.
7) Assets to be reduced as under

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

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

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

Question 18 *(ICAI Study Material)* Pg no._____

The Balance Sheet of Revise Ltd. as on 31-03-2023 is as follows:

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	10,00,000
(b) Reserves & Surplus	2	(6,00,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	2,00,000
3. Current Liabilities		
(a) Trade Payables		72,000
(b) Other Current Liabilities	4	24,000
(c) Short Term Provisions	5	24,000
Total		7,20,000
B. Assets		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	6	1,00,000
2. Current Assets		
(a) Inventories		3,20,000
(b) Trade Receivables		2,70,000
(c) Cash and Cash Equivalents		30,000
Total		7,20,000

Notes to Accounts

		Amount
1.	Share Capital Equity Share Capital 10,000 equity shares of ₹ 100 each	10,00,000
2.	Reserves and Surplus Debit Balance of Profit and Loss Account	(6,00,000)
3.	Long Term borrowings 12% Debentures	2,00,000
4.	Other Current Liabilities Interest payable on debentures	24,000
5.	Short Term Provisions Provision for taxation	24,000
6.	Property, Plant & Equipment Machinery	1,00,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that:

(a) Each share is sub-divided into ten fully paid up equity shares of ₹ 10 each.
(b) After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.
(c) Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 12% preference shares of ₹ 10 each, fully paid up.
(d) The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of shares surrendered.
(e) Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
(f) Balance of profit and loss account to be written off.
(g) The shares surrendered and not re-issued shall be cancelled.

Pass journal entries giving effect to the above and the resultant Balance Sheet.

PRACTICE QUESTIONS

TOPIC 1 & 2A

Question 1 *(ICAI Study Material)* *Pg no._____*

C Ltd. had ₹ 5,00,000 authorized capital on 31-12-2021 divided into shares of ₹ 100 each out of which 4,000 shares were issued and fully paid up. In June 2022 the Company decided to convert the issued shares into stock. But in June, 2023 the Company re-converted the stock into shares of ₹ 10 each fully paid up. Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-2021, 31-12-2022 and 31-12-2023.

Question 2 *(Inter July 2021) (5 Marks)* *Pg no._____*

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

(i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of ₹10 each, the following:
  a. New fully paid ₹ 10 Equity Shares equal to 3/5th of their holding.
  b. Fully paid ₹ 10, 6% Preference Shares to the extent of 2/5th of the above new equity shares.
  c. 7% Debentures of ₹ 250,000.

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

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

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

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

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

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

Question 3 *Pg no._____*

Pass journal entries for the following transactions:

a) Conversion of 2 lakh fully paid equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance has 12% fully convertible Debenture.

b) Consolidation of 40 lakh fully paid equity shares of ₹ 2.50 each into 10 lakh fully paid equity share of ₹ 10 each.

c) Sub-division of 10 lakh fully paid 11% preference shares of ₹ 50 each into 50 lakh fully paid 11% preference shares of ₹ 10 each.

d) Conversion of 12% preference shares of ₹ 5,00,000 into 14% preference shares ₹ 3,00,000 and remaining balance as 12% Non-cumulative preference shares.

Question 4 *(RTP Nov 2022)* *Pg no._____*

M/s Planet Limited has decided to reconstruct Balance Sheet since it has accumulated huge losses. Following is balance sheet of company as on 31st March, 2023 before reconstruction:

	Note	₹ (In Lacs)
A. Equity and Liabilities		
1. Shareholders' Fund		
Share Capital	1	2,100
Reserves & Surplus	2	(783)

2. Non-Current Liabilities Long Term Borrowings	3	1,050
3. Current Liabilities Trade Payables Other Liabilities	 4 5	 153 36
Total		2,556
B. Assets		
1. Non-Current assets Property, Plant & Equipment & Intangible Assets Property, Plant & Equipment	 6	 1,125
2. Current Assets Current Investments Inventories Trade Receivables Cash & Cash Equivalents	 7 8 9 10	 300 450 675 6
Total		2,556

Notes to Accounts

		Amount
1.	Share Capital Authorised, 300 lakh shares of ₹ 10 each 12 lakh, 8% Preference Shares of ₹ 100 each Issued, Subscribed & paid up 150 lakh Equity Shares of ₹ 10 each, full paid up 6 lakh 8% Preference Shares of ₹ 100 each, fully paid up Total	 3,000 1,200 4,200 1,500 600 2,100
2.	Reserves and Surplus Debit Balance of Profit and Loss Account	 (783)
3.	Long Term borrowings 6% Debentures (Secured by Freehold Property) Directors' Loan	 600 450 1,050
4.	Trade Payables Sundry Creditors for Goods	 153
5.	Other Current Liabilities Interest Accrued and Due on 6% Debentures	 36
6.	Property, Plant & Equipment Freehold property Plant & Machinery	 825 300 1,125
7.	Current Investment Investment in Equity Instruments	 300
8.	Inventories Finished Goods	 450
9.	Trade Receivables Sundry Debtors for Goods	 675
10.	Cash and Cash Equivalents Balance with Bank	 6

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

a) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.
b) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3 rd, Equity Shares of ₹ 2 each to be allotted.
c) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
d) Interest accrued and due on Debentures to be paid in cash.
e) Remaining Freehold Property to be valued at ₹ 550 lakh.
f) All investments sold out for ₹ 425 lakh.
g) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.
h) 40% of Trade Receivables and 80% of Inventories to be written off.
i) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying penalty of ₹ 72 Lakhs.

You are required to:
(a) Pass Journal Entries for all the transactions related to internal reconstruction;
(b) Prepare Capital Reduction Account, Bank Account; and
(c) Prepare Notes to Accounts on Share Capital and Property, Plant & Equipment to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

Question 5 *(ICAI Study Material)* *Pg no._____*

The following is the Balance Sheet of Weak Ltd. as on 31st March, 2023:

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	1,50,00,000
(b) Reserves & Surplus	2	(6,00,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	40,00,000
3. Current Liabilities		
(a) Trade Payables		50,00,000
(b) Short Term Provisions	4	1,00,000
Total		2,35,00,000
B. Assets		
1. Non-current assets		
(a) PPE & Intangible Assets		
i. Property, Plant & Equipment		1,25,00,000
(b) Non Current Investment	5	10,00,000
2. Current Assets		1,00,00,000
Total		2,35,00,000

Notes to Accounts

		Amount	Amount
1.	Share Capital		
	1,00,000 equity shares of ₹ 100 each	1,00,00,000	
	50,000 12% cumulative preference shares of ₹ 100 each	50,00,000	1,50,00,000
2.	Reserves and Surplus		
	Profit and Loss Account		(6,00,000)
3.	Long Term borrowings		
	40,000,10% Debentures of ₹ 100 each		40,00,000

4.	Short Term Provisions Provision for taxation		1,00,000
5.	Non Current Investments Investments (Market Value of ₹ 9,50,000)		10,00,000

The following scheme of reorganization is sanctioned:

a) All the existing equity shares are reduced to ₹ 40 each.

b) All preference shares are reduced to ₹ 60 each.

c) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

d) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full & final settlement of his claim.

e) Property, Plant & Equipment are to be written down by 30%.

f) Current assets are to be revalued at ₹ 45,00,000.

g) The taxation liability of the company is settled at ₹ 1,50,000.

h) Investments to be brought to their market value.

i) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and prepare Balance sheet of the company after giving effect to above.

Question 6

Pg no._____

Vinod Limited decided to reconstruct its business as it has accumulated huge losses. The following is the Balance Sheet of the company as on 31-03-2023 before reconstruction:

Liabilities	₹	Assets	₹
6,00,000 Equity Shares of ₹ 10 each fully paid up	60,00,000	Goodwill	10,40,000
3,20,000, 6% Preference Shares of ₹ 10 each fully paid up	32,00,000	Patents	3,00,000
6% Debentures (Secured against Land & Building)	30,00,000	Land & Building	34,00,000
Bank Overdraft	11,60,000	Plant & Machinery	4,00,000
Trade Payables	24,00,000	Investments (at Cost)	4,40,000
Provision for Income Tax	4,00,000	Trade Receivables	34,80,000
		Inventory	34,00,000
		Profit & Loss A/c	37,00,000
	1,61,60,000		1,61,60,000

Following scheme of Reconstruction approved by all interested parties and Court:

a) All Equity Shares are reduced to ₹ 3 each and Preference Shares to ₹ 7 each.

b) Debentureholders agree to take over part of Land& Building, Book value of which is 14 Lacs towards their 50% claim. Rate of interest of balance 50% debentures increased to 9%.

c) Goodwill and Patent will be written off.

d) 10% of trade receivables to be provided for bad debts.

e) Inventory to be written off by ₹ 5,20,000.

f) 50% of balance Land & Building sold for ₹ 12,00,000 and remaining Land & Building valued at ₹ 12,00,000.

g) Investments to be sold for ₹ 4,00,000

h) There are pending contracts amounting to ₹ 20,00,000. These contracts are to be cancelled on payment of penalty @ 5% of pending contract amount.

i) The Income Tax Liability of the company is settled at ₹ 6,12,000. Provision for Income Tax will be raised accordingly.

j) 1/3 of trade payables decided to forgo their claim.
k) After making all the above adjustments, balance amount available through scheme, will be utilised to write off the value of Plant & Machinery to that extent.

You are required to pass the Journal Entries and Draw up Balance Sheet of the company after reconstruction.

Question 7 *(Inter Nov 2018) (10 Marks) / (RTP Nov 2021)* Pg no._____

The summarized Balance Sheet of SK Ltd. as on 31st March, 2023 is given below.

	Amount ('000)
Liabilities	
Equity Shares of ₹ 10 each	35,000
8%, Cumulative Preference Shares of ₹ 100 each	17,500
6% Debentures of ₹ 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Total	84,350
B. Assets	
Assets	
Property, Plant & Equipment	43,750
Investments (Market value ₹ 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
Total	84,350

Following Scheme of Internal Reconstruction is approved & put into effect on 31st March, 2023

(i) Investments are to be brought to their market value.
(ii) The Taxation Liability is settled at ₹ 5,25,000 out of current Assets.
(iii) The balance of Profit and Loss Account to be written off.
(iv) All the existing equity shares are reduced to ₹ 4 each.
(v) All preference shares are reduced to ₹ 60 each.
(vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange them for fresh debentures of ₹ 80 each. Each old debenture is exchanged for one new debenture.
(vii) Balance of Current Assets left after settlement of taxation liability are revalued at ₹ 1,57,50,000.
(viii) Property, Plant & Equipment are written down to 80%.
(ix) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.

Pass journal entries for the above transactions.

Question 8 *(ICAI Study Material)* Pg no._____

The following is the summarized Balance Sheet of X Ltd. as on 31st March, 2023:

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	36,00,000
(b) Reserves & Surplus	2	(14,40,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	6,00,000
3. Current Liabilities		
(a) Short Term Borrowings- Bank Overdraft		6,00,000

(b) Trade Payables		3,00,000
Total		36,60,000
B. Assets		
1. Non-current assets (a) Property, Plant & Equipment & Intangible Assets i. Property, Plant & Equipment ii. Intangible Assets	 4 5	 30,00,000 90,000
2. Current Assets (a) Inventories (b) Trade Receivables (c) Cash & Cash Equivalents		 2,60,000 2,80,000 30,000
Total		36,60,000

Notes to Accounts

		Amount
1.	Share Capital Equity Share Capital 24,000 equity shares of ₹ 100 each Preference Share Capital 12,000 10% preference shares of ₹ 100 each	 24,00,000 12,00,000 36,00,000
2.	Reserves and Surplus Debit Balance of Profit and Loss Account	 (14,40,000)
3.	Long Term borrowings 10% Debentures	 6,00,000
4.	Property, Plant & Equipment Land & Building Plant & Machinery	 12,00,000 18,00,000 30,00,000
5.	Intangible Assets Goodwill	 90,000

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

a) The equity shares are to be reduced to shares of ₹ 40 each fully paid and the preference shares to be reduced to fully paid shares of ₹ 75 each.

b) The debenture holders took over inventories and trade receivables in full satisfaction of their claims.

c) Land & Building to be appreciated by 30% and Plant & machinery to be depreciated by 30%.

d) The debit balance of profit and loss account and intangible assets are to be eliminated.

e) Expenses of reconstruction amounted to ₹ 5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet.

Question 9

Pg no.______

The Balance Sheet of M/s Clean Ltd. as on 31st March, 2023 was summarized as follows:

Liabilities	₹	Assets	₹
Share capital		Land & Building	75,00,000
Equity Shares of ₹ 50 each, fully paid up	60,00,000	Plant & Machinery	22,00,000
9% Preference Shares of ₹ 10 each, fully paid up	40,00,000	Trade Investment	16,50,000

7% Debentures (secured by plant & machinery)	23,00,000	Inventories	9,50,000
8% Debentures	17,00,000	Trade Receivable	18,00,000
Trade Payables	6,00,000	Cash and Bank Balances	3,60,000
Provision for Tax	75,000	Profit & Loss Account	2,15,000
	1,46,75,000		1,46,75,000

The Board of Directors of the company decided upon the following scheme of reconstruction duly approved by all concerned parties:

a) The equity shareholders agreed to receive in lieu of their present holding of 1,20,000 shares of ₹ 50 each as under:
   1. New fully paid equity shares of ₹ 10 each equal to 2/3rd of their holding.
   2. 9% preference shares of ₹ 8 each to the extent of 25% of the above new equity share capital.
   3. ₹ 2,80,000, 10% debentures of ₹ 80 each.

b) The preference shareholders agreed that their ₹ 10 shares should be reduced to ₹ 8 by cancellation of ₹ 2 per share. They also agreed to subscribe for two new equity shares of ₹ 10 each for every five preference shares held.

c) The taxation liability of the company is settled at ₹ 66,000 and the same is paid immediately.

d) One of the trade creditors of the company to whom the company owes ₹ 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of ₹ 10 each in full satisfaction of his balance claim.

e) Other trade creditors of ₹ 5,00,000 are given option of either to accept fully paid 9% preference shares of ₹ 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.

f) Company's contractual commitments amounting to ₹ 6,50,000 have been settled by paying 4% penalty of contract value.

g) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.

h) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of ₹ 50 each and agreed to accept 10% debentures of ₹ 80 each for every two debentures held by them.

i) The land and building to be depreciated by 5%.

j) The debit balance of profit and loss account is to be eliminated.

k) 1/4th of trade receivables and 1/5th of inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of M/s Clean Ltd. as per Schedule III to the Companies Act, 2013.

Question 10 *(Inter May 2023) (5 Marks)* **Pg no._____**

X Ltd. had ₹ 1,00,000 equity share capital divided into 1,000 shares of ₹ 100 each out of which ₹ 80 per share was called up and paid up. It has 1,500 cumulative preference shares of ₹ 100 each fully paid up. Intangible assets include Goodwill of ₹ 80,000 and patents of ₹ 27,800. Preference dividends are in arrears of ₹ 33,000.

You are required to show the entries (Ignore dates) under each of the following conditions:

a. If X Ltd. resolves to subdivide the equity shares into 10,000 equity shares of ₹ 10 each of which ₹ 8 per share is called up and paid up.
b. If X Ltd. resolves to convert its 1,000 equity shares of ₹ 100 each (assume fully paid) into ₹ 1,00,000 worth of stock.

c. The preference shares are to be converted into 11% unsecured debentures of ₹ 100 each (including arrears of dividends).
d. Patents and Goodwill to be written-off.

Question 11 *(Inter Nov 2019) (15 Marks) / (RTP May 2023)* *Pg no._____*

Following is the summarized Balance Sheet of Fortunate Ltd. as on 31st March, 2023.

Particulars	Amount
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Total	21,42,500
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
Total	21,42,500

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

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

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

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

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

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

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

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

a. To write off the debit balance in the Profit and Loss A/c, and
b. To write off ₹ 43,750 from the value of plant.

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

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

Question 12 *(RTP May 2018 / RTP Nov 2019)* Pg no._____

M/s Platinum Limited has decided to reconstruct Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the company as on 31st March, 2023 before reconstruction:

Liabilities	₹	Assets	₹
Share Capital		Goodwill	22,00,000
50,000 shares of ₹ 50 each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 shares of ₹ 50 each ₹ 40 paid up	40,00,000	Machinery	8,50,000
Capital Reserve	5,00,000	Computers	5,20,000
8% Debentures of ₹ 100 each	4,00,000	Stock	3,20,000
12% Debentures of ₹ 100 each	6,00,000	Trade Debtors	10,90,000
Trade Creditors	12,40,000	Cash at Bank	2,68,000
Outstanding Expenses	10,60,000	Profit & Loss Account	7,82,000
	1,03,00,000		1,03,00,000

Following is the interest of Mr. Shiv and Mr. Ganesh in M/s Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹ 12,50,000.

(3) Trade Creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. Shiv agrees to cancel debentures amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.

(5) Mr. Ganesh agrees to cancel debentures amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Stock at ₹ 3,50,000 and Trade Debtors at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

Question 13 *(RTP Nov 2018 / RTP Nov 2020/ RTP May 2022)* Pg no._____

The summarized balance sheet of Z Limited as on 31st March, 2023 is as under

	Amount
A. Equity and Liabilities 1. Shareholders' Fund	

(a) Share Capital	
5,00,000 equity shares of ₹ 10 each fully paid	50,00,000
20000, 9% preference shares of ₹ 100 each fully paid	20,00,000
(b) Reserves & Surplus	
Profit & Loss Account	(14,60,000)
2. Non-current Liabilities	
(a) Long Term Borrowings 10% Secured Debentures	16,00,000
3. Current Liabilities	
Trade Payables	5,00,000
Loan From Director	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Interest due on Debentures	1,60,000
Total	81,00,000
B. Assets	
1. Non-current assets	
Property, Plant & Equipment & Intangible Assets	
(a) Property, Plant & Equipment	
Land & Building	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets	
Goodwill	10,00,000
Patents	5,00,000
2. Current Assets	
(a) Trade Investments	5,00,000
(b) Trade Receivables	5,00,000
(c) Inventories	10,00,000
(d) Discount on Issue of debentures	1,00,000
Total	81,00,000

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 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.

a) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.

b) The Preference shares be reduced to ₹ 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.

c) 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 ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

d) Trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

e) Directors also waived 60% of their loans and accepted equity shares for the balance.

f) Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.

g) Directors refunded ₹ 1,00,000 of the fees previously received by them.

h) Reconstruction expenses paid ₹ 15,000.

i) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.

j) 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 pass 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 A/c.

Question 14 *(RTP May 2018) (Similar)* Pg no._____

Proficient Infosoft Ltd. is in the hand of Receiver for Debenture Holders who holds a charge on all asset except uncalled capital. The following statement shows position as regards creditors as on 30 June,2023

Liabilities	₹	Assets	₹
8,000 shares of ₹ 100 each, ₹ 60 paid up		Property (Cost ₹ 3,80,800) Estimated at	1,08,000
First debentures	3,60,000	Plant & Machinery (Cost ₹ 2,87,200) estimated at	72,000
Second debentures	7,80,000	Cash in hand of the receiver	3,24,000
Unsecured creditors	5,40,000		5,04,000
		Uncalled capital	3,20,000
			8,24,000
		Deficiency	8,56,000
	16,80,000		16,80,000

A holds the first debentures for ₹ 3,60,000 and second debentures for ₹ 3,60,000. He is also an unsecured trade payable for ₹ 1,08,000. B holds second debentures for ₹ 3,60,000 and is an unsecured trade payable for ₹ 72,000. The following scheme of reconstruction is proposed.

a) A is to cancel ₹ 2,52,000 of the total debt owing to him; to bring ₹ 36,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 6,12,000 in satisfaction of all his claims.
b) B to accept ₹1,08,000 in cash in satisfaction of all claims by him.
c) In full settlement of 60% of the claim, unsecured trade payable (other than A and B) agreed to accept three shares of ₹25 each, fully paid against their claim for each ₹100. The balance of 40% 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.
d) Uncalled capital is to be called up in full & ₹75 per share cancelled, thus making the shares of ₹ 25 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

Question 15 *(Inter Nov 2022) (20 Marks)* Pg no._____

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

Particulars		Notes	Amount in ₹
I.	Equity and Liabilities		
(1)	Shareholders' Funds		
(a)	Share Capital	1	15,00,000
(b)	Reserves & Surplus	2	(3,00,000)
(2)	Current Liabilities		
(a)	Trade Payables		2,20,000
(b)	Short Term Borrowings – Bank Overdraft		2,00,000
Total			16,20,000

II. Assets		
(1) Non-Current Assets		
(a) Property, Plant and Equipment	3	10,20,000
(b) Intangible Assets	4	1,20,600
(2) Current Assets		
(a) Inventories		1,70,000
(b) Trade Receivables		3,01,800
(c) Cash and cash equivalents		7,600
Total		16,20,000

Notes to Accounts

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

Dividends on preference shares are in arrears for 3 years. On the above date, the company adopted the following scheme of reconstruction:

a) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.
b) The value of equity shares is brought down to ₹ 8 per share.
c) The arrears of dividend on preference shares are cancelled.
d) The debit balance of Goodwill account is written off entirely.
e) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.
f) Book debts amounting to ₹ 14,400 are to be treated as bad and hence to be written off.
g) The company expects to earn a profit at the rate of ₹ 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.
h) The balance of total capital reduction is to be utilized in writing down Patents.
i) A secured loan of ₹ 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet.

TOPIC 2B: SHARE SURRENDER

Question 16 — *Pg no.______*

The business of P Ltd. was being carried on continuously at losses. The following are the extracts from the Balance Sheet of the Company as on 31st March, 2023.

Liabilities	₹	Assets	₹
Auth., Issued & Subscribed Capital:		Goodwill	50,000
30,000 Equity Shares of ₹ 10 each fully paid	3,00,000	Plant	3,00,000
2,000 8% Cumulative Pref. Shares of ₹ 100 each fully paid	2,00,000	Loose Tools	10,000
Securities Premium	90,000	Debtors	2,50,000
Unsecured Loan (From Director)	50,000	Stock	1,50,000
Sundry creditors	3,00,000	Cash	10,000
Outstanding Expenses (including Directors' remuneration ₹ 20,000)	70,000	Bank	35,000
		Preliminary Expenses	5,000
		P&L Account	2,00,000
	10,10,000		10,10,000

Note:

1) Dividends on Cumulative Preference Shares are in arrears for 3 years.
2) Unsecured loans (from director) is assumed to be of less than 12 months hence, treated as short term borrowings.(ignoring interest)

Following scheme of reconstruction has been agreed upon and duly approved by the Court.

a) Equity shares to be converted into 1,50,000 shares of ₹ 2 each.
b) Equity shareholders to surrender to the Company 90 per cent of their holding.
c) Preference shareholders agree to forego their right to arrears to dividends in consideration of which 8% Preference Shares are to be converted into 9% Pref. Shares.
d) Sundry creditors agree to reduce their claim by one fifth in consideration of their getting shares of ₹ 35,000 out of the surrendered equity shares.
e) Directors agree to forego the amounts due on account of unsecured loan and Director's remuneration.
f) Surrendered shares not otherwise utilised to be cancelled.
g) Assets to be reduced as under:

Goodwill by	₹ 50,000
Plant by	₹ 40,000
Tools by	₹ 8,000
Sundry Debtors by	₹ 15,000
Stock by	₹ 20,000

h) Any surplus after meeting the losses should be utilised in writing down the value of the plant further.
i) Expenses of reconstruction amounted to ₹ 10,000.
j) Further 50,000 Equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid-up.

A member holding 100 equity shares opposed the scheme and his shares were taken over by the Director on payment of ₹ 1,000 as fixed by the Court.

Pass journal entries and draw up the resultant Balance Sheet of the Company.

Question 17

Pg no._____

The summarised Balance Sheet of Preet Limited as on 31st March 2023, was as follows:

Liabilities	₹	Assets	₹
Authorised and subscribed capital:		Property, Plant & Equipment:	
20,000 Equity shares of ₹ 100 each	20,00,000	Machineries	7,00,000
Unsecured loans:		Current Assets:	
15% Debentures	6,00,000	Inventory	5,06,000

Accrued interest	90,000	Trade Receivables	4,60,000
Current Liabilities:		Bank	40,000
Trade Payables	1,04,000	Profit & loss A/c	11,60,000
Provision for income tax	72,000		
	28,66,000		28,66,000

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:

a) Each share be sub-divided into 10 fully paid up equity share of ₹ 10 each.
b) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debentureholders and trade payables as necessary.
c) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
d) The claims of debentureholders shall be reduced by 50%. In consideration of the reduction, the debenture-holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.
e) Trade Payables claim shall be reduced by 25%. Remaining Trade Payables are to be settled by the issue of equity shares of ₹ 10 each of out of shares surrendered.
f) Balance of Profit and Loss account to be written off.
g) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

Question 18 *(Inter Nov 2023) (20 Marks)* *Pg no._____*

Following is the Balance Sheet of Tourma Limited as at 31st March, 2023:

Particulars	Notes	₹ in Lakhs
Equity and Liabilities:		
1. Shareholders funds		
A. Share Capital	1	24.00
B. Reserves and Surplus	2	(9.10)
2. Non-current liabilities		
A. Long-term borrowings	3	3.20
3. Current liabilities		
A. Trade Payables		1.15
B. Short Term Borrowings – Bank Overdraft		1.40
C. Other current liabilities	4	0.32
D. Short term provisions	5	0.42
Total		21.39
Assets:		
1. Non-current assets		
A. Property, Plant and Equipment	6	7.80
B. Intangible Assets	7	1.70
C. Non-Current Investments	8	1.80
2. Current Assets		
A. Inventory		5.12
B. Trade Receivables		4.32
C. Cash & Cash Equivalents		0.65
Total		21.39

Notes to Accounts:

		₹ in Lakhs
1	Share Capital	

	16,000 Equity Shares of ₹ 100 each	16.00
	8,000 6% Preference Shares of ₹ 100 each	8.00
		24.00
2	Reserves and Surplus	
	Debit balance of profit & loss account	(9.10)
		(9.10)
3	Long-term borrowings	
	3,200 10% Debentures	3.20
		3.20
4	Other current liabilities	
	Interest payable on debentures	0.32
		0.32
5	Short term provisions	
	Provision for taxation	0.42
		0.42
6	Property, Plant and Equipment	
	Plant & Machinery	5.00
	Furniture & Fixture	2.80
		7.80
7	Intangible Assets	
	Patents & Copyrights	1.70
		1.70
8	Non-Current Investments	
	Investments (Market Value ₹ 1,10,000)	1.80
		1.80

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

a) Each equity share is to be sub-divided into ten fully paid-up equity shares of ₹ 10 each. After sub-division, each shareholder shall surrender to the company 40% of his holding, for the purpose of reissue to trade payables as necessary.
b) Preference shareholders would give up 30% of their capital and 12% Debentures (face value ₹ 100 each) shall be issued to them for balance holdings.
c) The company would issue additional 12% Debentures (face value ₹ 100 each) for ₹ 4,00,000 for meeting its working capital requirement and final settlement of Bank Overdraft at 90% of the amount.
d) Existing debenture holders would accept Furniture & Fixture in full settlement of their dues.
e) Trade payables claim shall be reduced to 70%, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
f) The shares surrendered and not re-issued shall be cancelled.
g) The taxation liability is to be settled at 50,000.
h) Investments value to be reduced to market price.
i) Balance of profit and loss account is to be written off.
j) The value of inventories is to be increased by ₹ 32,000 and Provision for Doubtful Debts is to be created at 5% of Trade Receivables.

You are required to:

1. Pass necessary journal entries in the books of account of Tourma Limited.
2. Prepare Reconstruction Account, and
3. Prepare Balance Sheet of the company after internal reconstruction.

AMALGAMATION (AS 14)

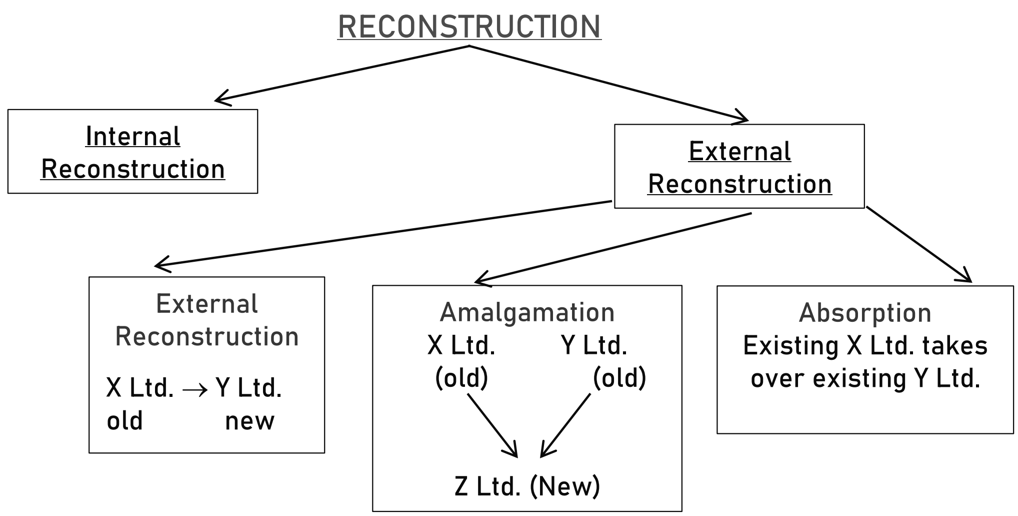
CH 5

"Go confidently in the direction of your dreams, Live the life you've imagined".

Amalgamation refers to the process of merger of two or more companies into a single entity or where one company takes over the other by outright purchase.
Therefore, the term 'amalgamation' contemplates two kinds of activities:

(i) 2 or more companies join to form a new company (Popularly known as Amalgamation)
(ii) absorption and blending of one by the other (Popularly known as Absorption).

This arrangement is sought by companies to receive various advantages such as economies of large-scale production, avoiding competition, increasing efficiency, expansion, increase in market share, etc.



Basis	Internal Reconstruction	External Reconstruction
Liquidation	The existing company is not liquidated	The existing company is liquidated
Formation	No new company is formed but only the rights of shareholders and creditors are changed	A new company is formed to take over the liquidated company
Reduction of Capital	There is certain reduction of capital & sometimes outside liabilities like debenture holders may have to reduce their claims	There is no reduction of capital. In fact there is fresh share capital of the company
Legal Position	Regulated as per provisions of Sec 61 & 66 of the Companies Act, 2013.	Regulated by Sec 232 of the Companies Act, 2013.
Legal Formalities	It requires court's confirmation and other legal procedures before it can be implemented	It can be affected without the court's interference and less time-consuming process.

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	2 or more companies are wound up and a new company is formed to take over their business	An existing company takes over the business of one or more existing companies	A newly formed company takes over the business of an existing company
Minimum no. of companies involved	Atleast 3	Atleast 2	Only 2
No. of new resultant company	Only 1	No new resultant company is formed	Only 1
Objective	To cut competition & reap the economies in the larger scale	To cut competition & reap the economies in the larger scale	To reorganize the financial structure of the company

TOPIC 2A: PURCHASE CONSIDERATION (AS -14)

Purchase consideration is the aggregate of shares and other securities issued (i.e. any long term security from the left side of the balance sheet including equity shares, preference shares, debentures etc.) and payments made in the form of cash and other assets (anything from the asset side) by the transferee company to the shareholders of transferor company.

Purchase Consideration
[Value at which business is purchased]

Shares & other securities issued → Equity shares, Preference shares, Debentures
$\boxed{\text{And/OR}}$
Cash/other Assets given → Cash, Other Assets
$\boxed{\text{BY}}$
Purchasing Company
$\boxed{\text{To}}$
Shareholders of Transferor company → Equity Shareholders, Preference Shareholders

METHODS OF COMPUTATION OF PURCHASE CONSIDERATION:

Net Payment Method
To shareholders of Old / Transferor co.

Net Assets Method

Net Assets = Assets
(-) Outsider Liabilities
(At taken over values)

Does not include capital, Reserves & Surplus, losses, etc.

TOPIC 2B: TYPES OF AMALGAMATION

Amalgamation in the Nature of Merger (Pooling of interest method)

As per AS-14 the following 5 conditions are to be fulfilled: -

1. All assets and liabilities are transferred.
2. Assets and liabilities are transferred at same value i.e. book value.
   Exception - 'Purchasing co.' can change value of assets or liabilities to follow same accounting policy.
3. Purchase consideration is discharged by issue of equity shares only to the equity shareholders of transferor company.
   Exception - 'Purchasing company' can pay cash for fractional part of the shares.
4. Same business is intended to be carried on by the purchasing company
5. Shareholders holding atleast 90% of face value of the equity shares in the 'vendor company' becomes the equity shareholders in the purchasing company.

Amalgamation in the Nature of Purchase (Purchase method)

If any of the 5 conditions discussed above (in merger) is violated, then it is called amalgamation in the nature of purchase.

TOPIC 3: BOOKS OF PURCHASING / TRANSFEREE COMPANY

1. Record the acquisition of business from Vendor Company

Business Purchase A/c	Dr.	(with the Purchase Consideration)
To Liquidator of Vendor Company A/c		

2. Taking over Assets & Liabilities of Vendor Company

A. Nature of Purchase		
Assets A/c	Dr.	(Individually at taken over value)
Goodwill A/c	Dr.	(Difference)
To Liabilities A/c		(Individually at taken over value)
To Business Purchase A/c		(with the Purchase Consideration)
To Capital Reserve A/c		(Difference)
B. Nature of Merger		
Assets A/c	Dr.	(Individually at book value)
To Liabilities A/c		(Individually at book value)
To Reserves A/c		(All at book value & adjustment to be made in it)
To Business Purchase A/c		(with the Purchase Consideration)

3. Making Payment to Vendor Company

Liquidator of Vendor Company A/c	Dr.
Discount on Issue of Debentures A/c	Dr.
To Equity share capital	
To Preference share capital	
To Debentures	
To Securities Premium	
To Bank A/c	
(Only for Equity Shareholders and Preference shareholders)	

4. Record Issue of Debentures to discharge existing Debenture holders of Vendor Company

Debentures of Vendor Company A/c Dr. Discount on Issue of Debentures A/c Dr. To Debentures To Securities Premium

5. Record Reimbursement of Liquidation expenses of the Vendor Company

A. Nature of Purchase
Goodwill/Capital Reserve A/c Dr. To Bank A/c
B. Nature of Merger
P&L /General Reserve A/c Dr. To Bank A/c

6. Eliminate unrealized profit included in the unsold stock/ stock reserve

A. Nature of Purchase
Goodwill/Capital Reserve A/c Dr. To Stock A/c
B. Nature of Merger
P&L /General Reserve A/c Dr. To Stock A/c

7. Elimination of Inter-company owing

Liability A/c Dr. To Asset A/c i.e. Creditors A/c Dr. To Debtors A/c Bills Payable A/c Dr. To Bills Receivable A/c

8. Record the Statutory Reserves of Vendor Company *(Only in case of Purchase Method)*

Amalgamation Adjustment Reserve A/c Dr. To Statutory Reserve A/c

Note:
Statutory reserves are those reserves which are required to be maintained for specific number of years in the balance sheet as per requirements of any statute like Income Tax Act, Custom Act, Excise Act etc.
Examples of Statutory Reserves are:

- Investment Allowance Reserve
- Export Profit Reserve
- Foreign Project Reserve
- Shipping Reserve

Disclosure:
To be disclosed under the head 'Reserves & Surplus' on the Equity & Liabilities Side of the Balance Sheet.

TOPIC 4: BOOKS OF TRANSFEROR /VENDOR /OLD COMPANY

While closing the books, the general principles of closures shall apply. AS-14 does not deal with the books of vendor company. Also the accounting treatment in the books of vendor is exactly same whether it is in nature of merger or purchase.

1. Transfer of Assets to Realisation Account

Realisation A/c	Dr.
To Sundry Assets A/c	

- By Name of Individual Assets
- To be transferred at BOOK VALUE
- Do not transfer the following.
  - Miscellaneous expenditure
  - P & L debit balance
- Cash to be transferred only if taken over. If written 'Purchasing company takes over vendor company', assume that cash and all assets are taken over.
- Asset not taken over shall also be transferred here.
- If any asset is such which is having corresponding provision, then gross value is to be transferred.

2. Transfer of Outsider's Liabilities to Realisation Account

Liabilities A/c	Dr.
To Realisation A/c	

- By Name of Individual Liabilities
- To be transferred at BOOK VALUE
- Do not transfer the following
  - Equity share capital
  - Preference share capital
  - Reserves and surplus
- Liabilities not taken over shall also be transferred
- Any provision appearing on asset side is to be debited in this entry

3. Making Purchase Consideration Due

Purchasing Company A/c	Dr.
To Realisation A/c	
(With amount of Purchase Consideration)	

4. Receiving Purchase Consideration (Discharge of Purchase Consideration)

Cash/Bank A/c	Dr.
Equity Shares of 'P' Co. A/c	Dr.
Preference Shares of 'P' Co. A/c	Dr.
Debentures of 'P' Co. A/c	Dr.
To Purchasing Company Account	

5. Realize those assets which have not been taken over by Purchasing Company

Cash/Bank A/c	Dr.
To Realisation A/c	

6. Paying off the liabilities which have not been taken over by Purchasing Company

Realisation A/c Dr. To Cash/Bank A/c

7. Liquidation/Realisation Expenses:

Case 1: If expenses borne and paid by vendor company
Realisation A/c Dr. To Cash/Bank A/c
Case 2: If expenses are to be reimbursed by the purchasing company
a) On Payment by Vendor Company: Purchasing Company A/c Dr. (With Agreed Amount) Realisation A/c Dr. (With Excess) To Cash/Bank A/c (With the total) b) On Reimbursement Cash/Bank A/c Dr. To Purchasing Company A/c

8. Discharge the Claims of Preference Shareholders

A: Making Claim Due
Preference Share Capital A/c Dr. (With Book Value) Realisation A/c Dr. (With Difference) To Preference Shareholders A/c (With amount actually payable) To Realisation A/c (With Difference)
B: Making Payment
Preference Shareholders A/c Dr. To Cash/Bank A/c To Equity Shares of 'P' Co. To Preference Shares of 'P' Co. To Debentures of 'P' Co.

9. Ascertainment of Profit/Loss on Realisation Account

A: If Profit
Realisation A/c Dr. To Equity Shareholders A/c
B: If Loss
Equity Shareholders A/c Dr. To Realisation A/c

10. Transferring Equity Share Capital, Accumulated Profits/Reserves & Losses to Equity Shareholders Account

A: For Transfer of Equity Share Capital, Accumulated Profits & Reserves
Equity Share Capital A/c Dr. Reserves and Surplus A/c Dr. (All including Statutory Reserves) To Equity Shareholders A/c
B: For Transfer of Accumulated Losses
Equity Shareholders A/c Dr. To Misc. Expenditure A/c To P & L A/c (Dr. balance)

11. Make Final Payment to Equity Shareholders

Equity Shareholders A/c Dr. To Cash/Bank A/c To Equity Shares of 'P' Co. To Preference Shares of 'P' Co. To Debentures of 'P' Co.

TOPIC 5: INTRINSIC VALUE METHOD

Intrinsic Value

(Variation of Net Assets Method)

No. of shares of New Co. × Intrinsic value of New Co. = No. of shares of Old Co. × Intrinsic value of Old Co.

$$\text{No. of shares of New Co.} \Rightarrow \text{No. of Shares of Old Co.} \times \frac{\text{I.V. of Old Co.}}{\text{I.V. of New Co.}}$$

Where

$$\text{Intrinsic Value} = \frac{\text{Net Assets available for ESH}}{\text{No. of Equity shares}}$$

ASSIGNMENT QUESTIONS

TOPIC 2A: PURCHASE CONSIDERATION

Question 1 — Pg no.____

Following is the balance sheet of BX Ltd. as on 31st March, 2020

A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital		
12% preference shares of ₹ 100 each fully paid-up	15,00,000	
Equity shares of ₹ 10 each fully called-up and paid-up	35,00,000	50,00,000
(b) Reserves & Surplus		
General reserve	11,00,000	
Securities premium	9,00,000	20,00,000
2. Non-Current Liabilities		
13% Debentures		25,00,000
3. Current Liabilities		15,00,000
Total		1,10,00,000
B. Assets		
1. Non-Current assets		
(a) Property, Plant & Equipment	55,00,000	
(b) Investments	25,00,000	80,00,000
2. Current Assets		30,00,000
Total		1,10,00,000

PQR Ltd. agreed to takeover assets & liabilities of BX Ltd. on the following terms & conditions:

(A) Discharge 13%debentures at a premium of 10% by issuing 14%debentures of PQR Ltd.

(B) Revalue — Property, Plant & Equipment at 10% above the book value; investments at par value; current assets at a discount of 10%; and current liabilities at book value.

You are required to calculate the purchase consideration as per the net assets method.

Question 2 *(ICAI Study Material)* — Pg no.____

S. Ltd. is absorbed by P. Ltd. S. Ltd. gives the following information on the date of absorption:

Sundry Assets	13,00,000
Share Capital: 2,000 7% Preference shares of ₹ 100 each (fully paid-up)	2,00,000
5,000 Equity shares of ₹ 100 each (fully paid-up)	5,00,000
Reserves	3,00,000
6% Debentures	2,00,000
Trade payables	1,00,000

P. Ltd. has agreed:

a) to issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.

b) to issue to the debenture-holders in S. Ltd. 8% Mortgage Debentures at ₹ 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%.

c) to pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each (market value ₹ 125) in lieu of every five shares held in S. Ltd.; and

d) to assume the liability to trade payables. Calculate Purchase Consideration.

Question 3 *(RTP May 2021)* *Pg no._____*

Astha Ltd. is absorbed by Nistha Ltd.; the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9,000); the payment of the 9% debentures of ₹ 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value and the payment of ₹15 per share in cash and allotment of three 11% preference shares of ₹ 10 each and four equity shares of ₹10 each at a premium of 20% fully paid for every five shares in Astha Ltd.

The number of shares of the vendor company are 1,50,000 of ₹ 10 each fully paid. Calculate purchase consideration as per AS 14.

Question 4 *(ICAI Study Material)* *Pg no._____*

Following is the balance sheet of A Ltd. as on 31st March, 2021

	Particulars	Notes	₹ (000)
	Equity and Liabilities		
1	Shareholders' funds		
	Share capital	1	22,50
	Reserves and Surplus	2	9,00
2	Non-current liabilities		
	Long-term borrowings	3	7,00
3	Current liabilities		
	Trade Payables		5,00
	Total		43,50
	Assets		
1	Non-current assets		
	Property, Plant and Equipment	4	32,50
	Non-current investments	5	6,00
2	Current assets		
	Inventories		2,00
	Trade receivables		2,00
	Cash and Cash equivalents		1,00
	Total		43,50

Notes to accounts

	Share Capital	₹ in ('000)
1	Equity share capital	
	1,50,000 Equity Shares of ₹ 10 each	15,00
	7,500, 14% Preference Shares of ₹ 100 each	7,50
		22,50
2	Reserves and Surplus	
	General reserve	9,00
3	Long-term borrowings	
	Secured	
	15% Debentures	7,00
4	Property, plant and Equipment	
	Land and Building	32,50
5	Non-current investments	
	Investments at cost	6,00

B Ltd agreed to take over the assets and liabilities on the following terms and conditions:

a. Discharge 15% debentures at a premium of 10% by issuing 15% debentures of X Ltd.
b. PPE at 10% above the book value and investments at par value.
c. Current assets at a discount of 10% and Current liabilities at book value.
d. Preference shareholders are discharged at a premium of 10% by issuing 15% preference shares of Rs.100 each.
e. Issue 3 equity shares of ₹ 10 each for every 2 equity shares in B Ltd. & pay balance in cash

Calculate Purchase consideration.

TOPIC 3: BOOKS OF PURCHASING / TRANSFEREE COMPANY

Question 5 *(ICAI Study Material)* *Pg no._____*

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2020:

	P Ltd.	V Ltd.
	₹ (in lakhs)	₹ (in lakhs)
Liabilities		
Equity Share Capital (Fully paid shares of ₹ 10 each)	15,000	6,000
Securities Premium	3,000	-
Foreign Project Reserve	-	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	-	1,000
Bills Payable	120	-
Sundry Creditors	1,080	463
Sundry Provisions	1,830	702
	33,400	12,500
Assets		
Land and Buildings	6,000	-
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,750
Stock	7,862	4,041
Debtors	2,120	1,020
Cash at Bank	1,114	609
Bills Receivable	-	80
	33,400	12,500

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 2020, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination. Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd.

You are required to:

(i) Pass journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger.

Question 6 *Pg no._____*

Hari Ltd. and Narayan Ltd. are to be amalgamated into Hari Narayan Ltd. The new company is to take over all the assets & liabilities of the amalgamating companies.

Assets & Liabilities of Hari Ltd. are to be taken over at book values in exchange of shares in Hari Narayan Ltd. Three shares in the new company are to be issued at a premium of 20% for every two shares of Hari Ltd.

The approved scheme for Narayan Ltd. is as follows:

1. 10% Preference shareholders are to be allowed two 15% Preference shares of ₹ 100 each in Hari Narayan Ltd. for three Preference shares held in Narayan Ltd.
2. The Debentures of Narayan Ltd. are to be paid off at 5% discount by the issue of debentures of Hari Narayan Ltd. at par.
3. The Equity shareholders of Narayan Ltd. are to be allowed as many shares at par in Hari Narayan Ltd. as will cover the balance on their account and for this purpose, plant and machinery is to be valued less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.

The summarised Balance Sheets of the two companies prior to amalgamation are as follows:

Liabilities	Hari Ltd.	Narayan Ltd.	Assets	Hari Ltd.	Narayan Ltd.
Equity shares of ₹10 each	6,40,000	12,50,000	Plant & Machinery	12,80,000	20,00,000
10% Preference shares of ₹ 100 each	-	7,50,000	Trade Receivables	1,52,000	1,25,000
General Reserves	8,80,000	-	Inventory	1,00,000	1,50,000
Secured Debentures	-	5,00,000	Cash & Bank	1,08,000	1,00,000
Trade payables	1,20,000	2,25,000	Profit & Loss A/c	-	3,50,000
	16,40,000	27,25,000		16,40,000	27,25,000

You are required to show the Journal Entries of the amalgamated company.

Question 7 *(ICAI Study Material)* Pg no._____

The following are the Balance Sheets of P Ltd. and Q Ltd. as at 31st March, 20X1:

	Particulars	Notes	P Ltd	Q Ltd
	Equity and Liabilities			
1	Shareholders' funds			
a	Share capital	1	8,00,000	4,00,000
b	Reserves and Surplus		3,00,000	2,00,000
2	Non-current liabilities			
a	Long-term borrowings	2	2,00,000	1,50,000
3	Current liabilities			
a	Trade Payables		2,50,000	1,50,000
	Total		15,50,000	9,00,000
	Assets			
1	Non-current assets			
a	Property, Plant and Equipment		7,00,000	2,50,000
b	Non-current investments		80,000	80,000
2	Current assets			
a	Inventories		2,40,000	3,20,000
b	Trade receivables		4,20,000	2,10,000
c	Cash and Cash equivalents		1,10,000	40,000
	Total		15,50,000	9,00,000

Notes to accounts

		P Ltd.	Q Ltd.
1	Share Capital		
	Equity shares of ₹ 10 each	6,00,000	3,00,000
	10% Preference Shares of ₹ 100 each	2,00,000	1,00,000
		8,00,000	4,00,000
2	Long term borrowings		
	12% Debentures	2,00,000	1,50,000
		2,00,000	1,50,000

Details of Trade receivables and trade payables are as under:

	P Ltd.	Q Ltd.
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	2,10,000
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	1,50,000

Property, Plant & Equipment of both companies are to be revalued at 15% above book value. Both companies are to pay 10% Equity dividend, Preference dividend having been already paid. After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

(i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.
(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.
(iii) 12% Debentureholders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.
(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.
(v) Inventory in Trade & Debtors are taken over at 5% lesser than their book value by P Ltd.

Prepare: (a) Absorption entries in the books of P Ltd.
(b) Statement of consideration payable by P Ltd

Question 8

Pg no.______

The financial position of 2 companies M/s. Abhay Ltd. & M/s. Asha Ltd. as on 31-3-2020 is as follows:

Balance Sheet as on 31-3-2020

	Abhay Ltd. (₹)	Asha Ltd. (₹)
Sources of Funds		
Share Capital – Issued and Subscribed 15,000 equity shares @ ₹ 100, fully paid 10,000 equity shares @ ₹ 100, fully paid	 15,00,000 	 10,00,000
General Reserve	2,75,000	1,25,000
Profit & Loss	75,000	25,000
Securities Premium	1,50,000	50,000
Contingency Reserve	45,000	30,000
12% Debentures, @ ₹ 100 fully paid		2,50,000
Sundry Creditors	55,000	35,000
	21,00,000	15,15,000

Application of Funds		
Land and Buildings	8,50,000	5,75,000
Plant and Machinery	3,45,000	2,25,000
Goodwill		1,45,000
Inventory	4,20,000	2,40,000
Sundry Debtors	3,05,000	2,85,000
Bank	1,80,000	45,000
	21,00,000	15,15,000

They decided to merge & form new company M/s Abhilasha Ltd. as on 1-4-2020 on the following terms:

(1) Goodwill to be valued at 2 years purchase of the super profits. The normal rate of return is 10% of the combined share capital and general reserve. All other reserves are to be ignored for the purpose of goodwill. Average profits of M/s. Abhay Ltd. is ₹ 2,75,000 and M/s. Asha Ltd. is ₹ 1,75,000.

(2) Land and Buildings, Plant and machinery and Inventory of both companies to be valued at 10% above book value and a provision of 10% to be provided on Sundry Debtors.

(3) 12% debentures to be redeemed by the issue of 12% preference shares of M/s. Abhilasha Ltd. (face value of ₹ 100) at a premium of 10%.

(4) Sundry creditor to be taken over at book value. There is an unrecorded liability of ₹ 15,500 of M/s. Asha Ltd. as on 1-4-2020.

(5) The bank balance of both companies to be taken over by M/s. Abhilasha Ltd. after deducting liquidation expenses of ₹ 60,000 to be borne by M/s. Abhay Ltd. & M/s. Asha Ltd. in the ratio of 2:1.

Compute the basis on which shares of M/s. Abhilasha Ltd. are to be issued to shareholders of existing company assuming that nominal value per share of M/s. Abhilasha Ltd. is ₹ 100.

Question 9

Pg no.______

X Ltd. and Y Ltd. were amalgamated on and from 1st April, 2020 and formed a new company Z Ltd. to takeover the business of X Ltd. and Y Ltd.

The summarized Balance Sheets of X Ltd. and Y Ltd., as on 31st March, 2020 are as follows:

	(₹ in Crores)			(₹ in Crores)	
Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Equity share capital (₹ 10 each)	50	45	Land & Building	38	25
10% Preference share capital (₹ 100 each)	20	14	Plant & Machinery	24	17
Revaluation Reserve	10	6	Investments	10	6
General reserve	12	8	Stock	22	15
Investment allowance reserve	5	4	Debtors	25	20
Profit and loss account	8	6	Bills receivable	5	4
15% Debentures (₹ 100 each)	4	5	Cash at Bank	16	13
Trade creditors	19	7			
Bills payables	12	5			
	140	100		140	100

Additional Information:

(1) Z Ltd. will issue 6 equity shares for 10 equity shares of X Ltd. & 2 equity shares for 5 equity shares of Y Ltd. The shares are issued @ ₹ 30 each having face value of ₹ 10 per share.

(2) Preference shareholders of two companies are issued equivalent number of 15% preference shares of Z Ltd. at a price of ₹ 120 per share (face value ₹ 100).

(3) 15% Debentureholders of X Ltd. and Y Ltd. are discharged by Z Ltd. issuing such number of its 18% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(4) Investment allowance reserve is to be maintained for 4 more years.
Prepare Balance Sheet of Z Ltd. after amalgamation. The amalgamation took place in the nature of purchase.

Question 10 *(ICAI Study Material)* *Pg no._____*

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.2020.
Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.2020:

	Note	Neel	Gagan
A. Equity and Liabilities 1. Shareholders' Fund (a) Share Capital		7,75,000	8,55,000
2. Current Liabilities		6,23,500	5,57,600
Total		13,98,500	14,12,600
B. Assets			
1. Non-current assets (a) PPE & Intangible Assets i. Property, Plant & Equipment	1	12,35,000	12,54,000
2. Current Assets		1,63,500	1,58,600
Total		13,98,500	14,12,600

Notes to Accounts

		Neel	Gagan
1.	Property, Plant & Equipment Building Plant & Machinery	 7,50,000 4,85,000 12,35,000	 6,40,000 6,14,000 12,54,000

Following are the additional information:

(i) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	Gagan
Plant & Machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(ii) The purchase consideration is to be discharged as under

a. Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years

b. Profits for the preceding 2 years are given below:

	Neel	Gagan
1st Year	2,62,800	2,75,125
2nd Year	2,12,200	2,49,875
	4,75,000	5,25,000

c. Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.2020 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

(i) equity and preference shares issued to Neel Ltd. and Gagan Ltd.,

(ii) Purchase consideration

Question 11 *(Inter Jan 2021) (20 Marks)* *Pg no._____*

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

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

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

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

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

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

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

You are required to:

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

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

TOPIC 3 & 4: BOOKS OF PURCHASING COMPANY & VENDOR COMPANY

Question 12 *(ICAI Study Material)* Pg no._____

Wye Ltd. acquires business of Z Ltd. whose summarized balance sheet on 31st Dec., 2019 is as:

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	12,00,000

(b) Reserves & Surplus	2	1,58,000
2. Non-current Liabilities (a) Long Term Borrowings	3	2,00,000
3. Current Liabilities (a) Trade Payables (b) Other Current Liabilities (Interest payable on debentures)		1,20,000 12,000
Total		16,90,000
B. Assets		
1. Non-current assets (a) Property, Plant & Equipment & Intangible Assets i. Property, Plant & Equipment ii. Intangible Assets	4 5	10,00,000 2,90,000
2. Current Assets (a) Inventories (b) Trade Receivables (c) Cash & Cash Equivalents		1,50,000 1,80,000 70,000
Total		16,90,000

Notes to Accounts

		Amount
1.	Share Capital Equity Share Capital (₹ 100 each) 6% Preference Share Capital (₹ 100 each)	 8,00,000 4,00,000 12,00,000
2.	Reserves and Surplus Capital Reserve Profit & Loss A/c Workmen Compensation Reserve (Expected liability 5,000)	 1,00,000 50,000 8,000 1,58,000
3.	Long Term borrowings 6% Debentures	 2,00,000
4.	Property, Plant & Equipment Land & Building Plant & Machinery	 4,00,000 6,00,000 10,00,000
5.	Intangible Assets Goodwill Patents	 2,40,000 50,000 2,90,000

Wye Ltd. was to take over all assets (except cash) and liabilities (except for interest due on debentures) and to pay following amounts:

(i) ₹ 2,00,000 7% Debentures (₹ 100 each) in Wye Ltd. for the existing debentures in Zed Ltd.; for the purpose, each debenture of Wye Ltd. is to be treated as worth ₹ 105.

(ii) For each preference share in Zed Ltd. ₹ 10 in cash and one 9% preference share of ₹ 100 each in Wye Ltd.

(iii) For each equity share in Zed Ltd. ₹ 20 in cash and one equity share in Wye Ltd. of ₹ 100 each having the market value of ₹ 140.

(iv) Expense of liquidation of Zed Ltd. are to be reimbursed by Wye Ltd. to the extent of ₹ 10,000. Actual expenses amounted to ₹ 12,500.

Wye Ltd. valued Land & building at ₹ 5,50,000 Plant & Machinery at ₹ 6,50,000 and patents at ₹ 20,000. Pass the necessary journal entries in the books of both the companies.

Question 13

The following was the Balance Sheet of V Ltd. as on 31st March, 2020:

	Note	₹ (In Lacs)
A. Equity and Liabilities		
1. Shareholders' Fund		
Share Capital	1	1,150
Reserves & Surplus	2	(87)
2. Non-Current Liabilities		
Long Term Borrowings	3	630
3. Current Liabilities		
Trade Payables		170
Total		1,863
B. Assets		
1. Non-Current assets		
Property, Plant & Equipment & Intangible Assets		
Property, Plant & Equipment	4	1,152
2. Current Assets		
Inventories		380
Trade Receivables		256
Cash & Cash Equivalents	5	75
Total		1,863

Notes to Accounts

		Amount
1.	Share Capital: Issued, Subscribed & paid up	
	80 lakh Equity Shares of ₹ 10 each, full paid up	800
	35 lakh 12% Cumulative Preference Shares of ₹10each, fully paid up	350
	Total	1,150
2.	Reserves and Surplus	
	Debit Balance of Profit and Loss Account	(87)
3.	Long Term borrowings	
	10% Secured Cumulative Debentures of ₹ 100 each, fully paid up	600
	Outstanding Debenture Interest	30
		630
4.	Property, Plant & Equipment	
	Land & Buildings	445
	Plant & Machinery	593
	Furniture, Fixtures and Fittings	114
		1,152
5.	Cash and Cash Equivalents	
	Balance at Bank	69
	Cash in hand	6
		75

On 1st April, 2020, P Ltd. took over the entire business of V Ltd. on the following terms:
V Ltd.'s equity shareholders would receive 4 fully paid equity shares of P Ltd. of ₹ 10 each issued at a premium of ₹ 2.50 each for every five shares held by them in V Ltd.
Preference shareholders of V Ltd. would get 35 lakhs 13% Cumulative Preference Shares of ₹ 10 each fully paid up in P Ltd., in lieu of their present holding.

All the debentures of V Ltd. would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹ 100 each, fully paid up after the take over by P Ltd., which would also pay outstanding debenture interest in cash.
Expenses of amalgamation would be borne by P Ltd. Expenses came to be ₹ 2 lakhs. P Ltd. discovered that its creditors included ₹ 7 lakhs due to V Ltd. for goods purchased.
Also P Ltd.'s stock included goods of the invoice price of ₹ 5 lakhs earlier purchased from V Ltd., which had charged profit @ 20% of the invoice price.
You are required to:

(i) Prepare Realisation A/c in the books of V Ltd.
(ii) Pass journal entries in the books of P Ltd. assuming it to be an amalgamation in the nature of merger.

Question 14 — Pg no._____

The Balance Sheet of Reckless Ltd. as on 31st March, 2020 is as follows:

	₹
Assets:	
Freehold premises	2,20,000
Machinery	1,77,000
Furniture & fittings	90,800
Stock	3,87,400
Trade Receivables 95,000 Less : Provision for doubtful debts (4,000)	91,000
Cash in hand	2,300
Cash at bank	1,56,500
	11,25,000
Liabilities:	
60,000 Equity shares of ₹ 10 each	6,00,000
Pre-incorporation profit	21,000
Contingency reserve	1,35,000
Profit and loss account	1,26,000
Trade Payables	1,33,000
Provision for income-tax	1,10,000
	11,25,000

Trade receivables consist of debtors amounting ₹ 80,000 and bill receivables worth ₹ 15,000. Trade payables consist of creditors amounting to ₹ 1,13,000 and acceptances worth ₹ 20,000. Careful Ltd. decided to take over Reckless Ltd. from 31st March, 2020 with the following assets at value noted against them:

	₹
Bills receivable	15,000
Freehold premises	4,00,000
Furniture and fittings	80,000
Machinery	1,60,000
Stock	3,45,000

¼of the consideration was satisfied by the allotment of fully paid preference shares of ₹ 100 each at par which carried 13% dividend on cumulative basis. The balance was paid in the form of Careful Ltd.'s equity shares of ₹ 10 each, ₹ 8 paid up.
Sundry Debtors realised ₹ 79,500. Acceptances were settled for ₹ 19,000. Income-tax authorities fixed the taxation liability at ₹ 1,11,600. Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 4,000.
You are required to :

a) Calculate the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of consideration.
b) Prepare the important ledger accounts in the books of Reckless Ltd.; and
c) Pass journal entries in the books of Careful Ltd. with narration

Question 15 *Pg no._____*

The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2020 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Shares of ₹10 fully paid	30,00,000	Goodwill	5,00,000
Export Profit Reserves	8,50,000	Property, Plant & Equipment	30,00,000
General Reserves	50,000	Stock	10,40,000
Profit and loss Account	5,50,000	Debtors	1,80,000
9% Debentures	5,00,000	Cash & Bank	2,80,000
Trade Creditors	1,00,000	Preliminary Expenses	50,000
	50,50,000		50,50,000

ANU Ltd. agreed to absorb the business of SRISHTI Ltd. with effect from 1st April, 2020.

a. The purchase consideration settled by ANU Ltd. as agreed:
   i. 4,50,000 equity Shares of 10 each issued by ANU Ltd. by valuing its share @ 15 per share.
   ii. Cash payment equivalent to ₹ 2.50 for every share in SRISHTI Ltd.
b. The issue of such an amount of fully paid 8% Debentures in ANU Ltd. at 96% as is sufficient to discharge 9% Debentures in SRISHTI Ltd. at a premium of 20%.
c. ANU Ltd. will take over Property, Plant & Equipment at 100% more than book value, Stock at ₹ 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.
d. The actual cost of liquidation of SRISHTI Ltd. was ₹ 75,000. Liquidation cost of SRISHTI Ltd. is to be reimbursed by ANU Ltd. to the extent of ₹ 50,000.
e. Statutory Reserves are to be maintained for 1 more year.

You are required to:

(i) Close the books of SRISHTI Ltd. by preparing Realisation Account, ANU Ltd. Account, Shareholders Account and Debenture Account, and
(ii) Pass Journal Entries in the books of ANU Ltd. regarding acquisition of business.

Question 16 *(RTP Nov 2018) (Similar) / (ICAI Study Material)* *Pg no._____*

The financial position of two companies Hari Ltd. and Vayu Ltd. as at 31st March, 2021 was as under:

	Particulars	Notes	Hari Ltd.	Vayu Ltd.
	Equity and Liabilities			
1	Shareholders' funds			
a	Share capital	1	11,00,000	4,00,000
b	Reserves and Surplus	2	70,000	70,000
2	Non-current liabilities			
a	Long term provisions	3	50,000	20,000
3	Current liabilities			
a	Trade Payables		1,30,000	80,000
	Total		13,50,000	5,70,000
	Assets			
1	Non-current assets			
a	Property, Plant and Equipment	4	8,00,000	2,50,000
b	Intangible assets	5	50,000	25,000

2	Current assets			
a	Inventories		2,50,000	1,75,000
b	Trade receivables		2,00,000	1,00,000
c	Cash and Cash equivalents		50,000	20,000
	Total		13,50,000	5,70,000

Notes to accounts

		Hari Ltd.	Vayu Ltd.
1	Share Capital		
	Equity shares of ₹ 10 each	10,00,000	3,00,000
	9% Preference Shares of ₹ 100 each	1,00,000	--
	10% Preference Shares of ₹ 100 each	--	1,00,000
		11,00,000	4,00,000
2	Reserves and Surplus		
	General reserve	70,000	70,000
		70,000	70,000
3	Long term Provisions		
	Retirement gratuity fund	50,000	20,000
		50,000	20,000
4	Property, plant and Equipment		
	Land and Building	3,00,000	1,00,000
	Plant and machinery	5,00,000	1,50,000
		8,00,000	2,50,000
5	Intangible assets		
	Goodwill	50,000	25,000
		50,000	25,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

a. 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

b. Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.

c. Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

d. Equity Shareholders of Vayu Ltd. will be issued necessary Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 2021.

Question 17 *(RTP Nov 2019) / (RTP Nov 2023)* *Pg no._____*

The following is the summarized Balance Sheet of X Ltd. as at 31st March, 2023:

Liabilities	₹	Assets	₹
4,000 Equity shares of ₹ 100each	4,00,000	Patent	65,000
10% debentures	2,00,000	Buildings	1,70,000
Loans	80,000	Machinery	3,20,000
Trade Payables	1,60,000	Stock	1,10,000
General Reserve	40,000	Trade Receivables	1,30,000
		Cash at bank	68,000
		Share Issue Expenses	17,000
	8,80,000		8,80,000

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

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

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

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

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

Show Ledger Accounts to close books of X Ltd. & prepare Balance Sheet of Y Ltd. after takeover.

Question 18 *(ICAI Study Material)* *Pg no._____*

The following are the summarised Balance Sheets of X Ltd. and Y Ltd :

	X Ltd.	Y Ltd.
Liabilities		
Share Capital	1,00,000	50,000
Profit & Loss A/c	10,000	(10,000)
Creditors	25,000	5,000
Loan from X Ltd.	-	15,000
	1,35,000	60,000
Assets		
Sundry Assets	1,20,000	60,000
Loan to Y Ltd.	15,000	-
	1,35,000	60,000

A new company XY Ltd. is formed to acquire the sundry assets and creditors of X Ltd. and Y Ltd. and for this purpose, the sundry assets of X Ltd. are revalued at ₹ 1,00,000. The debt due to X Ltd. is also to be discharged in shares of XY Ltd. Show the Ledger Accounts to close the books of X Ltd.

Question 19 *Pg no._____*

The Abridged Balance Sheet (Draft) of Cyber Ltd. as on 31st March, 2020 is as under:

Liabilities	₹	Assets	₹
24,000, Equity shares of ₹ 10 each	2,40,000	Goodwill	5,000
5000, 8% cumulative preference shares of ₹ 10 each	50,000	Property, Plant & Equipment	2,57,000
8% Debentures	1,00,000	Inventories	50,000
Interest accrued on debentures	8,000	Trade receivables	60,000
Trade payables	1,00,000	Bank	1,000
		Profit & Loss Account	1,25,000
	4,98,000		4,98,000

The following scheme is passed and sanctioned by the court:

(i) A new company Mahal Ltd is formed with ₹ 3 lacs divided into 30,000 Equity shares of ₹10 each

(ii) The new company will acquire the assets & liabilities of Cyber Ltd. on the following terms:

a. Old company's debentures are paid by similar debentures in new company and for outstanding accrued interest, shares of equal amount are issued at par.

b. The trade payables are paid for every ₹ 100, ₹ 16 in cash and 10 shares issued at par.

c. Preference shareholders are to get equal number of equity shares at par. For arrears of dividend amounting to ₹ 12,000, 5 shares are issued at par for each ₹ 100 in full satisfaction.
d. Equity shareholders are issued one share at par for every three shares held.
e. Expenses of ₹ 8,000 are to be borne by the new company.

(iii) Current Assets are to be taken at book value (except Inventory, which is to be reduced by ₹ 3,000). Goodwill is to be eliminated; balance of purchase consideration being attributed to fixed assets.
(iv) Remaining shares of the new company are issued to public at par and are fully paid.

You are required to show:
(a) In the old company's books:
a. Realisation Account b. Equity Shareholder's Account
(b) In the new company's books:
a. Bank Account b. Summarised Balance Sheet

TOPIC 5: INTRINSIC VALUE METHOD

Question 20 Pg no._____

Y Ltd. decides to absorb X Ltd. X Ltd. gives you following information on the date of absorption:

	₹
Net assets	2,90,000
Profit & Loss Account (Dr. Balance)	70,000
Share Capital: 3,000 Equity shares of ₹ 100 each (fully paid)	3,00,000
Preference shares	60,000

Y Ltd. agrees to take over the net assets of X Ltd. The terms of the purchase consideration payable is as follows:

1) An equity share in X Ltd., for purposes of absorption, is valued @ ₹ 70. Y Ltd. shall issue equity shares at value of 120 each for the equity shareholders of X Ltd.
2) Y Ltd. agrees to pay ₹ 60,000 in cash for payment to preference shareholders.

Calculate purchase consideration to be paid by Y Ltd. and how will it be discharged?

Question 21 Pg no._____

Below are summarized balance sheets of Vasudha Ltd. & Vaishali Ltd as at 31st March, 2020

Liabilities	Vasudha Ltd.	Vaishali Ltd.	Assets	Vasudha Ltd.	Vaishali Ltd.
Share capital:			Factory Building	2,10,000	1,60,000
Equity shares of ₹ 10 each	5,40,000	4,03,300	Debtors	2,86,900	1,72,900
General Reserves	86,000	54,990	Stock	91,500	82,500
Profit & Loss A/c	66,000	43,500	Goodwill	50,000	35,000
Sundry Creditors	44,400	58,200	Cash at Bank	98,000	1,09,590
	7,36,400	5,59,990		7,36,400	5,59,990

Goodwill of Vasudha Ltd. and Vaishali Ltd. is to be valued at ₹ 75,000 & ₹ 50,000 respectively. Factory Building of Vasudha Ltd is worth ₹1,95,000 and of Vaishali Ltd ₹ 1,75,000. Stock of Vaishali has been shown at 10% above of its cost. It is decided that Vasudha Ltd will absorb Vaishali Ltd, by taking over its entire business by issue of shares at the Intrinsic Value.
Prepare balance sheet of Vasudha Ltd after takeover assuming assets & liabilities of Vaishali Ltd. were incorporated in Vasudha Ltd at fair value and assets & liabilities of Vasudha Ltd. have been carried at carrying values only.

Question 22 *(ICAI Study Material)* Pg no._____

Let us consider the Balance Sheet of X Ltd. as at 31st March, 2021:

	Particulars	Notes	₹ (000)
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	100,00
b	Reserves and Surplus	2	12,50
2	Non-current liabilities		
a	Long-term borrowings	3	40,00
3	Current liabilities		
a	Trade Payables		20,00
	Total		172,50
	Assets		
1	Non-current assets		
a	Property, Plant and Equipment	4	105,50
b	Non-current investments	5	5,00
2	Current assets		
a	Inventories		23,00
b	Trade receivables		24,00
c	Cash and Cash equivalents		15,00
	Total		172,50

Notes to accounts

		₹ in ('000)
1	Share Capital:	
	7,50,000 Equity Shares of ₹ 10 each	75,00
	25,000, 14% Preference Shares of ₹ 100 each	25,00
		100,00
2	Reserves and Surplus	
	General reserve	12,50
		12,50
3	Long-term borrowings	
	Secured: 14% Debentures	40,00
		40,00
4	Property, plant and Equipment	
	Land and Building	50,00
	Plant and machinery	45,00
	Furniture	10,50
		105,50
5	Non-current investments	
	Investments at cost	5,00
		5,00

Other Information:

a. Y Ltd. takes over X Ltd. on 10th April, 2021.

b. Debenture holders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.

c. 14% Preference Shareholders of X Ltd. are discharged at a premium of 20% by issuing necessary number of 15% Preference Shares of Y Ltd. (Face value ₹ 100 each).

d. Intrinsic value per share of X Ltd. is ₹ 20 & that of Y Ltd. ₹ 30. Y Ltd. will issue equity shares to satisfy the equity shareholders of X Ltd. on the basis of intrinsic value. However, entry should be made at par value only. The nominal value of each equity share of Y Ltd. is ₹ 10.

Compute the purchase consideration.

Question 23 — *Pg no._____*

Following are the summarized Balance Sheets of A Ltd. and B Ltd. as at 31.3.2020:

	A Ltd. (₹)	B Ltd. (₹)
Liabilities		
Share capital: Equity shares 10 each (fully paid up)	10,00,000	6,00,000
Securities premium	2,00,000	-
General reserve	3,00,000	2,50,000
Profit and loss account	1,80,000	1,60,000
10% Debentures	5,00,000	-
Secured loan	-	3,00,000
Trade payables	2,60,000	1,70,000
	24,40,000	14,80,000
Assets		
Land & Building	9,00,000	4,50,000
Plant & Machinery	5,00,000	3,80,000
Investment	80,000	-
Inventory	5,20,000	3,50,000
Trade receivables	4,10,000	2,60,000
Cash at Bank	30,000	40,000
	24,40,000	14,80,000

The companies agree on a scheme of amalgamation on the following terms:

(i) A new company is to be formed by name AB Ltd.

(ii) AB Ltd. to take over all the assets and liabilities of the existing companies.

(iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under: A Ltd. = ₹ 18 per share B Ltd. = ₹ 20 per share

(iv) A contingent liability of A Ltd. of ₹ 60,000 is to be treated as actual existing liability.

(v) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd. at a premium of ₹ 6 per share.

(vi) The face value of shares of AB Ltd. are to be of ₹ 10 each.

You are required to:

(i) Calculate purchase consideration (i.e., number of shares to be issued to A Ltd. & B Ltd.).

(ii) Pass journal entries in the books of A Ltd. for the transfer of assets and liabilities.

(iii) Prepare the Balance Sheet of AB Ltd.

Question 24 *(ICAI Study Material)* — *Pg no._____*

The following Balance Sheets are given as at 31st March, 2021:

	Particulars	Best Ltd. (in lakhs)	Better Ltd. (in lakhs)
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital (shares of ₹ 100 each, fully paid)	20	10
b	Reserves and Surplus	10	8
2	Current liabilities	20	2
	Total	50	20

	Assets		
1	Non-current assets		
a	Property, Plant and Equipment	25	15
b	Non-current investments	5	-
2	Current assets	20	5
	Total	50	20

The following further information is given:

a. Better Limited issued bonus shares on 1st April, 2021, in the ratio of one share for every two held, out of Reserves and Surplus.

b. It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, consideration taking the form of allotment of shares in Best Ltd.

c. The value of shares in Best Ltd. was considered to be ₹ 150 and the shares in Better Ltd. were valued at ₹ 100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.

d. Liabilities of Better Ltd., included ₹ 1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of ₹ 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 2021 after the takeover.

Question 25 *(ICAI Study Material)* Pg no._____

K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies as at the date of amalgamation was as under:

	Particulars	Notes	K Ltd.	L Ltd.
1	Equity and Liabilities			
	Shareholders' funds			
a	Share capital	1	12,00,000	6,00,000
b	Reserves and Surplus	2	3,71,375	1,97,175
2	Non-current liabilities			
a	Long-term borrowings	3	2,00,000	2,00,000
3	Current liabilities			
a	Trade Payables		1,00,000	2,10,000
	Total		18,71,375	12,07,175
	Assets			
1	Non-current assets			
a	Property, Plant and Equipment	4	11,30,000	8,20,000
b	Intangible assets	5	80,000	-
2	Current assets			
a	Inventories		2,25,000	1,40,000
b	Trade receivables		2,75,000	1,75,000
c	Cash and Cash equivalents	6	1,61,375	72,175
	Total		18,71,375	12,07,175

Notes to accounts

		K Ltd.	L Ltd.
1	Share Capital		
	Equity shares of ₹ 100 each	8,00,000	3,00,000
	7% Preference Shares of ₹ 100 each	4,00,000	3,00,000
		12,00,000	6,00,000

2	Reserves and Surplus		
	General reserve	-	1,00,000
	Profit and loss account	3,71,375	97,175
		3,71,375	1,97,175
3	Long-term borrowings		
	5% Debentures	2,00,000	-
	Secured loan	-	2,00,000
		2,00,000	2,00,000
4	Property, plant and Equipment		
	Land and Building	4,50,000	3,00,000
	Plant and machinery	6,20,000	5,00,000
	Furniture and fittings	60,000	20,000
		11,30,000	8,20,000
5	Intangible assets		
	Goodwill	80,000	-
		80,000	-
6	Cash and Cash Equivalents		
	Cash at Bank	1,20,000	55,000
	Cash in hand	41,375	17,175
		1,61,375	72,175

The terms of amalgamation are as under:

(A)

1) The assumption of liabilities of both the Companies.
2) Issue of 5 Preference shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at premium of ₹ 4 per share for each preference share held in both the Companies.
3) Issue of 6 Equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies. In addition, necessary cash should be paid to the Equity Shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.
4) Issue of such amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd. at a discount of 5% after takeover.

(B)

1) The assets and liabilities are to be taken at book values inventory and trade receivables for which provisions at 2% and 2 ½ % respectively to be raised.
2) The trade receivables of K Ltd. Include ₹ 20,000 due from L Ltd.

(C) The LK Ltd. is to issue 15,000 new equity shares of ₹ 20 each, ₹ 18 paid up at premium of ₹ 4 per share so as to have sufficient working capital.

Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books.

Question 26 *(RTP Nov 2022)* Pg no._____

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. (₹)	Myth Ltd. (₹)
(1)	Equity and Liabilities			
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
	Total		22,75,000	11,45,000
(2)	Assets			
1.	Non -Current Assets			
(a)	Property, Plant & Equipment		15,75,000	6,80,000
(b)	Investments		1,87,500	1,00,000
2.	Current Assets	5	5,12,500	3,65,000
	Total		22,75,000	11,45,000

Note No.	Particulars	Truth Limited (₹)	Myth Limited (₹)
1	Share Capital		
	Equity shares of ₹ 10 each	10,00,000	4,00,000
2	Reserves & Surplus		
	General Reserve	5,05,000	2,30,000
	Profit & Loss A/c	4,45,000	1,58,000
	Export Profit Reserve	1,85,000	25,000
		11,35,000	4,13,000
3	Non- Current Liabilities		
	14% Debentures	---	1,50,000
4	Current Liabilities		
	Trade Payables	90,000	1,42,000
	Other Current Liabilities	50,000	40,000
		1,40,000	1,82,000
5	Current Assets		
	Inventory	2,15,000	85,000
	Trade Receivables	2,02,500	1,75,000
	Cash and Cash equivalents	95,000	1,05,000
		5,12,500	3,65,000

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

Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (₹)	Myth Limited (₹)
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.

TOPIC 6: THEORY QUESTIONS

Question 1

Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

Solution

As per AS 14 on 'Accounting for Amalgamations', there are two main methods of accounting for amalgamations:

(i) The Pooling of Interest Method: Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments). If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

(ii) The Purchase Method: Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company.

Question 2 *(Inter Jan 2021) (5 Marks)*

List the conditions to be fulfilled as per Accounting Standard 14 for an amalgamation to be in the nature of merger, in the case of companies.

Solution

An amalgamation should be considered to be an amalgamation in the nature of merger if the following conditions are satisfied:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.
(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
(v) 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.

Question 3

Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS 14. Or
What disclosures should be made in first financial statements following the amalgamation?

Solution

The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 on Accounting for Amalgamation.

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation

a. names and general nature of business of the amalgamating companies;
b. the effective date of amalgamation for accounting purpose;
c. the method of accounting used to reflect the amalgamation; and
d. particulars of the scheme sanctioned under a statute.

For amalgamations accounted under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the amalgamation:

a. description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and
b. the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations, accounted under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation;

a. consideration for the amalgamation and a description of the consideration paid or contingently payable; and
b. the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortization of any goodwill arising on amalgamation.

Question 4

A Ltd. is amalgamating with B Ltd. They are undecided on the method of accounting to be followed. You are required to advice the management of B Ltd. on the method of accounting that can be adopted under AS-14.

Solution

An amalgamation may be either – an amalgamation in the nature of merger, or an amalgamation in the nature of purchase. The selection of method of accounting for amalgamation (pooling of interests or purchase method) is to be judged after considering the intentions of the both the companies.

If genuine pooling of all assets, liabilities, shareholders' interest is intended; separate businesses of both the companies are continued and their amalgamation scheme satisfies all the conditions necessary for merger as specified in AS 14 Accounting for Amalgamations, pooling of interests method is adopted.

However, if B Ltd. or A Ltd. wants to acquire the other company, then purchase method needs to be adopted. In that case, the shareholders of the acquired company don't continue to have proportional share in equity of the combined company and the business of the acquired company is not intended to be continued. The object of purchase method is to account for the amalgamation by applying same principles as are applied in the normal purchase of assets.

Thus choice of accounting method depends on the fact whether B Ltd. wants to continue its business or not.

Question 5 *(ICAI Study Material)*

X Co. Ltd. having share capital of ₹ 50 lakhs divided into equity shares of ₹ 10 each was taken over by Y Co. Ltd. Y Co. Ltd. issued 11 equity shares of ₹ 10 each for every 10 shares of X Co. Ltd. Explain how the difference will be adjusted in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interests method' of amalgamation as per AS 14.

Solution

Purchase consideration = 5,00,000 × 11/10 = 55,000 shares of ₹ 10 each	55,00,000
Less: Share capital of X Co. Ltd.	(50,00,000)
Difference Adjusted through General Reserve	5,00,000

Question 6

How are the balances in profit and loss account treated in the books of transferee company?

Solution

(i) When amalgamation is in the nature of merger

Balance in Profit and Loss Account of the transferor company is

a. Aggregated with the corresponding balance appearing in financial statements of the transferee company; Or
b. Transferred to the general reserve, if any.

(ii) When amalgamation is in the nature of purchase

Balance in profit and loss account of the transferor company, whether debit or credit, loses its identity.

Question 7 *(Inter May 2019) (5 Marks)*

Distinguish between Amalgamation, Absorption and External Reconstruction of Company

Solution

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	2 or more companies are wound up and a new company is formed to take over their business	An existing company takes over the business of one or more existing companies	A newly formed company takes over the business of an existing company
Minimum no. of companies involved	Atleast 3	Atleast 2	Only 2
No. of new resultant company	Only 1	No new resultant company is formed	Only 1
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over business of an existing company A Ltd

PRACTICE QUESTIONS

TOPIC 2A: PURCHASE CONSIDERATION

Question 1 *(RTP Nov 2020)* Pg no.____

Som Ltd. agreed to takeover Dove Ltd. on 1st April. Terms & conditions were as follows:

a) Som Ltd. issued 56,000 equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Dove Ltd.
b) Cash payment of ₹ 1,00,000 was made to equity shareholders of Dove Ltd.
c) 20,000 fully paid preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Dove Ltd.

You are required to calculate amount of purchase consideration as per provisions of AS-14

Question 2 Pg no.____

A Ltd. decides to absorb B Ltd. The draft Balance Sheet of B Limited is as follows:

Liabilities	
Share Capital:	
5,000 9% Preference shares of ₹ 100 each (Fully paid up)	5,00,000
12,500 Equity shares of ₹ 100 each (Fully paid up)	12,50,000
Reserves	7,50,000
6% Debentures	5,00,000
Trade payables	2,50,000
Total	32,50,000
Assets	
Sundry Assets	32,50,000
Total	32,50,000

A Ltd. has agreed:

(i) To pay ₹ 20 per share in cash to equity shareholders of B Ltd. and will issue six equity shares of ₹ 100 each (Market value ₹ 125) in lieu of every five equity shares held in B Ltd.
(ii) To issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of A Ltd. for 4 Preference shares in B Ltd.
(iii) To issue 8% debentures at ₹ 96 in lieu of 6% debentures in B Ltd. which are to be redeemed at a premium of 20%. You are required to calculate the purchase consideration.

Question 3 *(Inter Dec 2021) (5 Marks)* Pg no.____

Moon Limited is absorbed by Sun Limited.; the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9,000); the payment of 9% debentures of ₹ 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value; the payment of ₹18 per share in cash; allotment of two 11% preference shares of ₹ 10 each and one equity share of ₹10 each at a premium of 30% fully paid for every three shares in Moon Ltd. respectively. The number of shares of the vendor company is 1,50,000 of ₹ 10 each fully paid. Calculate purchase consideration as per AS 14.

Question 4 *(ICAI Study Material)* Pg no.____

A Ltd. takes over B Ltd. on April 01, 2021 & discharges consideration for business as follows:

(i) Issued 42,000 fully paid equity shares of ₹ 10 each at par to equity shareholders of B Ltd.
(ii) Issued fully paid up 15% preference shares of ₹ 100 each to discharge the preference shareholders (₹ 1,70,000) of B Ltd. at a premium of 10%.

(iii) It is agreed that the debentures of B Ltd. (₹ 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

Determine the amount of Purchase Consideration as per AS 14.

Question 5 *(Inter Nov 2022) (5 Marks)* Pg no._____

Star Limited agreed to take over Moon Limited on 1st April,2022. The terms and conditions of takeover were as follows:

a) Star Limited issued 70,000 Equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Moon Limited.
b) Cash payment of ₹ 1,25,000 was made to the equity shareholders of Moon Limited.
c) 25,000 fully paid Preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Moon Limited.

You are required:

i. to give the meaning of "consideration for the amalgamation' as per AS-14, and
ii. Calculate the amount of purchase consideration.

TOPIC 3: BOOKS OF PURCHASING / TRANSEREE COMPANY

Question 6 *(Inter Nov 2018) (5 Marks)/ (ICAI Study Material)* Pg no._____

On 1st April, 2020, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows:

a) Issued 50,000 fully paid Equity shares of ₹ 10 each at a premium of ₹ 5 per share to the equity shareholders of Rina Ltd.
b) Cash payment of ₹ 50,000 was made to equity shareholders of Rina Ltd.
c) Issued 2,000 fully paid 12% Preference shares of ₹ 100 each at par to discharge the preference shareholders of Rina Ltd.
d) Debentures of Rina Ltd. (₹ 1,20,000) will be converted into equal number and amount of 10% debentures of Tina Ltd.

Calculate the amount of Purchase consideration as per AS-14 and pass Journal Entry relating to discharge of purchase consideration in the books of Tina Ltd.

Question 7 *(ICAI Study Material)* Pg no._____

Consider the following summarized balance sheets of X Ltd. and Y Ltd. as at 31st March, 2020

	Note	X Ltd. (000)	Y Ltd. (000)
A. Equity and Liabilities			
1. Shareholders' Fund			
(a) Share Capital	1	72,00	47,00
(b) Reserves & Surplus	2	15,50	10,50
2. Non-current Liabilities			
(a) Long Term Borrowings	3	5,00	3,50
3. Current Liabilities			
(a) Trade Payables		4,50	3,50
(b) Other Current Liabilities		2,00	1,50
Total		99,00	66,00
B. Assets			
1. Non-current assets			
(a) PPE & Intangible Assets			
i. Property, Plant & Equipment	4	63,25	36,00
(b) Non Current Investments	5	7,00	5,00

2. Current Assets			
(d) Inventories		12,50	9,50
(e) Trade Receivables		9,00	10,30
(f) Cash & Cash Equivalents		7,25	5,20
Total		99,00	66,00

Notes to Accounts

		X Ltd. (000)	Y Ltd. (000)
1.	Share Capital Equity Share Capital (₹ 10 each) 14% Preference Share Capital (₹ 100 each)	 50,00 22,00 72,00	 30,00 17,00 47,00
2.	Reserves and Surplus General Reserve Export Profit Reserve Investment Allowance Reserve Profit & Loss Account	 5,00 3,00 - 7,50 15,50	 2,50 2,00 1,00 5,00 10,50
3.	Long Term borrowings 13% Debentures of 100 each	 5,00	 3,50
4.	Property, Plant & Equipment Land & Building Plant & Machinery Furniture	 25,00 32,50 5,75 63,25	 15,50 17,00 3,50 36,00
5	Non Current Investments Investments at cost	 7,00	 5,00

X Ltd. takes over Y Ltd. on 1st April, 2020. X Ltd. discharges purchase consideration as below:

(i) Issued 3,50,000 equity shares of ₹ 10 each at par to the equity shareholders of Y Ltd.

(ii) Issued 15% preference shares of ₹ 100 each to discharge the preference shareholders of Y Ltd. at 10% premium.

(iii) The debentures of Y Ltd. will be converted into equivalent number of debentures of X Ltd. The statutory reserves of Y Ltd. are to be maintained for 2 more years.

Show the balance sheet of X Ltd. after amalgamation on the assumption that:

(a) the amalgamation is in the nature of merger.

(b) the amalgamation is in the nature of purchase

Question 8 *(ICAI Study Material)* Pg no._____

Super Express Ltd & Fast Express Ltd were in competing business. They decided to form new company named Super Fast Express Ltd. Balance sheets of both companies were as under:

	Particulars	Notes	Super Express Ltd.	Fast Express Ltd.
	Equity and Liabilities			
1	Shareholders' funds			
a	Share capital	1	20,00,000	10,00,000
b	Reserves and Surplus	2	1,00,000	2,60,000
2	Non-current liabilities			
a	Long term provisions	3	1,00,000	--
3	Current liabilities			
a	Trade Payables		60,000	40,000
	Total		22,60,000	13,00,000

	Assets			
1	Non-current assets			
a	Property, Plant and Equipment	4	14,00,000	11,00,000
b	Intangible assets	5	--	1,00,000
2	Current assets			
a	Inventories		3,00,000	40,000
b	Trade receivables		2,40,000	40,000
c	Cash and Cash equivalents	6	3,20,000	20,000
	Total		22,60,000	13,00,000

Notes to accounts

		Super Express Ltd.	Fast Express Ltd.
1	Share Capital		
	Equity shares of ₹ 100 each	20,00,000	10,00,000
2	Reserves and Surplus		
	Insurance reserve	1,00,000	--
	Employee profit sharing reserve	--	60,000
	Reserve account	--	1,00,000
	Surplus	--	1,00,000
		1,00,000	2,60,000
3	Long term provisions		
	Provident fund	1,00,000	--
	Total	1,00,000	--
4	Property, Plant and Equipment		
	Land and Building	10,00,000	6,00,000
	Plant and machinery	4,00,000	5,00,000
		14,00,000	11,00,000
5	Intangible assets		
	Goodwill	--	1,00,000
		--	1,00,000
6.	Cash and Cash Equivalents		
	Cash at Bank	2,20,000	10,000
	Cash in hand	1,00,000	10,000
		3,20,000	20,000

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of ₹ 100 each in lieu of purchase consideration amounting to 30,000 (20,000 for Super-Fast Express Ltd and 10,000 for Fast Express Ltd.).

Prepare opening balance sheet of Super Fast Express Ltd. considering pooling method.

Question 9 — Pg no._____

X Co. Ltd. having share capital of ₹50 lakhs divided into equity shares of ₹10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of ₹10,00,000 and Profit and Loss account Cr. ₹5,00,000. Y Co. Ltd. issued 11 equity shares of ₹10 each for every 10 shares of X Co. Ltd. How the Journal entry would be passed in the books of Y Co. Ltd. for the shares issued under the 'pooling of interest method' of amalgamation.

Question 10 *(Inter May 2019) (10 Marks) / (RTP May 2023)* — Pg no._____

Following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2020:

Particulars	VT Ltd.	MG Ltd.
Equity & Liabilities		
Equity share of ₹ 10 each	12,00,000	6,00,000
10% Pref. Shares of ₹ 100 each	4,00,000	2,00,000
Reserves and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
	31,00,000	18,00,000
Assets	VT Ltd.	MG Ltd.
Property, Plant & Equipment	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000
	31,00,000	18,00,000

Details of Trade receivables and trade payables are as under:

	VT Ltd.	MG Ltd.
Trade receivables		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	3,00,000

Property, Plant & Equipment of both companies are to be revalued at 15% above book value. Both companies are to pay 10% equity dividend, Preference dividend having been already paid. After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on following terms:

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

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

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

(iv) Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

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

(vi) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd.

You are required to prepare:

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

(2) Statement of consideration payable by VT Ltd.

Question 11 *(ICAI Study Material)* Pg no._____

A Ltd. and B Ltd. were amalgamated on and from 1st April, 2021. A new company C Ltd. was formed to take over the business of the existing companies. A Ltd. and B Ltd. have the following ledger balances as on 31st March, 2021:

	A Ltd. (₹ in lakhs)	B Ltd. (₹ in lakhs)
Land and Building	550	400
Plant and Machinery	350	250
Investments (Non-current)	150	50
Inventory	350	250
Trade Receivables	300	350

Cash and Bank	300	200
Share Capital:		
Equity Shares of ₹ 100 each	800	750
12% Preference shares of ₹ 100 each	300	200
Reserves and Surplus:		
Revaluation Reserve	150	100
General Reserve	170	150
Investment Allowance Reserve	50	50
Profit and Loss Account	50	30
Secured Loans:		
10% Debentures (₹ 100 each)	60	30
Trade Payables	420	190

Additional Information:

a. 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

b. Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹ 150 per share (face value of ₹ 100).

c. C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.

d. Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 2021 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.

Question 12 *(Inter Nov 2020) (15 Marks)* Pg no._____

High Ltd. and Low Ltd. were amalgamated on and from, 1st April, 2020. A new company Little Ltd. was formed to take over the business of the existing Companies. The summarized Balance sheets of High Ltd. and Low Ltd. as on 31st March, 2020 are as under:

	(₹ In Lakhs)			(₹ In Lakhs)	
Liabilities	High Ltd.	Low Ltd.	Assets	High Ltd.	Low Ltd.
Share Capital:			PPE:		
Equity Shares of ₹ 100 each	1000	850	Land and Building	670	385
14% Pref. shares of 100 each	320	175	Plant & Machinery	475	355
Reserves and Surplus			Investments	95	80
Revaluation Reserve	225	110	Current Assets, Loans & Advances		
General Reserve	360	240	Stock	415	389
Investment Allowance Reserve	80	40	Sundry Debtors	322	213
Profit and Loss Account	85	82	Bills Receivable	35	-
Secured Loans			Cash and Bank	303	166
13% Debentures (₹ 100 each)	100	56			
Unsecured Loans (Public Deposits)	50	-			
Current Liabilities & Provisions					
Sundry Creditors	65	35			
Bills Payable	30	-			
	2315	1588		2315	1588

Other Information:

(1) 13% Debenture holders of High Ltd. & Low Ltd. are discharged by Little Ltd. by issuing such number of its 15% Debentures of 100 each so as to maintain same amount of interest.
(2) Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Little Ltd. at a price of ₹ 125 per share (Face Value ₹ 100)
(3) Little Ltd. will issue 4 Equity Shares for each Equity Share of High Ltd. & 3 equity shares for each Equity Share of Low Ltd. The shares are to be issued at ₹ 35 each having a face value of ₹ 10 per share
(4) Investment Allowance Reserve is to be maintained for two more years.

Prepare the Balance sheet of Little Ltd. as on 1st April, 2020 after the amalgamation has been carried out in basis of in the nature of Purchase.

Question 13 *(Inter Dec 2021) (15 Marks)* Pg no._____

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

	Particulars	Note No.	Dark Ltd. (₹ in Lakhs)	Fair Ltd. (₹ in Lakhs)
I	Equity & Liabilities			
	(1) Shareholder's Funds			
	(a) Share Capital	1	1,650	1,425
	(b) Reserve & Surplus	2	630	495
	(2) Non-Current Liabilities			
	(a) Long term Borrowings			
	10% Debentures of 100 each		90	45
	(3) Current Liabilities			
	(a) Trade Payables		630	285
	Total		3000	2250
II	Assets			
	(1) Non-Current Assets			
	(a) Property, Plant & Equipment		1,350	975
	(b) Non-Current Investments		225	75
	(2) Current Assets			
	(a) Inventories		525	375
	(b) Trade Receivables		450	525
	(c) Cash & Cash Equivalents		450	300
	Total		3,000	2,250

Notes to Accounts:

		Dark Ltd. (₹ in Lakhs)	Fair Ltd. (₹ in Lakhs)
1	Share Capital		
	Equity shares of 100 each	1,200	1,125
	14% Preference shares of 100 each	450	300
		1,650	1,425
2	Reserves & Surplus		
	Revaluation Reserve	225	150
	General Reserve	255	225
	Investment Allowance Reserve	75	75
	Profit & Loss Account	75	45
		630	495

Additional Information:

i. Bright Ltd. will issue 5 equity shares for each equity share of Dark Ltd. and 4 equity shares for each equity share of Fair Ltd. The shares are to be issued @ ₹35 each having a face value of ₹10 per share.
ii. Preference shareholders of the two companies are issued equivalent number of 16% Preference Shares of Bright Ltd. at the price of ₹ 160 per share (face value ₹100)
iii. 10% Debentureholders of Dark Ltd. & Fair Ltd. are discharged by Bright Ltd., issuing such number of 16% Debentures of ₹ 100 each so as to maintain the same amount of interest.
iv. Investment Allowance Reserve is to be maintained for 4 more years.
v. Liquidation expenses are for the Dark Ltd. ₹ 6,00,000 and for Fair Ltd. ₹ 3,00,000. It is decided that these expenses would be born by Bright Ltd.
vi. All the assets & liabilities of Dark Ltd. and Fair Ltd. are taken over at Book value.
vii. Authorised equity share capital of Bright Ltd. is ₹ 15,00,00,000 divided into equity shares ₹10 each. After issuing required number of share to the Liquidators of Dark Ltd. and Fair Ltd., Bright Ltd. issued balance shares to the Public. The issue was fully subscribed.

You are required to prepare Balance sheet of Bright Ltd. as at 1st April 2021 after amalgamation has been carried out on the basis of amalgamation in the nature of purchase.

Question 14 *(ICAI Study Material)* Pg no.______

Sun and Neptune had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each.

On 31st December, 2019, summarized Balance Sheets of Sun and Neptune were as follows

	Sun (₹)	Neptune (₹)
Share Capital	3,65,000	3,52,500
Current Liabilities	5,97,000	1,80,250
Property, Plant & Equipment	6,35,000	3,65,000
Current Assets	3,27,000	1,67,750

Additional Information:

(a) Revalued figures of Property, Plant & Equipment and Current Assets were as follows:

	Sun (₹)	Neptune (₹)
Property, Plant & Equipment	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

(b) The Trade receivables and Trade payables—include ₹ 43,350 owed by Sun to Neptune

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

(i) 60,000 equity shares of Jupiter Ltd., to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

		Sun (₹)	Neptune (₹)
2017	Profit	4,49,576	2,73,900
2018	(Loss)/Profit	(2,500)	3,42,100
2019	Profit	3,77,924	3,59,000

(ii) 15% debentures in Jupiter Ltd., at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st December, 2019 after revaluation of assets.

You are requested to:

(1) Compute the amount of debentures and shares to be issued to Sun and Neptune.
(2) A Balance Sheet of Jupiter Ltd., showing the position immediately after amalgamation.

Question 15 *(Inter May 2023) (20 Marks)* Pg no._____

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

	X Ltd. (₹)	Y Ltd. (₹)
Share Capital	34,25,000	36,10,000
Trade Payable	59,70,000	18,02,500
Property, Plant and Equipment	58,25,000	37,40,000
Current Assets	31,45,000	15,99,500

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

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

The debtors and creditors include ₹ 1,37,250 owed by X Ltd. to Y Ltd.
The purchase consideration is satisfied by issue of the following shares and debentures. 6,20,000 equity shares of XY Ltd. to X Ltd. and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows:

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

7.5% debenture in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st Mar, 2023 after revaluation of assets.
You are required to:
(1) Compute the amount of debenture and shares to be issued to 'X' Ltd. and 'Y' Ltd.
(2) A Balance Sheet of XY Ltd. showing the position immediately after amalgamation.

TOPIC 3&4: BOOKS OF PURCHASING COMPANY & VENDOR COMPANY

Question 16 Pg no._____

The following was the Balance Sheet of Rashmi Limited as on 31st March, 2020:

Balance Sheet as at 31.03.2020

	Note No.	Amount (₹)
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	18,00,000
(b) Reserves & Surplus	2	8,40,000
2. Non-Current Liabilities		
Long term Borrowings	3	2,85,000
3. Current Liabilities		
Trade Payables		75,000
Total		30,00,000

B. Assets		
1. Non-Current assets (a) Property, Plant & Equipment & Intangible Assets (i) Property, Plant & Equipment (ii) Intangible Assets (b) Non Current Investments	 4 5	 18,00,000 1,40,000 1,60,000
2. Current Assets (a) Inventories (b) Trade Receivables (c) Cash & Cash Equivalents		 6,24,000 1,08,000 1,68,000
Total		30,00,000

Note No.	Particulars	Amount
1.	Share Capital: Issued, Subscribed and Paid up	
	1,80,000 share of ₹ 10 each fully paid up	18,00,000
	Total	18,00,000
2.	Reserve and Surplus:	
	General Reserve	4,10,000
	Profit & Loss A/c 1,30,000 Less: Preliminary Exp. (30,000)	 1,00,000
	Export Profit Reserve	2,50,000
	Investment Allowance Reserve	80,000
	Total	8,40,000
3.	Long term Borrowing:	
	9% Secured Debenture of ₹ 100 each fully paid up	2,85,000
	Total	2,85,000
4.	Property, Plant & Equipment:	
	Freehold Property	12,40,000
	Plant & Machinery	5,60,000
	Total	18,00,000
5.	Non-Current Investments:	
	Other Investments (Current Market value ₹ 1,30,000)	1,60,000
	Total	1,60,000

On 1st April, 2020 Nitin Ltd. agreed to absorb the business of Rashmi Ltd. on the following terms and conditions:

(i) The purchase consideration would be settled by Nitin Ltd. as under:

(1) 3,00,000 equity shares of 10 each issued by Nitin Ltd. by valuing its share at 12 per share

(2) Cash payment equivalent to ₹ 5 for every share in Rashmi Ltd.

(ii) The issue of such an amount of fully paid 10% debentures in Nitin Ltd. at 95% as is sufficient to discharge 9% debenture in Rashmi Ltd. at a premium of 25%.

(iii) Nitin Ltd. will takeover the Freehold property at 120% more than the book value and Plant & Machinery at 10% less than the book value. Inventories at ₹ 5,20,000 and Trade receivables at their book value subject to a provision of 8% for doubtful debts. Investments will be taken over at current market value. Nitin Ltd. will take over trade payables at book value.

(iv) Liquidation expenses are to be reimbursed by Nitin Ltd. to the extent of ₹ 30,000. The cost of liquidation: ₹ 50,000.

(v) Statutory reserves are to be maintained for 2 more years.

You are required to:

(a) Prepare the Realisation Account, Nitin Ltd. Account, Shareholders Accounts and Debenture Account in the book of Rashmi Ltd. and
(b) Write up journal entries in the books of Nitin Ltd. regarding acquisition of business.

Question 17 *(Inter May 2018) (20 Marks) / (RTP Nov 2020)* Pg no._____

The financial position of X Ltd. and Y Ltd. as on 31st March, 2020 was as under:

	X Ltd.	Y Ltd.
Equity and Liabilities		
Equity Shares of ₹ 10 each	30,00,000	9,00,000
9% Preference Shares of ₹ 100 each	3,00,000	-
10% Preference Shares of ₹ 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
Total	40,50,000	17,10,000
Assets		
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
Total	40,50,000	17,10,000

X Ltd. absorbs Y Ltd. on the following terms:

a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.
b) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2018-19 : ₹ 90,000; 2017-18 : ₹ 78,000 and 2016-17: ₹ 72,000). The profits of 2016 -17 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2015-16 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2017 -18, there was an embezzlement of cash by an employee amounting to ₹ 10,000.
c) Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.
d) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.
e) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.
f) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.
g) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

a) Prepare Realisation A/c in the books of Y Ltd.
b) Show journal entries in the books of X Ltd.
c) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2020.

Question 18 *(ICAI Study Material)* Pg no._____

The following are the summarized Balance Sheets of A Ltd. and B Ltd. as on 31.3.2020:

	(₹ Thousands)	
Liabilities	A Ltd.	B Ltd.
Share capital:		
Equity shares of 100 each fully paid up	2,000	1,000

Reserves	1,000	-
Profit & Loss (Dr. balance)	-	(800)
10% Debentures	500	-
Loans from Banks	250	450
Bank overdrafts	-	50
Trade payables	300	300
Total	4,050	1,000
Assets		
Property, Plant & Equipment	2,700	850
Non Current Investments	700	-
Trade receivables	400	150
Cash at bank	250	-
Total	4,050	1,800

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of ₹ 60 thousands of B Ltd.

(ii) B Ltd. will reduce its shares to ₹ 10 per share and then consolidate 10 such shares into one share of ₹ 100 each (new share).

(iii) Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.

(iv) Trade payables of B Ltd. includes ₹ 100 thousands payable to A Ltd.

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger

Question 19 *(ICAI Study Material)* Pg no._____

Following are summarised Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 2019:

	Yes Ltd.	No Ltd.
	₹ (in crores)	₹ (in crores)
Equity & Liabilities: Share capital: Authorised	25	5
Issued and Subscribed: Equity Shares of ₹ 10 each fully paid	12	5
Reserves and surplus	88	10
Unsecured loan from Yes Ltd.	-	10
Current Liabilities	33	15
	133	40
Assets:		
Property, Plant & Equipment: Cost Less: Depreciation Written down value	70 50 20	30 24 6
Investments at cost: 30 lakhs equity shares of 10 each Long-term loan to No. Ltd.	3 10	
Current Assets	100	34
	133	40

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of ₹ 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained. Pass journal entries in the books of the two companies to give effect to the above if the amalgamation is in the nature of merger.

Question 20 *(RTP May 2021)* Pg no._____

Mohan Ltd. gives you the following information as on 31st March, 2020:

Share Capital:	

Equity shares of ₹ 10 each	3,00,000
6,000, 9% cumulative preference shares of ₹ 10 each	60,000
Profit and Loss Account (Dr. balance)	1,70,000
10% Debentures of ₹ 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 ₹ 4,00,000 divided into 40,000 Equity Shares of ₹ 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

(i)

a. Mohan Ltd.'s debentures are paid by similar debentures in new company & for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.
b. The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.
c. Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for 3 years. Preference shareholders to forgo dividend for 2 years. For balance dividend, equity shares of equal amount are issued at par.
d. Equity shareholders are issued 1 share at par for every 3 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. Property, plant & equipment is taken over at ₹ 3,08,400.

(iii) Remaining equity shares of the new company are issued to public at par fully paid up.

(iv) Expenses of ₹ 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:

(a) Realisation account and Equity Shareholders' account in the books of Mohan Ltd.

(b) Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

TOPIC 5: INTRINSIC VALUE METHOD

Question 21 *(Inter May 2022) (20 Marks)* *Pg no._____*

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

	A Ltd. (in ₹)	B Ltd. (in ₹)
Equity shares of ₹10 each, fully paid up	30,00,000	24,00,000
Securities Premium Account	4,00,000	
General Reserve	6,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Retirement Gratuity Fund Account	1,00,000	
10% Debentures	20,00,000	
Unsecured Loan (including loan from A Ltd.)	6,00,000	8,20,000
Trade Payables	1,00,000	3,40,000
	71,80,000	43,80,000
Land and Buildings	28,00,000	21,00,000
Plant and Machinery	20,00,000	7,60,000

Long term advance to B Ltd.	2,20,000	
Inventories	10,40,000	7,00,000
Trade Receivables	8,20,000	5,20,000
Cash and Bank	3,00,000	3,00,000
	71,80,000	43,80,000

B Ltd. is to declare & pay ₹ 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd. Z Ltd. was incorporated to take over business of both A Ltd. & B Ltd.

a) The authorized share capital of Z Ltd. is ₹ 60 lakhs divided into 6 lakhs equity shares of ₹ 10 each.
b) As per Registered Valuer the value of equity shares of A Ltd. is ₹ 18 per share and of B Ltd. is ₹ 12 per share respectively and agreed by respective shareholders of the companies.
c) 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.
d) A contingent liability of A Ltd. of ₹ 2,00,000 is to be treated as actual liability.
e) Liquidation expenses including Registered Valuer fees of A Ltd.₹ 50,000 and B Ltd. ₹ 30,000 respectively to be borne by Z Ltd.
f) The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid up equity shares of ₹ 10 each at a premium of ₹ 10 per share.

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

Question 22 *(RTP May 2020)* Pg no._____

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summa rized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	P Ltd.	Q Ltd.	Assets	P Ltd.	Q Ltd.
Share Capital:			Goodwill	1,00,000	80,000
Equity Shares of ₹ 100 each	8,20,000	3,20,000	Land & Building	4,50,000	3,40,000
9% Pref. Share of ₹100 each	3,80,000	2,80,000	Plant & Machinery	6,20,000	4,50,000
8% Debentures	2,00,000	1,00,000	Furniture & Fittings	1,00,000	50,000
General Reserve	1,50,000	50,000	Debtors	3,25,000	1,50,000
Profit & Loss Account	3,52,000	2,05,000	Stock	2,33,000	1,05,000
Creditors	88,000	1,60,000	Cash at Bank	1,08,000	95,000
Unsecured Loan	-	1,75,000	Cash in hand	54,000	20,000
	19,90,000	12,90,000		19,90,000	12,90,000

PQ Ltd. took over the assets and liabilities of both the companies at book value after creatin g provision @ 5% on Stock and Debtors respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The debtors of P Ltd. include ₹ 25,000 due from Q Ltd. PQ Ltd. will issue:

(1) 5 Preference shares of ₹ 20 each @ ₹ 18 paid up at premium of ₹ 4 per share for each preference share held in both the Companies.
(2) 6 Equity shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies.
(3) 6% debentures to discharge the 8% debentures of both the companies
(4) 20,000 new equity shares of ₹ 20 each for cash @ ₹ 18 paid up at premium of ₹ 4 per share

PQ Ltd. will pay necessary cash to the Equity Shareholders of both the Companies in order to adjust the rights as per the intrinsic value of the shares of both the Companies
Prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

Question 23 *(Inter Nov 2023) (5 Marks)* Pg no._____

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

Particulars	As on 31st March, 2023		Revalued Figures for Amalgamation	
	Raman Limited (₹)	Naman Limited (₹)	Raman Limited (₹)	Naman Limited (₹)
Equity shares of ₹ 10 each	6,72,000	2,52,000	-	-
10% Preference Shares of ₹ 100 Each	3,36,000	1,68,000	-	-
Reserves and Surplus	5,44,240	2,65,480	-	-
Trade Payables	84,000	1,76,000	80,640	1,68,960
Property, Plant and Equipment	7,69,000	4,36,400	10,58,100	5,20,100
Goodwill	1,62,000	-	1,62,000	-
Inventories	1,89,000	1,17,600	2,78,620	2,06,780
Trade Receivables	2,81,000	1,47,000	2,47,140	1,38,180
Cash & Cash Equivalents	2,35,240	1,60,480	-	-

The purchase consideration is to he satisfied as follows:

a) By issue of 4 Preference Shares of ₹ 100 each in Rana Limited @ ₹ 85 paid up and at a premium of ₹ 30 per share for every 3 preference shares held in both the companies.
b) By issue of 5 Equity shares of ₹ 10 each in Rana Limited @ ₹ 7 paid up and at a premium of ₹ 5 per share for every 3 equity shares held in both the companies.
c) In addition, necessary cash should be paid to equity shareholders of both the companies as required to adjust the rights of shareholders of both the companies in accordance with the intrinsic value of the shares of both the companies.

You are required to compute the purchase consideration for both the companies.

Question 24 *(RTP May 2019)* Pg no._____

P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2020 Their summarised Balance Sheets as on 31.03.2020 were as follows:

Liabilities	P Ltd. ₹ ('000)	Q Ltd. ₹ ('000)
Share capital: Equity shares 10 each (fully paid up)	300	280
9% Preference share Capital (₹ 100 each)	60	40
Investment allowance Reserve	10	4
Profit and Loss Account	68	68
10% Debentures	100	60
Trade Payables	50	30
Tax provision	14	8
	602	490
Assets		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70
Inventories	72	80
Cash and Bank	80	50
	602	490

From the following information, you are required to prepare the Balance Sheet as on 01.04.2020 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

a) 50 % Debenture are to be converted into Equity Shares of the New Company.
b) Investments are non- current in nature.
c) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.
d) 10% of trade receivables were doubtful for both companies. Inventories to be carried at cost
e) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.
f) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹ 10 each of the new company at a premium of ₹ 5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

Question 25 *(RTP May 2018)* *Pg no._____*

Given below are the Balance Sheet of two companies as on 31st December, 2019.

A Limited

Liabilities	₹	Assets	₹
Share Capital:		Patent	1,00,000
Issued and fully paid up		Building	5,40,000
50,000 8% Cumulative Preference Shares of ₹ 10 each	5,00,000	Plant and Machinery	15,10,000
1,50,000 Equity shares of 10 each	15,00,000	Furniture	75,000
General Reserve	7,65,000	Investment	1,55,000
Profit and Loss account	1,25,000	Stock	3,58,000
Sundry Creditors	60,000	Sundry Debtors	72,000
		Cash and Bank	1,40,000
	29,50,000		29,50,000

B Limited

Liabilities	₹	Assets	₹
Share Capital:		Goodwill	62,000
Issued and fully paid up		Motor Car	1,26,000
50,000 Equity shares of 10 each	5,00,000	Furniture	58,000
Profit and Loss account	45,000	Stock	2,40,000
Sundry Creditors	31,000	Sundry Debtors	70,000
		Cash and Bank	20,000
	5,76,000		5,76,000

It has been agreed that both these companies should be wound up and new company AB Ltd. should be formed to acquire assets of both companies on the following terms & conditions:

a) AB Ltd. is to have an authorized capital of ₹ 36,00,000 divided into 60,000, 8% cumulative preference shares of ₹ 10 each and 3,00,000 equity shares of ₹ 10 each.
b) AB Ltd. to purchase the whole of the assets of A Ltd. (except cash and Bank balances) for ₹ 28,25,000 to be settled as to ₹ 5,75,000 in cash and as to the balance by issue of 1,80,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
c) AB Ltd. is to purchase the whole of the assets of B Ltd. (except cash and bank balances) for ₹ 4,91,000 to be settled as to ₹ 16,000 in cash and as to the balance by issue of 38,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
d) A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in AB Ltd. in kind among the equity shareholders of the respective companies.
e) The creditors of A Ltd. and B Ltd. are considered to be paid by the liquidators of the respective companies and not taken over by AB Ltd.

f) The liquidator of A Ltd. is to pay the preference shareholders ₹ 12 in cash for every share held in full satisfaction of their claims.
g) AB Ltd. is to make a public issue of 60,000, 8% cumulative preference shares at a premium of 10% and 30,000 equity shares at the issue price of ₹ 12.50 per share, all amount payable in full on application.

It is estimated that the cost of liquidation (including the liquidators' remuneration) will be ₹ 10,000 in case of A Ltd. and ₹ 5,000 in case of B Ltd. and that the preliminary expenses of AB Ltd. will amount to ₹ 24,000· exclusive of the underwriting commission of ₹ 38,900 payable on the public issue.

Prepare Balance Sheet of AB Ltd. on the basis that all assets other than goodwill are taken over at book value & preliminary expenses & underwriting commission are to be written off.

Question 26 *(RTP May 2018 / RTP Nov 2021)* Pg no._____

P Ltd. & Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital equal to the combined capital of P Ltd. & Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd. The Balance Sheets of P Ltd. & Q Ltd. as on 31st March, 2020 (the date of amalgamation) are given below:

Summarized Balance Sheet as at 31-03-2020

Equity & Liabilities	P Ltd.	Q Ltd.	Assets	P Ltd.	Q Ltd.
Shareholder Funds:			Non Current Assets:		
Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
Reserves	10,20,000	6,00,000	Current Assets:		
Current Liabilities:			Inventories	3,60,000	6,60,000
Bank Overdraft	-	5,40,000	Trade Receivables	4,80,000	7,80,000
Trade Payables	2,40,000	5,40,000	Cash at Bank	3,00,000	-
	18,60,000	25,20,000		18,60,000	25,20,000

The consideration was to be based on the net assets of the companies as shown in the above balance sheet, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the 3 years ended 31st March, 2020. The weights for this purpose for the years 2017-18, 2018-19 and 2019-20 were agreed as 1, 2 & 3 respectively.
The profit has been: 2017-18 ₹ 3,00,000; 2018-19 ₹ 5,25,000 and 2019-20 ₹ 6,30,000

The shares of PQ Ltd. were to be issued to P Ltd. & Q Ltd. at a premium & in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd. increased its authorized capital by ₹ 12,00,000 and proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. & Q Ltd. You are required to:

(a) Calculate the number of shares issued to P Ltd. & Q Ltd.
(b) Prepare the Balance sheet of PQ Ltd. as per Schedule III after recording its journal entries

Question 27 *(Inter July 2021) (10 Marks)* Pg no._____

Summarized Balance Sheets of Black Ltd. & White Ltd. as on 31st March, 2020 is as follows:

Particulars	Notes	Black Limited (₹ In 000)	White Limited (₹ In 000)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		600	360
Total		7,680	4,620

Assets			
Non-Current assets			
Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		7,680	4,620

Note No.	Particulars	Black Limited (₹ in 000)	White Limited (₹ in 000)
1.	Share Capital Equity Shares of ₹100 each	6,000	3,600
	Reserves and Surplus		
2.	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	1,080	660

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

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

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

Both the companies have declared and paid 10% dividend within this 3 months' period.

Goodwill of White Limited is valued at ₹ 2,40,000 and Property Plant and Equipment are valued at ₹ 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par.

Ignore income tax.

You are required to:

a) Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.
b) Calculate balance of Net Current Assets of Black Ltd. & White Ltd. as on 1st July, 2020
c) Give balance of Profit or Loss of Black Limited as on 1st July, 2020
d) Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.

Question 28 *(RTP May 2022)* Pg no._____

The following are Balance Sheets of Aakash Limited and Ganga Limited as at March 31, 2021:

	Particulars	Note No.	Aakash Limited (₹)	Ganga Limited (₹)
I.	Equity and Liabilities:			
(1)	Shareholder's Funds:			
(a)	Share Capital	1	80,00,000	20,00,000
(b)	Reserves and Surplus	2	(3,24,00,000)	56,00,000
(2)	Non-Current Liabilities:			
(a)	Secured Loans	3	3,20,00,000	1,60,00,000
(b)	Unsecured Loans	4	1,72,00,000	-
(3)	Current Liabilities:			
(a)	Trade Payables		56,00,000	36,00,000
(b)	Other Current Liabilities	5	2,04,00,000	56,00,000
	Total		5,08,00,000	3,28,00,000

II.	Assets:			
(1)	Non-Current Assets:			
	Property, Plant & Equipment		68,00,000	1,36,00,000
(2)	Current Assets:			
(a)	Inventories		3,68,00,000	-
(b)	Other Current Assets		72,00,000	1,92,00,000
	Total		5,08,00,000	3,28,00,000

Notes to Accounts:

		Aakash Limited	Ganga Limited
1.	Share Capital		
	Authorized, Issued, Subscribed & Paid up :		
	6,00,000 Equity Shares of ₹ 10 each	60,00,000	-
	20,000 Preference Shares of ₹ 100 each	20,00,000	-
	2,00,000 Equity Shares of ₹ 10 each	-	20,00,000
		80,00,000	20,00,000
2.	Reserves and Surplus		
	General Reserve	8,00,000	56,00,000
	Surplus	(3,32,00,000)	-
		(3,24,00,000)	56,00,000
3.	Secured Loans (Secured Loans of Aakash Limited are secured against pledge of Inventories)	3,20,00,000	1,60,00,000
4.	Unsecured Loans	1,72,00,000	-
5.	Other Current Liabilities		
	Statutory Liabilities	1,44,00,000	20,00,000
	Liability to Employees	60,00,000	36,00,000
		2,04,00,000	56,00,000

Both the companies go into liquidation and a new company 'AakashGanga 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 AakashGanga 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 ₹ 32,00,000 accrued interest in case of Ganga Limited.

(iv) 4,00,000 Equity Shares of ₹ 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.

(v) Preference Shareholders in Aakash Limited are issued Equity Shares in AakashGanga Ltd. worth ₹ 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.

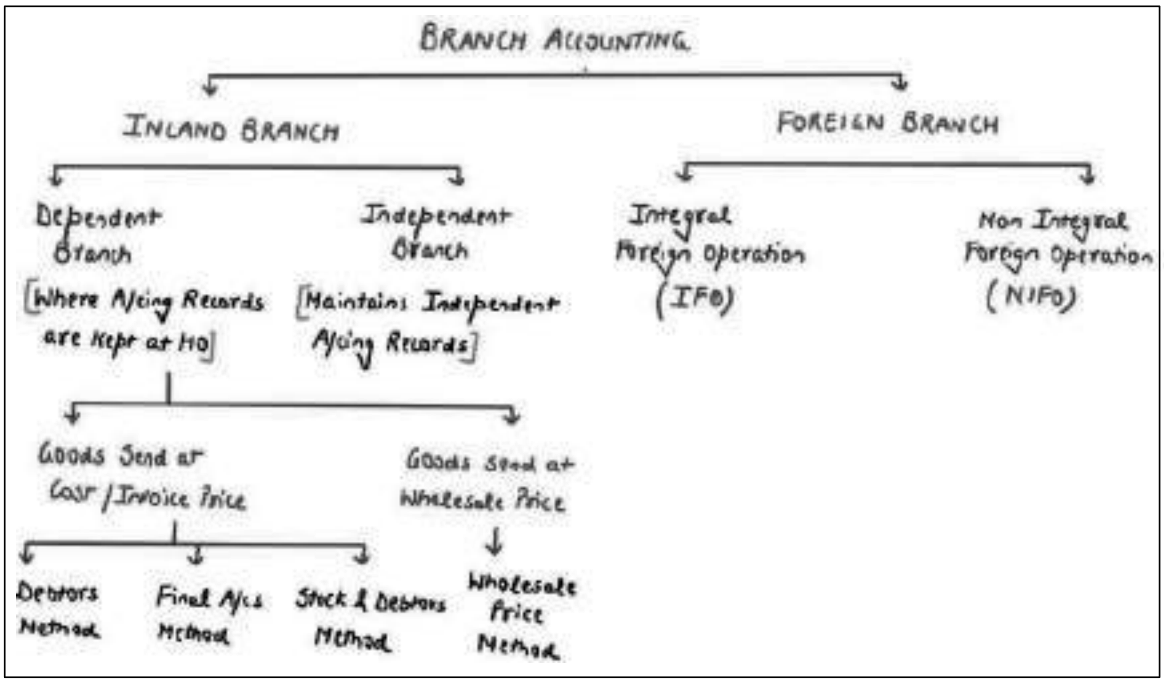
BRANCH ACCOUNTING

CH 6

"To succeed in your mission, you must have single-minded devotion to your goal."

MEANING

A Branch can be described as any establishment carrying on either the same or substantially same activity as that carried on by Head Office.
Branch offices are of a great utility in the sense that they allow business to be expanded closer to the clients and hence they facilitate face to face interaction with customers.



Difference between Branch and Department

Branch: Establishment at location different from Head Office to carry either same or substantially same activity as carried on by Head Office

Department: Division of a large organization dealing with a various kind of activity at the same location.

Let's take an example of a CA Firm working in the field of Auditing, Taxation & Finance having office at Mumbai, Chennai and Delhi practicing such fields. The CA firm has various branches in different cities, i.e., Delhi, Mumbai and Chennai, also it has various department of Auditing, Taxation and Finance at one particular branch (location).

DISTINCTION B/W BRANCH & DEPARTMENTAL ACCOUNTS

BASIS	BRANCH ACCOUNTS	DEPARTMENTAL ACCOUNTS
Maintenance of Accounts	Branch accounts may be maintained either at branch or at head office.	Departmental accounts are maintained at one place only.
Allocation of common expenses	No allocation problem arises since the expenses in respect of each branch can be identified.	Common expenses are distributed among departments concerned on some equitable basis considered suitable in the case.
Reconciliation	Reconciliation of head office and branch accounts is necessary in case of independent branches at the end of the accounting year.	No such problem arises.
Conversion of foreign currency figures	At the time of finalization of accounts, conversion of figures of foreign branch is necessary.	No such problem arises in departmental accounts.

DEPENDENT BRANCH

DEBTORS METHOD

BRANCH ACCOUNT

Particulars	Amount	Particulars	Amount
To Balance b/d		By Balance b/d	
Stock (At Invoice Price)	xx	Creditors	xx
Debtors	xx	O/s Expenses	xx
Cash in hand	xx	By Stock Reserve (on Opening stock)	xx
Fixed Assets	xx	By Goods sent to branch (Loading)	xx
Prepaid expenses	xx	By Goods Returned to H.O. (At I.P.)	xx
To Goods sent to branch (At I.P.)	xx	By Bank (Remittances to H.O.)	
To Goods ret. to H.O. (Loading)	xx	• Cash Sales xx	
To Bank (Cash sent by H.O. to branch for expenses/Purchase of fixed assets)	xx	• Collection from Debtors xx • Recovery from Insurance Co. xx • Expenses paid by branch (xx)	xx
To Stock Reserve (on Closing stock)	xx	By Balance c/d	
To Balance c/d		Stock (At I.P.)	xx
Creditors	xx	Debtors	xx
O/s Expenses	xx	Cash in hand	xx
To Net Profit (Bal. Fig.)*	xx	Fixed Assets	xx
		Prepaid expenses	xx
		By Net Loss (Bal. Fig.)*	xx
	XXX		XXX

*Any one of these

1) Sales Return by Debtor

Branch A/c	
	X

Memo - Debtors A/c	
	By Sales Return

2) Sales Return by Debtors directly to HO

Debtors ⟶ Branch ⟶ HO

Branch A/c	
	By Goods Returned to HO

Memo - Debtors A/c	
	By Sales Return

3) Discount Allowed, Bad debts etc

Branch A/c : No Effect

Memo Debtors A/c : Written on Cr. side

4) Normal / Abnormal Loss

Branch A/c : No Effect

Shown in Memo Stock A/c

Note:

1) If Insurance claim Received:
Remittance to HO will increase or Closing cash will increase

2) If Insurance claim not received:
Insurance claim Receivable shown under closing assets

FINAL ACCOUNTS METHOD

BRANCH TRADING AND P&L A/C

Particulars	Amount	Particulars	Amount
To Opening stock (at cost)	xx	By Sales	
To Goods sent to branch xx		Cash xx	
(-) Returns (xx)	xx	Credit xx	
To Direct Expenses	xx	(-) Sales Return (xx)	xx
To Gross Profit (Bal. Fig.)	xx	By Abnormal Loss	xx
		By Closing stock (at cost)	xx
	XXX		XXX
To Indirect expenses	xx	By Gross Profit	xx
To Abnormal Loss	xx	By Discount received	xx
To Net Profit (Bal. Fig.)	xx		
	XXX		XXX

STOCK & DEBTORS METHOD

Branch Stock Account (At Invoice Price)

Particulars	Amount	Particulars	Amount
To Balance b/d	xx	By Goods sent to branch (returns)	xx
To Goods sent to branch	xx	By Bank (Cash Sales)	xx
To Branch Debtors A/c (Returns)	xx	By Branch Debtors A/c (Credit Sale)	xx
To Surplus transferred to Branch adjustment [SP > IP]	xx	By Shortage/Abnormal Loss	xx
		By Branch Adjustment (Normal loss)	xx
		By Balance c/d	xx
	XXX		XXX

Note In case of Branch Stock Account, if Balance figure is on credit side then:
Case 1: Closing stock not given → then balance figure will be considered as Closing Stock.
Case 2: Closing stock is given → then consider balance figure to be shortage/abnormal loss and separate the same accordingly in Branch adjustment & Branch P&L account.

Branch Adjustment Account

Particulars	Amount	Particulars	Amount
To Goods sent to branch-Returns (Loading)	xx	By Stock Reserve (Opening stock)	xx
To Stock Reserve (Closing stock)	xx	By Goods sent to branch (Loading)	xx
To Abnormal Loss (Loading)	xx	By Surplus transferred from Branch Stock A/c	xx
To Branch Stock (Normal loss)	xx		
To Branch P&L {Gross Profit}	xx		
	XXX		XXX

Branch Expenses Account

Particulars	Amount	Particulars	Amount
To Bank A/c (expenses) [like printing & stationery, salaries, rent & rates, etc.)	xx	By Branch P & L A/c	xx
	XXX		XXX

Branch P & L Account

Particulars	Amount	Particulars	Amount
To Branch Expenses A/c	xx	By Branch Adjustment (G.P.)	xx
To Branch Debtors A/c Discount Bad Debts	xx	By Branch Cash a/c (Claim received from insurance Co.)	xx
To Abnormal Loss (Cost)	xx		
To Net Profit (Bal. Fig.)	xx		
	XXX		XXX

Goods Sent to Branch Account

Particulars	Amount	Particulars	Amount
To Branch stock A/c	xx	By Branch stock A/c	xx
To Branch Adjustment A/c	xx	By Branch Adjustment A/c	xx
To Purchases/Trading A/c (Bal. Fig.)	xx		
	XXX		XXX

Branch Debtors Account

Particulars	Amount	Particulars	Amount
To Balance b/d	xx	By Branch stock A/c (Returns)	xx
To Branch stock A/c (Credit Sales)	xx	By Branch P&L A/c (Discount, Bad Debts, etc.)	xx
		By Bank A/c (Collection)	xx
		By Balance c/d	xx
	XXX		XXX

Reasons/Objectives for sending goods on invoice price by Head Office to the Branch

a) To keep secret from the branch manager, cost price of the goods & profit made, so that branch manager may not start a rival and competitive business with the concern;
b) To have effective control on stock i.e stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.
c) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

WHOLESALE PRICE METHOD

TRADING AND P&L A/C

Particulars	Head Office	Branch	Particulars	Head Office	Branch
To Opening stock	√	√	By Goods sent to Branch	√	×
To Purchases	√	×	By Sales	√	√
To Goods Received from Head Office	×	√	By Closing Stock	√	√
To Gross Profit	√	√		×	
	XXX	XXX		XXX	XXX
To Indirect expenses	√	√	By Gross Profit	√	√
To Stock Reserve	√	×			
To Net Profit	√	√			
	XXX	XXX		XXX	XXX

INDEPENDENT BRANCH

Features of Accounting System

1. Branch maintains its entire book of accounts under double entry system.
2. Branch opens in its books a Head Office Account to record all the transactions that takes place between Head Office & Branch.
3. Head Office maintains a Branch account to record these transactions.
4. Branch prepares its trial balance, Trading & P & L a/c at the end of accounting period & sends copy of these statements to Head Office for incorporation.
5. After receiving final statement from branch, Head Office reconciles between the two – Branch A/c in Head Office Books & Head Office A/c in Branch Books.
6. Head Office prepares necessary entries to incorporate Branch trial balance in its books.

JOURNAL ENTRIES

S.No.	Transaction	Books of H.O.	Books of Branch
1	Goods Dispatched by Head Office		
2	Remittance by Branch to Head Office		
3	Head Office sending cash to Branch		
4	Direct purchases by Branch		
5	Purchases by Branch but payment by Head Office		
6	Sales by Branch		
7	Collection from Debtors by branch		
8	Collection from Debtors directly by Head Office		
9	Expenses incurred at Branch		
10	Expenses of Branch paid by Head Office		
11	Head Office expenses charged to Branch (Allocation to Branch)		

12	Transfer of goods from one branch to another		
13	*Fixed Assets maintained at Branch*		
a)	Fixed Asset purchased by Branch		
b)	Fixed Asset purchased by Branch paid by Head Office		
c)	Depreciation on the above		
14	*Fixed Asset A/c maintained at HO*		
a)	Fixed asset purchased at Branch & recorded at Head Office Books		
b)	Branch Fixed Asset recorded in HO books & payment by HO		
c)	Depreciation on the above		
15	Goods in Transit		
16	Cash in Transit		

<u>Question</u>

Particulars	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
Goods sent to Branch		1,50,000		
Goods Received from Branch			1,40,000	
Branch Account	1,12,000			
Head Office Account				78,500

Reasons for Disagreement:
On analysis, the following were revealed:

1. ₹ 15,000 remitted by branch has not been received, hence not recorded in H.O books
2. Direct collection of ₹ 10,500 from branch customer by H.O not informed to branch. Hence not recorded by branch.
3. ₹ 14,500 paid by branch to H.O suppliers not recorded at H.O
4. H.O expenditure allocation to the branch ₹ 12,000 not recorded in the branch.
5. ₹7,500 being interest on F.D of H.O received by branch not recorded in H.O books.

Question

Mumbai Branch incurred an expenditure on advertisement of 10,000 on account of Chennai Branch.

FOREIGN OPERATIONS

AS-11

IFO → Integral foreign Operations

NIFO → Non-Integral foreign Operations

IFO	It is a foreign operation, the activities of which are integral part of those of the reporting enterprise. The business of IFO is carried on as if it were an extension of the reporting enterprises operations.
NIFO	It is a foreign operation that is not an integral foreign operation. The business of NIFO is carried on in substantially independent way by accumulating cash & other monetary items, incurring expenses, generating income & arranging borrowing in its own local currency.

INDICATORS OF NON-INTEGRAL FOREIGN OPERATIONS

- Control by reporting enterprises - While the reporting enterprise may control the foreign operation, the activities of foreign operation are carried independently without much dependence on reporting enterprise.
- Transactions with the reporting enterprises are not a high proportion of the foreign operation's activities.
- Activities of foreign operation are mainly financed by its operations or from local borrowings. In other words, it raises finance independently and is in no way dependent on reporting enterprises.
- Foreign operation sales are mainly in currencies other than reporting currency.
- All expenses by foreign operations are primarily paid in local currency, not in the reporting currency.
- Day-to-day cash flow of the reporting enterprises is independent of the foreign enterprises cash flows.
- Sales prices of the foreign enterprises are not affected by the day-to-day changes in exchange rate of the reporting currency of the foreign operation.
- There is an active sales market for the foreign operation product.

Monetary Items and Non-monetary Items:

Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. Cash, receivables and payables are examples of monetary items.

Non-monetary items are assets and liabilities other than monetary items. Fixed assets, investments in equity shares, inventories are examples of non-monetary assets.

Conversion Rates

	Particulars	IFO	NIFO
1.	Opening Stock		
2.	Expenses & Incomes		
3.	Monetary Items (Cash, Bank, Debtors, Creditors, Loan, B/R, B/P)		
4.	Closing Stock		
5.	Non-Monetary Items (Fixed Assets & Depreciation on it)		
6.	Goods received from Head Office /Remittance to HO and Head Office account balance		
7.	Difference in Trial Balance (Exchange Difference)		

CHANGE IN CLASSIFICATION

Integral to Non-Integral

(i) Translation procedure applicable to non-integral shall be followed from the date of change.

(ii) Exchange difference arising on the translation of non-monetary assets at the date of re-classification is accumulated in foreign currency translation reserve.

Non-Integral to Integral

(i) Translation procedure as applicable to integral should be applied from the date of change.

(ii) Translated amount of non-monetary items at the date of change is treated as historical cost.

(iii) Exchange difference lying in foreign currency translation reserve is not to be recognized as income or expense till the disposal of the operation even if the foreign operation becomes integral.

ASSIGNMENT QUESTIONS

TOPIC 1: DEPENDENT BRANCH: DEBTORS METHOD & FINAL ACCOUNTS METHOD

Question 1 — Pg no._____

Ronaldo opened in 2020 a branch at Nagpur. It invoiced goods to branch at cost plus 25%

	Amount (₹)
Goods sent to branch (Invoice Price)	50,000
Cash sent to the Branch for expenses	8,000
Sales- Cash - Credit	22,000 23,000
Cash received from debtors	20,000
Bad Debts written off	600
Stock on 31st December (invoice price)	4,800

Prepare Branch Account in the books of Head Office.

Question 2 — Pg no._____

Pawan, of Delhi has a branch at Jaipur. Goods are invoiced to the branch at cost plus 25%. The branch is instructed to deposit the receipts everyday in the head office account with the bank. All the expenses are paid through cheque by the head office except petty cash expenses which are paid by the Branch. From the following information, you are required to prepare Branch Account in books of Head office:

Stock at invoice price on 1.4.2020	1,64,000
Stock at invoice price on 31.3.2021	1,92,000
Debtors as on 1.4.2020	63,400
Debtors as on 31.3.2021	84,300
Furniture & fixtures as on 1.4.2020	46,800
Cash sales	8,02,600
Credit sales	7,44,200
Goods invoiced to branch by head office	12,56,000
Expenses paid by head office	2,64,000
Petty expenses paid by the branch	20,900
Furniture acquired by the branch on 1.10.2020 (payment was made by the branch from cash sales & collection from debtors)	5,000

Depreciation to be provided on branch furniture & fixtures @ 10% p.a. on WDV basis.

Question 3 — Pg no._____

Fanna Cloth Mills opened a branch at Mumbai on 1st April, 2020. The goods were invoiced to the branch at selling price which was 125% of the cost to the head office. The following are the particulars of transactions relating to branch during the year ended 31st March,21

	₹	₹
Goods sent to branch at cost to head office		42,12,600
Sales: Cash Credit	18,76,050 26,61,450	 45,37,500
Cash collected from debtors		23,55,000
Discount allowed to debtors		23,550
Returns from debtors		15,000

Spoiled cloth in bales written off at invoice price		7,500
Cheques sent to branch for: Rent Salaries Other Expenses	1,08,000 2,70,000 52,500	4,30,500

Prepare Branch Account based on invoice price under Debtors method for ascertaining profit.

Question 4 *(RTP Nov 2019)* Pg no._____

From the following particulars relating to Pune branch for the year ending December 31, 2021, prepare Branch Account in the books of Head office.

		₹
Stock at Branch on January1, 2021		10,000
Branch Debtors on January 1, 2021		4,000
Branch Debtors on Dec. 31, 2021		4,900
Petty cash at branch on January 1, 2021		500
Furniture at branch on January 1, 2021		2,000
Prepaid fire insurance premium on January 1, 2021		150
Salaries outstanding at branch on January 1, 2021		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received form debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses: Rent Salaries Petty Cash Insurance up to March 31, 2022	 2,000 2,400 1,000 600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2021		5,000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing ₹ 1,200 were destroyed on account of fire and a sum of ₹ 1,000 was received from the Insurance Company.

Question 5 *(ICAI Study Material) / (RTP Nov 2023) (Similar)* Pg no._____

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 withholding ₹ 10,000 necessary for meeting immediate requirements of cash. On 31st March, 2020 the assets at the branch were as follows:

	₹ ('000)
Cash in Hand	10
Trade Debtors	384
Stock, at Invoice Price	1,080
Furniture and Fittings	500

During the accounting year ended 31st March, 2021 the invoice price of goods dispatched by the head office to the branch amounted to ₹ 1 crore 32 lakhs. Out of the goods received by it, branch sent back to head office goods invoiced at ₹ 72,000. Other transactions at branch during the year were as follows:

	₹ ('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 1st January, 2021 the branch purchased new furniture for ₹ 1 lakh for which payment was made by head office through a cheque.

On 31st March, 2021 branch expenses amounting to ₹ 6,000 were outstanding and cash in hand was again ₹ 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 31st March, 2021.

Question 6 *(ICAI Study Material)* Pg no._____

Buckingham Bros, Bombay have a branch at Nagpur. They send goods at cost to their branch at Nagpur. However, direct purchases are also made by the branch for which payments are made at head office. All the daily collections are transferred from the branch to the head office. From the following, prepare Nagpur branch account in the books of head office by Debtors method & prepare Branch Trading and P&L Account in the books of Head Office.

	₹		₹
Opening balance (1-1-2021)		Bad Debts	1,000
Imprest Cash	2,000	Discount to Customers	2,000
Sundry Debtors	25,000	Remittances to H.O.	1,65,000
Stock: Transferred from H.O.	24,000	(recd. By HO)	
Direct Purchases	16,000		
Cash Sales	45,000	Remittances to H.O.	
		(not recd. by H.O. so far)	5,000
Credit Sales	1,30,000	Branch Exp. directly paid by HO	30,000
Direct Purchases	45,000	Closing Balance (31-12-2021)	
Returns from Customers	3,000	Stock: Direct Purchase	10,000
Goods sent to branch from H.O	60,000	Transfer from H.O	15,000
Transfer from H.O. for Petty	4,000	Debtors	?
Cash Exp.		Imprest Cash	?
		Petty cash expenses	4,000

Question 7 *(ICAI Study Material)* Pg no._____

Sell Well who carried on a retail business opened a branch X on January 1st, 2021 where all sales were on credit basis. All goods required by the branch were supplied from the Head Office and were invoiced to the branch at 10% above cost. The following were the transactions:

	Jan 2021	Feb 2021	March 2021
Goods sent to Branch (Purchase Price)	40,000	50,000	60,000
Sales as shown by the branch monthly report	38,000	42,000	55,000
Cash received from Debtors and remitted to H.O.	20,000	51,000	35,000
Returns to H.O. (Invoice price to Branch)	1,200	600	2,400

The stock of goods held by the branch on March 31, 2021 amounted to ₹ 53,400 at invoice to branch. Record these transactions in the Head Office books, showing balances as on 31st March, 2021 and the branch gross profit for the three months ended on that date.

Question 8 *(ICAI Study Material)* Pg no._____

Arnold of Delhi, trades in Ghee and Oil. It has a branch at Lucknow. He dispatches 25 tins of Oil @ ₹ 1,000 per tin and 15 tins of Ghee @ ₹ 1,500 per tin on 1st of every month. The branch incurs some expenditure which is met out of its collections; this is in addition to expenditure directly paid by Head Office. Following are the other details:

		Delhi	Lucknow
		₹	₹
Purchases	Ghee	14,75,000	-
	Oil	29,32,000	-
Direct expenses		3,83,275	-
Expenses paid by H.O.		-	14,250
Sales	Ghee	18,46,350	3,42,750
	Oil	27,41,250	3,15,730
Collection during the year (including Cash Sales)		-	6,47,330
Remittance by Branch to Head Office		-	6,13,250

	(Delhi)	
Balance as on:	01-01-2021	31-12-2021
Stock : Ghee : Oil	1,50,000 3,50,000	3,12,500 4,17,250
Debtors	7,32,750	-
Cash on Hand	70,520	55,250
Furniture & Fittings	21,500	19,350
Plant/Machinery	3,07,250	7,73,500

	(Lucknow)	
Balance as on:	01-01-2021	31-12-2021
Stock : Ghee : Oil	17,000 27,000	13,250 44,750
Debtors	75,750	-
Cash on Hand	7,540	12,350
Furniture & Fittings	6,250	5,625
Plant/Machinery	-	

Addition to Plant/Machinery on 1-1-2021 ₹ 6,02,750.

Rate of Depreciation: Furniture / Fittings @ 10% and Plant / Machinery @ 15% (already adjusted in the above figures).

The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of ₹ 2,000 p.m. General expenses incurred by H.O. ₹ 24,000.

Prepare Branch Account in the head office books and also prepare the Arnold's Trading and Profit and Loss A/c (excluding branch transactions)

Question 9 *(RTP May 2018 / RTP May 2021)* **Pg no.____**

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit to selling price is constant at 25 per cent throughout the year to 31st March, 2021. Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office. From the under mentioned figures, calculate the commission due to manager for the year end 31st March, 2021.

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

TOPIC 2: DEPENDENT BRANCH: STOCK & DEBTORS METHOD

Question 10 *(ICAI Study Material)* **Pg no.____**

Hindustan Industries Mumbai has a branch in Cochin to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office, and the Branch has to remit all cash received into the Head Office Bank Account. Following details relates to calendar year 2021. Branch does not maintain any books of account, but sends weekly returns to the Head Office:

	₹
Goods received from Head Office at invoice price	6,00,000
Returns to Head Office at invoice price	12,000
Stock at Cochin as on 1st Jan., 2021	60,000
Sales in the year – Cash – Credit	2,00,000 3,60,000
Sundry Debtors at Cochin as on 1st Jan. 2021	72,000
Cash received from Debtors	3,20,000
Discount allowed to Debtors	6,000
Bad debts in the year	4,000
Sales returns at Cochin Branch	8,000
Rent, Rates, Taxes at Branch	18,000
Salaries, Wages, Bonus at Branch	60,000
Office Expenses	6,000
Stock at Branch on 31st Dec. 2021 at invoice price	1,20,000

Prepare Branch accounts in the books of Head Office by Stock & Debtors method.

Question 11 **Pg no.____**

Concept, with its Head Office at Mumbai has a branch at Nagpur. Goods are invoiced to the Branch at cost plus 33-1/3%. The following information is given in respect of the branch for the year ended 31st March, 2021:

	₹
Goods sent to Branch (Invoice price)	4,80,000
Stock at Branch on 1.4.2020 (Invoice price)	24,000
Cash sales	1,80,000
Return of goods by customers to the Branch	6,000
Branch expenses (paid in cash)	53,500
Branch debtors balance on 1.4.2020	30,000
Discount allowed	1,000
Bad debts	1,500
Collection from Debtors	2,70,000
Branch debtors cheques returned dishonoured	5,000
Stock at Branch on 31.3.2021 (Invoice price)	48,000
Branch debtors balance on 31.3.2021	36,500

Prepare, under Stock & Debtors system, the following Ledger Accounts in the books of the Head Office:

(i) Nagpur Branch Stock Account
(ii) Nagpur Branch Debtors Account
(iii) Nagpur Branch Adjustment Account.

Also compute shortage of Stock at Branch, if any

Question 12

Pg no._____

Yuvraj Singh, a cloth trader of Kolkata opened a Branch at Kanpur on 1–4–2020. The goods were sent by Head Office to the Branch and invoiced at selling price to the Branch, which is 125% of the cost price of Head Office.

The following are the particulars relating to the transactions of the Kanpur Branch

	₹	₹
Goods sent to Branch (at cost to H.O.)		4,50,000
Sales—Cash —Credit		2,10,000 3,20,000
Cash collected from Debtors		2,85,000
Return from Debtors		10,000
Discount Allowed		8,500
Cash sent to Branch for Freight	30,000	
for Salaries	8,000	
for other expenses	12,000	50,000
Spoiled clothes written off at invoice price		10,000
Normal loss estimated at		15,000

Prepare Branch Stock Account, Branch Debtors Account and Branch Adjustment Account showing the net profit of the Branch.

Question 13 *(ICAI Study Material)*

Pg no._____

Harrison of Chennai has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording. Following further details are given for the year ended 31st December, 2021:

	₹
Cost of goods sent to Branch at cost	2,00,000
Goods received by Branch till 31-12-2021 at invoice price	2,20,000

Credit Sales for the year @ invoice price	1,65,000
Cash Sales for the year @ invoice price	59,000
Cash Remitted to head office	2,22,500
Expenses paid by H.O.	12,000
Bad Debts written off	750

Balances as on	01-01-2021	31-12-2021
	₹	₹
Stock	25,000 (Cost)	28,000 (Invoice Price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

Show necessary ledger accounts in the books of head office and determine the Profit and Loss of the Branch for the year ended 31st December, 2021 by Stock & Debtors method.

Question 14 Pg no._____

Red and White of Mumbai started a branch at Bangalore on 1.4.2020 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for the year ending on 31.3.2021:

	₹
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2021 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2021	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2021	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment A/c for ascertaining gross profit and Branch Profit and Loss A/c for ascertaining Branch profit.

Question 15 *(Inter Nov 2022) (10 Marks)* Pg no._____

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

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

	₹
Goods received from Delhi at Selling Price	1,50,000
Cash Sales	69,000
Goods returned to Delhi at Selling Price	3,000

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

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

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

TOPIC 3: DEPENDENT BRANCH: WHOLESALE PRICE METHOD

Question 16 *(ICAI Study Material)* Pg no._____

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 31st March, 2021:

	Head Office (₹)	Branch (₹)
Opening stock (as on 1.4.2020)	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 31st March, 2021.

Question 17 Pg no._____

Jhaveri Sons have their Head Office at Calcutta and a branch at Agra. The goods are sent to Branch at 20% less than the list price which is cost plus 100%

From the following particulars ascertain the profit made by the branch as well as the Head Office on wholesale basis:

	Head Office (₹)	Branch (₹)
Opening Stock (Cost/Invoice Price)	40,000	20,000
Purchases	4,00,000	-
Expenses	60,000	12,000
Goods destroyed by accident at invoice price	-	2,000
Sales at list Price	3,40,000	1,60,000
Goods sent to branch at invoice price	1,60,000	1,60,000

Question 18 *(ICAI Study Material)* Pg no.____

M/s Rahul operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.2021:

	₹
Stock at the outlet 1.4.20	30,000
Goods invoiced to the outlet during the year	3,24,000
Gross profit made by the outlet	60,000
Goods lost by fire	?
Expenses of the outlet for the year	20,000
Stock at the outlet 31.3.21	36,000

Prepare following accounts in the books of Rahul Limited for the year ended 31.3.21

(a) Outlet Stock Account.

(b) Outlet Profit & Loss Account.

(c) Stock Reserve Account

TOPIC 4: INDEPENDENT BRANCH

Question 19 *(ICAI Study Material)* Pg no.____

Goods worth ₹ 50,000 sent by head office but branch has received till closing date goods for worth ₹ 40,000 only. Pass journal entry in books of H.O. & branch for goods in transit.

Question 20 *(ICAI Study Material)* Pg no.____

Give Journal Entries in the books of Branch A to rectify or adjust the following:

(i) Head Office expenses ₹ 3,500 allocated to the Branch, but not recorded in the Branch Books.

(ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ₹ 1,500.

(iii) Branch paid ₹ 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.

(iv) H.O. collected ₹ 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

(v) A remittance of ₹ 15,000 sent by the Branch has not yet been received by the Head Office.

(vi) Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B.

Question 21 Pg no.____

Show what journal entries would be passed by the Jaipur Head Office to record the following transactions in their Books on 31st March, 2021, the closing date:

(a) A remittance of ₹ 35,000 made by Sikar Branch to Head Office on 29thMarch, 2021 and received by the Head Office on 5th April, 2021.

(b) Goods of ₹ 63,000 sent by the Head Office to the Bikaner Branch on 28th March, 2021 and received by the later on 4th April, 2021.

(c) Sikar Branch paid ₹ 30,000 as salary to a visiting Head Office Official.

Question 22 *(ICAI Study Material)* Pg no.____

Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

(i) Income of ₹2,800 allocated to Branch by HeadOffice but not recorded in Branch books
(ii) Branch paid ₹ 3,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.
(iii) Branch incurred travelling expenses of ₹ 5,000 on behalf of other Branches, but not recorded in the books of Branch.
(iv) A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.
(v) Head Office allocates ₹ 75,000 to the Branch as Head Office expenses, which has not yet been recorded by the Branch.
(vi) Head Office collected ₹ 30,000 directly from a Branch Customer. The intimation of the fact has been received by the Branch only now.
(vii) Goods dispatched by the Head office amounting to ₹ 10,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

Question 23 *(ICAI Study Material)* Pg no._____

Show adjustment Journal entry in the books of Head Office at the end of April, 2021 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch a/cs in its books.

A. Delhi Branch:
(1) Received goods from Mumbai – ₹ 35,000 and ₹ 15,000 from Kolkata.
(2) Sent goods to Chennai – ₹ 25,000, Kolkata – ₹ 20,000.
(3) Bill Receivable received – ₹ 20,000 from Chennai.
(4) Acceptances sent to Mumbai – ₹ 25,000, Kolkata – ₹ 10,000.

B. Mumbai Branch (apart from the above):
(5) Received goods from Kolkata – ₹ 15,000, Delhi – ₹ 20,000.
(6) Cash sent to Delhi – ₹ 15,000, Kolkata – ₹ 7,000.

C. Chennai Branch (apart from the above):
(7) Received goods from Kolkata – ₹ 30,000.
(8) Acceptances and Cash sent to Kolkata – ₹ 20,000 and ₹10,000 respectively.

D. Kolkata Branch (apart from the above):
(9) Sent goods to Chennai – ₹ 35,000.
(10) Paid cash to Chennai – ₹15,000.
(11) Acceptances sent to Chennai – ₹15,000.

Question 24 Pg no._____

L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. The Pune branch makes a profit of 33-1/3% on cost which the Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of each of the branches and find out the profit or loss made by each of them after taking into account the reserve for unrealised profits:

Particulars	Pune Branch	Goa Branch
Opening Stock	40,000	30,000
Purchases (Including Inter Branch transfers)	2,00,000	2,50,000
Sales	2,80,000	2,95,625
Chargeable Expenses	15,000	27,500
Closing Stock	30,000	43,500
Office and Adm. Expenses	13,250	7,000
Selling and Distribution Expenses	15,000	10,000

Information:

a. Opening stock at Pune Branch includes goods of ₹ 10,000 taken from Goa Branch,
b. Opening stock at Goa Branch includes goods of ₹ 17,000 taken from Pune Branch at cost to receiving branch,
c. The Pune Branch sales includes transfer of goods to Goa Branch at selling price ₹ 20,000
d. The sales of Goa Branch include transfer of goods to Pune Branch at selling price ₹ 15,000.
e. Closing stock at Pune Branch includes goods received from Goa Branch ₹ 5,000.
f. Closing stock at Goa Branch includes goods of ₹ 4,000 received from Pune Branch.

Question 25 *(ICAI Study Material)* Pg no._____

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 31st Dec., 2021 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., 2021 for the entire business

	H.O.		Branch	
	₹	₹	₹	₹
Raw materials purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 1-1-2021 Raw materials Finished goods	 1,800 13,000		 9,200	
Debtors	37,000			
Cash	22,000		1,000	
Administrative Salaries	13,900		4,000	
Salesmen's 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	
	3,10,200	3,10,200	67,200	67,200

(1) On 28th Dec., 2021 the branch remitted ₹ 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 ₹ 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.
(2) The stock of raw materials held at the H.O. on 31st Dec., 2021 was valued at ₹ 2,300.
(3) You are advised that:
   a. there were no stock losses incurred at the H.O. or at the branch.
   b. it is KP's practice to value finished goods stock at the H.O. at factory cost.
   c. there were no opening or closing stock of work-in-progress.
(4) Branch employees are entitled to a bonus of ₹ 156 under a bilateral agreement.

Question 26 *(ICAI Study Material)* Pg no._____

The following Trial balances as at 31st December, 2021 have been extracted from the books of Major & Co. and its branch at a stage where the only adjustments requiring to be made prior to the preparation of a Balance Sheet for the undertaking as a whole.

	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
Capital		1,50,000		
Fixed Assets	75,125		18,901	
Current Assets	1,21,809		23,715	(Note 3)
Current Liabilities		34,567		9,721
Stock Reserve, 1st Jan., 2021 (Note 2)		693		
Revenue Account		43,210		10,250
Branch Account	31,536			
Head Office Account				22,645
	2,28,470	2,28,470	42,616	42,616

1. Goods transferred from Head Office to the Branch are invoiced at cost plus 10% and both Revenue Accounts have been prepared on the basis of the prices charged.
2. Relating to the Head Office goods held by the Branch on 1st January, 2021.
3. Includes goods received from Head Office at invoice price ₹ 4,565.
4. Goods invoiced by Head Office to Branch at ₹ 3,641 were in transit at 31st December, 2021, as was also a remittance of ₹ 3,500 from the Branch.
5. At 31st December, 2021, the following transactions were reflected in the Head Office books but unrecorded in the Branch books.

The purchase price of lorry, ₹ 2,500, which reached the Branch on December 25th; a sum received on December 30, 2021 from one of the Branch debtors, ₹ 750.

You are required:

(i) to record the foregoing in the appropriate ledger accounts in both sets of books;
(ii) to prepare a Balance Sheet as at 31st December, 2021 for the undertaking as a whole.

Question 27 *(ICAI Study Material)* Pg no._____

Ring Bell Ltd. Delhi has a Branch at Bombay where a separate set of books is used. The following is the trial balance extracted on 31st December, 2021.

Head Office Trial Balance

	₹	₹
Share Capital (Authorised: 10,000 Equity Shares of ₹ 100 each):		
Issued: 8,000 Equity Shares		8,00,000

Profit & Loss Account - 1-1-2021		25,310
General Reserve		1,00,000
Fixed Assets	5,30,000	
Stock	2,22,470	
Debtors and Creditors	50,500	21,900
Profit for 2021		52,200
Cash Balance	62,730	
Branch Current Account	1,33,710	
	9,99,410	9,99,410

Branch Trial Balance

	₹	₹
Fixed Assets	95,000	
Profit for 2021		31,700
Stock	50,460	
Debtors and Creditors	19,100	10,400
Cash Balance	6,550	
Head Office Current Account		1,29,010
	1,71,110	1,71,110

The difference between the balances of Current Account in two sets of books is accounted for as follows:

Cash remitted by the Branch on 31st December, 2021, but received by the Head Office on 1st January 2022 - ₹ 3,000.

Stock stolen in transit from Head Office and charged to Branch by the Head Office, but not credited to Head Office in the Branch books as the Branch Manager declined to admit any liability (not covered by insurance) - ₹ 1,700.

Give the Branch Current Account in Head Office books after incorporating Branch Trial Balance through journal.

Question 28 *(RTP May 2020 / ICAI Study Material)* Pg no._____

On 31st March, 2021 Kanpur Branch submits the following Trial Balance to its Head Office at Lucknow

	₹ In Lacs
Debit Balances	
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 2020	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5

Sales	360
Head Office	80
	448

Additional Information:

Stock on 31st March, 2021 was valued at ₹ 62 lacs. On 29th March, 2021 the Head Office dispatched goods costing ₹ 10 lacs to its branch. Branch did not receive these goods before 1st April, 2021. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch ₹ 1 lac for centralised services for which the branch has not passed the entry.

You are required to:

(i) Pass Journal Entries in the books of the Branch to make the necessary adjustments

(ii) Prepare Final Accounts of the Branch including Balance Sheet, and

(iii) Pass Journal Entries in the books of Head Office to incorporate whole of the Branch Trial Balance

Question 29 *(ICAI Study Material)* Pg no._____

AFFIX of Kolkata has a branch at Delhi to which the goods are supplied from Kolkata but cost thereof is not recorded in the Head Office books. On 31st March, 2021 Branch Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors Balance	40,000	Debtors Balance	2,00,000
Head Office	1,68,000	Building Extension A/c closed by transfer to H.O. A/c	-
		Cash at Bank	8,000
	2,08,000		2,08,000

During the six months ending on 30-9-2021, the following transactions took place at Delhi.

	₹		₹
Sales	2,40,000	Manager's Salary	4,800
Purchases	48,000	Collections from Debtors	1,60,000
Wages paid	20,000	Discounts allowed	8,000
Salaries (inclusive of advance of ₹ 2,000)	6,400	Building Account (further payment)	4,000
General Expenses	1,600	Discount earned	1,200
Fire Insurance (paid for 1 year)	3,200	Cash paid to Creditors	60,000
Remittance to H.O.	38,400	Cash in Hand	1,600
		Cash at Bank	28,000

Set out the Head Office Account in Delhi books and the Branch Balance Sheet as on 30-9-2021. Also give journal entries in the Delhi books.

Question 30 *(ICAI Study Material)* Pg no._____

Messrs Ramchand & Co., Hyderabad have a branch in Delhi. The Delhi Branch deals not only in the goods from Head Office but also buys some auxiliary goods and deals in them. They, however, do not prepare any Profit & Loss Account but close all accounts to the Head Office at the end of the year and open them afresh on the basis of advice from their Head Office. The fixed assets accounts are also maintained at the Head Office.

The goods from the Head Office are invoiced at selling prices to give a profit of 20 per cent on the sale price. The goods sent from the branch to Head Office are at cost. From the following prepare Branch Trading and Profit & Loss Account and Branch Assets Account in the Head Office Books.

Trial Balance of the Delhi Branch as on 31-12-2021

Debit	₹	Credit	₹
Head office opening balance on 1-1-21	15,000	Sales	1,00,000
Goods from H.O.	50,000	Goods to H.O.	3,000
Purchases	20,000	Head Office Current A/c	15,000
Opening Stock (H.O. goods at invoice prices)	4,000	Sundry Creditors	3,000
Opening Stock of other goods	500		
Salaries	7,000		
Rent	3,000		
Office expenditure	2,000		
Cash on Hand	500		
Cash at Bank	4,000		
Sundry Debtors	15,000		
	1,21,000		1,21,000

The Branch balances as on 1st January, 2021, were as under: Furniture ₹ 5,000; Sundry Debtors ₹ 9,500; Cash ₹ 1,000, Creditors ₹ 30,000. The closing stock at branch of the head office goods at invoice price is ₹ 3,000 and that of purchased goods at cost is ₹ 1,000. Depreciation is to be provided at 10 per cent on branch assets

TOPIC 5: FOREIGN BRANCH

Question 31 — Pg no._____

ABC Ltd. has head office at Delhi (India) and branch at New York (U.S.A). New York branch is an integral foreign operation of ABC Ltd. New York branch furnishes you with its trial balance as on 31st March, 2021 and the additional information given thereafter:

	Dr. ($)	Cr. ($)
Stock on 1st April, 2020	150	
Purchases and sales	400	750
Sundry Debtors and creditors	200	150
Bills of exchange	60	120
Sundry expenses	540	
Bank balance	210	
Delhi head office A/c		540
	1,560	1,560

The rates of exchange may be taken as follows:

- on 1.4.2020 @ ₹ 40 per US $
- on 31.3.2021 @ ₹ 42 per US $
- average exchange rate for the year @ ₹ 41 per US $.

New York branch account showed a debit balance of ₹ 22,190 on 31.3.2021 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York branch in ₹ in the books of ABC Ltd.

Question 32 *(ICAI Study Material)* — Pg no._____

A business having the Head Office in Kolkata has a branch in UK. The following is the trial balance of Head Office and Branch as at 31.03.2022:

Account Name	Dr.	Cr.
Fixed Assets (Purchased on 01.04.2019)	5,000	
Debtors	1,600	
Opening Stock	400	
Goods received from Head Office Account (Recorded in HO books as ₹ 4,02,000)	6,100	
Sales		20,000
Purchases	10,000	
Wages	1,000	
Salaries	1,200	
Cash	3,200	
Remittances to Head Office (Recorded in HO books as ₹ 1,91,000)	2,900	
Head Office Account (Recorded in HO books as ₹ 4,90,000)		7,400
Creditors		4,000

- Closing stock at branch is £ 700 on 31.03.2022.
- Depreciation @ 10% p.a. is to be charged on fixed assets.
- Prepare the trial balance after been converted in Indian Rupees.
- Exchange rates of Pounds on different dates are as follow:
  01.04.2019– ₹ 61; 01.04.2021– ₹ 63 31.03.2022 – ₹ 67

Question 33

Pg no._____

DM Delhi has a branch in London which is an integral foreign operation of DM. At the end of year 31st March, 2021, the branch furnishes the following trial balance in U.K. Pound:

	Dr. (Pound)	Cr. (Pound)
Fixed assets (Acquired on 1st April, 2017)	24,000	
Stock as on 1st April, 2020	11,200	
Goods from head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		96,000
	1,22,000	1,22,000

In head office books, the branch account stood as shown below:

London Branch A/c

	₹		₹
To Balance b/d	20,10,000	By Bank	52,16,000
To Goods sent to branch	49,26,000	By Balance c/d	17,20,000
	69,36,000		69,36,000

The following further information are given:

(a) Fixed assets are to be depreciated @ 10% p.a.

(b) On 31st March, 2021 :

a. Expenses outstanding - £ 400
b. Prepaid expenses - £ 200
c. Closing stock - £ 8,000

(c) Rate of Exchange :

a. 1st April, 2017 - ₹ 70 to £ 1
b. 1st April, 2020 - ₹ 76 to £ 1
c. 31st March, 2021 - ₹ 77 to £ 1
d. Average - ₹ 75 to £ 1

You are required to prepare:

(1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees.

(2) Trading and profit and loss account for the year ended 31st March, 2021 and the Balance Sheet as on that date of London branch as would appear in the books of Delhi head office of DM.

Question 34

Pg no._____

Moon Star has a branch at Verginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2021 is as follows:

Particulars	Dr. (US $)	Cr. (US $)
Office equipments	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2020)	22,400	
Purchases	96,000	
Sales		1,66,400
Goods sent from H.O	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account		45,600
Sundry Debtors	9,600	
Sundry Creditors		6,800
Cash at Bank	2,000	
Cash in Hand	400	
	2,18,800	2,18,800

The following further information's are given:

(1) Salaries outstanding $ 400.
(2) Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.
(3) The Head Office sent goods to Branch for ₹15,80,000
(4) The Head Office shows an amount of ₹ 20,50,000 due from Branch.
(5) Stock on 31st March, 2021 -$21,500.
(6) There were no transit items either at the start or at the end of the year.
(7) On April 1, 2019 when the fixed assets were purchased the rate of exchange was ₹ 43 to one $. On April 1, 2020, the rate was 47 per $. On March 31, 2021 the rate was ₹ 50 per $. Average rate during the year was ₹ 45 to one $.

Prepare:

(a) Trial balance incorporating adjustments given converting dollars into rupees.
(b) Trading, Profit and Loss Account for the year ended 31st March, 2021 and Balance Sheet as on date depicting the profitability and net position of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet

Question 35 *(RTP May 2023)* Pg no.____

PQR has a branch at Houston (USA). Business of the Branch is carried out substantially independent by way of accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. The trial balance of the Branch as at 31st March, 2021 is as follows:

Particulars	Dr. (US $)	Cr. (US $)
Office equipment (Cost)	56,400	
Opening Accumulated Depreciation (Office equipment)		5,400
Furniture and Fixtures (Cost)	36,000	
Opening Accumulated Depreciation (Furniture and Fixtures)		6,840
Opening Stock as on 1st April, 2020	24,500	
Purchases	96,500	
Sales		1,76,250
Salaries	4,250	
Carriage Inward	256	
Rent, Rates & Taxes	956	
Sundry debtors	12,560	
Sundry creditors		8,650
Cash at bank	2,540	
Cash in Hand	500	
Head office Account		37,322
	2,34,462	2,34,462

Following further information are given:

(i) Salaries outstanding as on 31st March, 2021 is US$ 600.

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

(iii) Closing stock as on 31st March, 2021 is US $, 24,650.

(iv) You are informed that the Head office is showing receivable from the Branch as ₹ 23,75,614 as on 31st March, 2021. No transaction in respect of the Branch is pending in Head office.

(v) Office equipment (cost) includes one office equipment of US $ 2,400 purchased on 1/04/2020.

(vi) One furniture of carrying value of US $ 450 as on 01/04/2020 (cost: US $ 500 and Accumulated depreciation: US $ 50) has been sold for US $ 405 on 31/03/2021 to Mr. M at no profit no loss. Mr. M has not paid the amount till the finalization of branch account. No entry has been passed for this sale of furniture in the above trial balance.

The rate of exchange on different dates are:

Date	1 US $ is equivalent to
1st April, 2020	64
31st December, 2020	70
31st March, 2021	75
Average for the year	72

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

Question 36 *(ICAI Study Material)* Pg no.____

On 31st December, 2021 the following balances appeared in the books of Chennai Branch of an English firm having its HO office in New York:

	Amount (In ₹)	Amount (In ₹)
Stock on 1st Jan., 2021	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	-
New York Account	-	5,99,150
	36,31,400	36,31,400

Stock on 31st December, 2021 was ₹ 6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2021 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange for 1 $ on 31st December, 2020 was ₹ 52 and on 31st December, 2021 was ₹ 51. The average rate for the year was ₹ 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch assuming integral foreign operation.

Question 37 *(ICAI Study Material)* Pg no.____

M/s Carlin has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch is an integral foreign operation of Carlin & Co. Mumbai branch furnishes you with its trial balance as on 31st March, 2021 and the additional information given thereafter:

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 2020	300	-
Purchases and sales	800	1,200
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	-
Rent, rates and taxes	360	-
Sundry charges	160	-
Computers	240	-
Bank balance	420	-
New York office a/c	-	1,620
	3,360	3,360

Additional information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate Computers at 60% for the year.

(b) Unsold stock of Mumbai branch was worth ₹ 4,20,000 on 31st March, 2021.

(c) The rates of exchange may be taken as follows:

a. on 1.4.2020 @ ₹ 40 per US $
b. on 31.3.2021 @ ₹ 42 per US $
c. Average exchange rate for the year @ ₹ 41 per US $
d. Conversion in $ shall be made upto two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2021 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co.
You are informed that Mumbai branch account showed a debit balance of US $ 39609.18 on 31.3.2021 in New York books and there were no items pending reconciliation.

Question 38

Pg no._____

ABCD Ltd., Delhi has a branch in New York, USA, which is an integral foreign operation of the company. At the end of 31st March, 2021, the following ledger balances have been extracted from the books of the Delhi office and the New York Branch:

Particulars	Delhi (₹ '000)		New York ($ '000)	
	Debit	Credit	Debit	Credit
Share Capital		1,250		
Reserves and Surplus		940		
Land	475			
Building (cost)	1,000			
Buildings Depreciation Reserve		200		
Plant & Machinery (cost)	2,000		100	
Plant & Mach. Depreciation Reserve		500		20
Trade receivables/payables	500	270	60	20
Stock (01-04-2020)	250		25	
Branch Stock Reserve		65		
Cash & Bank Balances	125		4	
Purchases/Sales	275	600	25	125
Goods sent to Branch		1,500	30	
Managing Director's salary	50			
Wages & Salaries	100		18	
Rent			6	
Office Expenses	25		12	
Commission receipts		275		100
Branch/H.O. Current A/c	800			15
Total	5,600	5,600	280	280

The following information is also available:

(1) Stock as at 31-03-2021
  a. Delhi - ₹ 2,00,000
  b. New York - $ 10 (all stock received from Delhi)
(2) Head Office always sent goods to the Branch at cost plus 25%.
(3) Provision is to be made for doubtful debts at 5%.
(4) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down values.

You are required:

(a) To convert the branch Trial Balance into rupees, using following rates of exchange:

Opening rate 1 $	= ₹ 50	Closing rate 1 $	= ₹ 55
Average rate 1 $	= ₹ 52	For Fixed assets 1 $	= ₹ 45

(b) To prepare the Trading and Profit & Loss Account for the year ended 31st March, 2021, showing to the extent possible, Head Office and Branch results separately

Question 39 *(ICAI Study Material)* *Pg no._____*

Washington branch of XYZ Mumbai sent following trial balance as on 31st December, 2021:

	$	$
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, 2021	11,200	-
Goods from H.O.	64,000	
Expenses	5,000	-
	1,10,200	1,10,200

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

	₹		₹
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
	37,36,000		37,36,000

Goods are sent to branch at cost plus 10% & branch sells goods at invoice price plus 25%. Machinery was acquired on 31st Jan., 2017, when $ 1.00 = ₹ 40. Rates of exchange were:

1st January, 2021	$ 1.00 = ₹ 46
31st December, 2021	$ 1.00 = ₹ 48
Average	$ 1.00 = ₹ 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.

PRACTICE QUESTIONS

TOPIC 1: DEPENDENT BRANCH: DEBTORS METHOD & FINAL ACCOUNTS METHOD

Question 1 *(ICAI Study Material)*

Pg no._____

The Bombay Traders invoiced goods to its Delhi branch at cost. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the Branch. All the cash collected by the branch was banked on the same day to the credit of the Head Office. The following is a summary of the transactions entered into at the branch during the year ended December 31, 2021.

	₹		₹
Balances as on 1.1.2021:		Bad Debts	600
Stock	7,000	Goods returned by customers	500
Debtors	12,600	Salaries & Wages	6,200
Petty Cash,	200	Rent & Rates	1,200
Goods sent from H.O.	26,000	Sundry Expenses	800
Goods returned to H.O	1,000	Cash received from Debtors	28,500
Cash Sales	17,500	Balances as on 31.12.2021:	
Credit Sales	28,400	Stock	6,500
Allowances to customers	200	Debtors	9,800
Discount to customers	1,400	Petty Cash	100

Prepare:

(a) Branch Account (Debtors Method),

(b) Memorandum Branch Trading and Profit & Loss Account and

(c) Branch Stock Account, Branch Debtors Account, Branch Expenses Account & Branch P&L Account as per Stock & Debtors Method.

Question 2

Pg no._____

LMN is having branch at Mumbai. Goods are invoiced to the branch at 25% profit on sale. All expenses are paid by head office except petty expenses, which are met by the Branch. Prepare branch account in the books of head office:

	₹
Stock as on 1st April, 2020 (Invoice price)	40,000
Sundry Debtors as on 1st April, 2020	25,000
Cash in hand as on 1st April, 2020	1,000
Office furniture as on 1st April, 2020	4,000
Goods invoiced from the head office (invoice price)	1,80,000
Goods return to head office	6,000
Goods return by debtors	1,250
Cash received from Debtors	65,000
Cash sales	1,20,000
Credit sales	70,000
Discount allowed to debtors	300
Expenses paid by Head Office	
Salary	4,000
Staff Welfare	750
Telephone Expenses	1,200

Other Misc. Expenses paid by branch	700
Stock as on 31st March, 2021 (at invoice price)	35,000
Depreciation to be provided on branch furniture	10% p.a.

Question 3 — *Pg no._____*

XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars prepare branch account in the books of Head Office.

	₹		₹
Stock on 1st April 2020 (invoice price) Sundry Debtors on 1st April, 2020 Cash in hand as on 1st April, 2020 Office furniture on 1st April, 2020	30,000 18,000 800 3,000	Expenses paid by head office: Rent Salary Stationery & Printing	 1,800 3,200 800
Goods invoiced from the head office (invoice price)	1,60,000	Petty expenses paid by the branch	600
Goods return to Head Office	2,000	Discount allowed to debtors	160
Goods return by debtors	960	Credit sales	60,000
Cash received from debtors	60,000	Depreciation to be provided on branch furniture at 10% p.a	
Cash Sales	1,00,000	Stock on 31st March, 2021 (at invoice price)	28,000

Question 4 — *Pg no._____*

M/s X has a branch at Delhi and the goods are invoiced to branch at a profit of 20% on invoice price. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the branch. Branch expenses directly paid by M/s X on behalf of Delhi branch amounted to ₹ 20,000. Following information is available of the transactions at Delhi branch for the year ended 31st December, 2021:

	As on 01-01-2021	As on 31-12-2021
Stock, at invoice price	80,000	1,00,000
Debtors	24,000	22,000
Petty cash	3,000	5,000

Transactions during the year ended 31st December, 2021:

	₹
Goods sent to branch, at invoice price	8,40,000
Goods returned by branch to head office, at invoice price	30,000
Cash sales	3,10,000
Credit sales	3,60,000
Cash sent for petty expenses	12,000
Bad debts at Delhi branch	2,000
Goods returned by debtors	2,000

Prepare Delhi Branch A/c (on cost basis) in the books of M/s X under Debtors System

Question 5 *(RTP May 2022)* — *Pg no._____*

Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ ₹ 1,500 per tin and 20 tins of Ghee ₹ 5,000 per tin on

1st of every month. The Branch has incurred expenditure of ₹ 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office.
Following are the other details:

		Chennai HO	Salem B.O.
Purchases	Refined Oil	27,50,000	-
	Ghee	48,28,000	-
Direct expenses		6,35,800	-
Expenses paid by H.O.		-	76,800
Sales	Refined Oil	24,10,000	5,95,000
	Ghee	38,40,500	14,50,000
Collection during the year		-	20,15,000
Remittance by Branch to Head Office		-	19,50,000

	(Chennai HO)	
Balance as on:	**01-04-2020**	**31-03-2021**
Stock : Refined Oil	44,000	8,90,000
: Ghee	10,65,000	15,70,000
Building	5,10,800	7,14,780
Furniture & Fixtures	88,600	79,740

	(Salem Branch Office)	
Balance as on:	**01-04-2020**	**31-03-2021**
Stock : Refined Oil	22,500	19,500
: Ghee	40,000	90,000
Debtors	1,80,000	?
Cash on Hand	25,690	?
Furniture & Fixtures	23,800	21,420

Additional information:

a) Addition to Building on 01-04-2020 ₹ 2,41,600 by H.O.

b) Rate of depreciation: Furniture & Fixtures @ 10% & Building @ 5% (already adjusted in above figure)

c) The Branch Manager is entitled to 10% commission on Branch profits after charging his commission.

d) The General Manager is entitled to a salary of ₹ 20,000 per month.

e) General expenses incurred by Head Office is ₹ 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & loss Account (excluding branch transactions) for the year ended 31st March, 2021.

Question 6 *(ICAI Study Material)* Pg no._____

Harrison of Chennai has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording. Following further details are given for the year ended 31st December, 2021:

	₹
Cost of goods sent to Branch at cost	2,00,000
Goods received by Branch till 31-12-2021 at invoice price	2,20,000
Credit Sales for the year @ invoice price	1,65,000

Cash Sales for the year @ invoice price	59,000
Cash Remitted to head office	2,22,500
Expenses paid by H.O.	12,000
Bad Debts written off	750

Balances as on	01-01-2021	31-12-2021
Stock	25,000 (Cost)	28,000 (Invoice Price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

Prepare Branch Account in the books of the head office and determine the Profit and Loss of the Branch for the year ended 31st December, 2021 by Debtors method.

TOPIC 2: DEPENDENT BRANCH: STOCK & DEBTORS METHOD

Question 7 *(ICAI Study Material)* *Pg no._____*

M/s Marena, Delhi has a branch at Bangalore to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account. From the following details, relating to calendar year 2021, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account but sends weekly returns to the Head Office.

Goods received from Head Office at invoice price	45,00,000
Returns to Heads Office at invoice price	90,000
Stock at Bangalore as on 1st January, 2021	4,50,000
Sales during the year – Cash	15,00,000
Credit	27,00,000
Sundry Debtors at Bangalore as on 1st January, 2021	5,40,000
Cash received from Debtors	24,00,000
Discount allowed to Debtors	45,000
Bad Debts in the year	30,000
Sales returns at Bangalore Branch	60,000
Rent, Rates and Taxes at Branch	1,35,000
Salaries, Wages and Bonus at Branch	4,50,000
Office Expenses	45,000
Stock at Branch on 31st December, 2021 at invoice price	9,00,000

Question 8 *(Inter Nov 2020) (10 Marks) / (RTP Nov 2021) (Similar)* *Pg no._____*

Vijay & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & 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 doesn't maintain any books of accounts but sends monthly returns to head office. Following further details are given for the year ended 31st March, 2021:

	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 2020-21	1,85,000
Credit Sales for the year 2020-21	6,25,000
Stock at Branch as on 01-04-2020 at Invoice price	72,000

S. Debtors at Patna branch as on 01-04-2020	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 31-03-2021 at cost price	1,25,000

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

Question 9 Pg no._____

Using the Stock and Debtors system, find out the profit or loss made at the Kolkata Branch in 2021.

	₹
Stock (1st January) invoice price	24,000
Debtors (1st January)	12,400
Goods sent to the Branch (invoice price)	70,000
Goods returned by the Branch (invoice price)	2,000
Sales: Credit Cash	 42,000 40,000
Goods returned by customers	1,200
Cash received from debtors	39,600
Discount allowed to them	600
Cash sent for expenses at the Branch	12,200
Shortage of goods at the Branch (invoice price)	800

Goods are invoiced to the Branch at the selling price so as to show a profit of 30% on invoice price.

Question 10 *(Inter May 2018) (10 Marks)* Pg no._____

Ayan Ltd. invoices goods to its branch at cost plus 33 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.

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 ₹ 48,000 to Branch on 31.03.2021 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 31st March, 2021

Question 11 *(Inter Dec 2021) (10 Marks)* Pg no._____

Delta Ltd. has branch at Kanpur. Goods are invoiced from the Head office to the Branch at cost plus 50%. Branch remits all cash received to Head office and all the expenses are met by Head office. Prepare necessary ledger accounts in the books of Delta Ltd. under Stock and Debtors system to show profit earned at the Branch for the year ending 31st March, 2021. Following information related to branch is given:

Particulars	₹	Particulars	₹
Stock on 1st April 2020 (Invoice price)	31,200	Surplus in stock (Invoice price)	600
Debtors on 1st April 2020	17,400	Goods returned by Debtors	3,000
Goods invoiced at cost	72,000	Expenses at Branch	13,400
Sales at Branch:		Discount allowed to Debtors	700
Cash sales	20,000		
Credit sales	68,200	Debtors on 31st March 2021	14,300

Question 12 *(Inter May 2022) (10 Marks)* Pg no._____

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 credit sales at catalogue price (i.e. list price). The following information was available at the branch for the year ended 31st March,2022.

Particular		Amount ₹
Stock on 1st April,2021 (invoice price)		12,000
Debtors on 1st 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 31st March, 2022		25,000
Stock on 31st 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 31st March,2022.

Question 13 *(Inter Nov 2023) (10 Marks)* Pg no._____

Jolly Industries of Delhi is a trader in spices. It has a branch at Jalandhar to which Head office invoice goods at 20% on sales. The Jalandhar branch sells spices both on cash and credit. Branch remit all the cash received to Head Office Bank account, thus all expenses of branch are also directly paid from head office.

From the following information given, Prepare Branch Accounts in the Head office ledger using Stock and Debtors Method. Branch does not maintain any books of account, but send fortnightly returns to Head office.

Particulars	₹
Stock at Jalandhar as on 1st April, 2022 (Cost Price)	1,00,000
Sundry Debtors at Jalandhar as on 1st April, 2022	1,10,000

Cash received from Debtors	3,45,000
Bad debts during the year	9,500
Discount allowed to Debtors	5,500
Goods received from Head Office at Invoice Price	6,00,000
Returns to Head office at Invoice Price	60,000
Normal loss of goods during transport (Out of Goods sent by H.O. to Branch)	12,000
Sales returns at Jalandhar Branch	11,000
Salaries and staff welfare expenses at Branch	54,000
Rent and taxes at Branch	9,000
Other Office Expenses	2,500
Sundry Debtors at Branch as at 31st March 2023	1,55,000
Stock at Jalandhar as on 31st March, 2023 (Cost Price)	1,20,000

Credit sales at Branch are four times of the cash Sales at Branch.

TOPIC 3: DEPENDENT BRANCH: WHOLESALE PRICE METHOD

Question 14 Pg no._____

M/s. Sandeep having Head Office at Delhi has a Branch at Kolkata. 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 Kolkata wholly engaged in retail trade and the goods are sold at cost to Head Office plus 100%.

Following details are furnished for the year ended 31st March, 2021:

	Head Office	Kolkata Branch
Opening Stock (As on 01.04.2020)	1,25,000	
Purchases	21,50,000	
Goods sent to Branch (cost to H.O. plus 80%)	7,38,000	
Sales	23,79,600	7,30,000
Office Expenses	50,000	4,500
Selling Expenses	32,000	3,300
Staff Salary	45,000	8,000

You are required to prepare Trading and Profit & Loss Account of the Head Office and Branch for the Year ended 31st March, 2021.

Question 15 Pg no._____

From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31st March, 2021, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:

(i) Goods are sent to the branch at invoice price and branch also maintains stock at the same price.

(ii) Sale price is cost plus 40%.

(iii) Invoice price is cost plus 15%.

(iv) Other information from accounts of branch:

Opening Stock as on 01-04-2020	3,45,000
Goods sent during the year by HO to BO	16,10,000
Sales during the year	21,00,000
Expenses incurred at the branch	45,000

Question 16 *(ICAI Study Material)* *Pg no._____*

Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 2021 from the following:

(1) Goods are invoiced to the branch at cost plus 20%.
(2) The sale price is cost plus 50%.
(3) Other information:

a. Stock as on 01.04.2020 (invoice price)	2,20,000
b. Goods sent during the year (invoice price)	11,00,000
c. Sales during the year	12,00,000
d. Expenses incurred at the branch	45,000

Ascertain

(i) the profit earned by the branch during the year
(ii) branch stock reserve in respect of unrealized profit.

TOPIC 4: INDEPENDENT BRANCH

Question 17 *(ICAI Study Material)* *Pg no._____*

Alphs having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.2021, it was found that the goods dispatched by head office for ₹ 2,00,000 was received by the branch only to the extent of ₹ 1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

Question 18 *Pg no._____*

Global Limited has a branch which closes its books of account every year on 31stMarch. This is an independent branch which maintains books of account for recording their transactions.

You are required to show journal entries in the books of branch on 31stMarch, 2021 to rectify or adjust the following:

(a) Head Office allocates ₹ 1,35,000 to the branch as head office expenses, which have not yet been recorded by branch.
(b) Depreciation of branch fixed assets, whose accounts are kept by head office in its books, not yet recorded in the branch books, ₹ 1,15,000.
(c) Branch paid ₹ 1,40,000 as salary to an official from head office on visit to branch and debited the amount to its Salaries Account.
(d) Head Office collected ₹ 1,30,000 directly from a branch customer on behalf of the branch, but no intimation was received earlier by the branch. Now the branch learns about it.
(e) It is learnt that a remittance of ₹ 1,50,000 sent by the branch has not been received by head office till date.

Question 19 *Pg no._____*

Give Journal Entries in the books of Head Office to rectify or adjust the following:

(i) Goods sent to Branch ₹12,000 stolen during transit. Branch manager refused to accept any liability
(ii) Branch paid ₹ 15,000 as salary to the officer of Head Office on his visit to the branch.
(iii) On 28th March, 2021, the H.O. dispatched goods to the Branch invoiced at ₹ 25,000 which was not received by Branch till 31st March, 2021.

(iv) A remittance of ₹ 10,000 sent by the branch on 30th March, 2021, received by the Head Office on 1st April, 2021.
(v) Head Office made payment of ₹ 25,000 for purchase of goods by Branch and wrongly debited its own purchase account.
(vi) Depreciation ₹ 11,250 in respect of Branch Shop whose account is kept in HO Books.
(vii) Expenses ₹ 5,600 to be charged to the Branch for work done on its behalf by the Head Office.

Question 20 *(RTP Nov 2018)* Pg no.____

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 ₹ 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 ₹ 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 ₹ 15,000 not recorded by Branch.
(iv) Head Office expenses ₹ 75,000 allocated to the Branch, but not yet been recorded by the Branch.
(v) Head Office collected ₹ 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 ₹ 50,000, but not received by the Branch till date of reconciliation.
(vii) Branch incurred advertisement expenses of ₹ 10,000 on behalf of other Branches, but not recorded in the books of Branch.
(viii) Head office made payment of ₹ 16,000 for purchase of goods by branch, but not recorded in branch books.

Question 21 *(Inter Jan 2021) (5 Marks) / (ICAI Study Material)* Pg no.____

Give Journal Entries in the books of Branch to rectify or adjust the following:
a) Branch paid ₹ 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.
b) Asset Purchased by branch for ₹ 25,000, but the Asset was retained in H.O. Books.
c) A remittance of ₹ 8,000 sent by the branch has not been received by H.O.
d) H.O. collected ₹ 25,000 directly from the customer of Branch but fails to give the intimation to branch.
e) Remittance of funds by H.O. to branch ₹ 5,000 not entered in branch books.

Question 22 Pg no.____

Head Office passes adjustment entry at the end of each month to adjust the position arising out of inter branch transactions during the month. From the following inter branch transactions in January, 2021 make entry in the books of Head Office:
a) Bombay Branch
  (i) Received goods ₹ 6,000 from Calcutta Branch, ₹ 4,000 from Patna Branch
  (ii) Sent Goods to ₹ 10,000 to Patna, ₹ 8,000 to Calcutta
  (iii) Received B/R ₹ 6,000 from Patna
  (iv) Sent Acceptance ₹ 4,000 to Calcutta, ₹ 2,000 to Patna
b) Madras Branch (Apart from the above)
  (v) Received goods ₹ 10,000 from Calcutta, ₹ 4,000 from Bombay
  (vi) Cash Sent ₹ 2,000 to Calcutta, ₹ 6,000 to Bombay

c) Calcutta Branch (Apart from the above)
  (vii) Sent Goods to Patna ₹ 6,000
  (viii) Paid B/P ₹ 4,000 to Patna, ₹ 4,000 cash to Patna

Question 23

Pg no._____

Show adjustment Journal entry along with working notes in the books of Head Office at the end of April, 2021 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch account in its books.

A. Delhi Branch:
  (1) Received goods from Mumbai – ₹ 1,40,000 and ₹ 60,000 from Kolkata.
  (2) Sent goods to Chennai – ₹ 1,00,000, Kolkata – ₹ 80,000.
  (3) Bill Receivable received – ₹ 80,000 from Chennai.
  (4) Acceptances sent to Mumbai – ₹ 1,00,000, Kolkata – ₹ 40,000.

B. Mumbai Branch (apart from the above):
  (5) Received goods from Kolkata – ₹ 60,000, Delhi – ₹ 80,000.
  (6) Cash sent to Delhi – ₹ 60,000, Kolkata – ₹ 28,000.

C. Chennai Branch (apart from the above):
  (7) Received goods from Kolkata – ₹ 1,20,000.
  (8) Acceptances and Cash sent to Kolkata – ₹ 80,000 and ₹40,000 respectively.

D. Kolkata Branch (apart from the above):
  (9) Sent goods to Chennai – ₹ 1,40,000.
  (10) Paid cash to Chennai – ₹ 60,000.
  (11) Acceptances sent to Chennai – ₹ 60,000.

Question 24 *(Inter July 2021) (10 Marks)*

Pg no._____

Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in Head Office books. On 31st March, 2020 Branch Balance Sheet was as follows:

Liabilities	₹	Assets	₹
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
	2,50,000		2,50,000

During the 6 months ending on 30-09-2020, following transactions took place at Noida:

	₹		₹
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 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.

TOPIC 5: FOREIGN BRANCH

Question 25 — Pg no.____

Ganesh Ltd. has head office at Delhi (India) and branch at New York (U.S.A). New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31st March, 2021 & the additional information given thereafter:

	Dr. ($)	Cr. ($)
Stock on 1st April, 2020	300	
Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	
Bank balance	420	
Delhi head office A/c		1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- on 1.4.2020 @ ₹ 40 per US $
- on 31.3.2021 @ ₹ 42 per US $
- average exchange rate for the year @ ₹ 41 per US $.

New York branch account showed debit balance of ₹ 44,380 on 31.3.2021 in Delhi books & there were no items pending reconciliation. Prepare trial balance of New York in ₹ in books of Ganesh Ltd

Question 26 *(Inter Nov 2019) (5 Marks)* — Pg no.____

Karan Enterprises having its Head Office in Mangalore, Karnataka has a branch in Greenville, USA. Following is the trial balance of Branch as at 31-3-2021:

Particulars	Amount ($) Dr.	Amount ($) Cr.
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received from Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account		4,300
	28,350	28,350

(i) Fixed assets were purchased on 1st April, 2017.
(ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method. ·
(iii) Closing inventory at branch is $ 700 as on 31-3-2021.
(iv) Goods received from Head Office (HO) were recorded at ₹1,85,500 in HO books.
(v) Remittances to HO were recorded at ₹1,62,000 in HO books.
(vi) HO account is recorded in HO books at ₹2,84,500.
(vii) Exchange rates of US Dollar at different dates can be taken as
1-4-2017 ₹63 1-4-2020 ₹65 and 31-3-2021 ₹67

Prepare trial balance after been converted into Indian rupees in accordance with AS-11.

Question 27 Pg no._____

Omega has a branch at Washington. Its Trial Balance as at 30th Sep., 2021 is as follows:

	Dr. (US $)	Cr. (US $)
Plant and machinery	1,20,000	-
Furniture and fixtures	8,000	-
Stock, Oct. 1, 2020	56,000	-
Purchases	2,40,000	-
Sales	-	4,16,000
Goods from Omega (H.O.)	80,000	-
Wages	2,000	-
Carriage inward	1,000	-
Salaries	6,000	-
Rent, rates and taxes	2,000	-
Insurance	1,000	-
Trade expenses	1,000	-
Head Office A/c	-	1,14,000
Trade debtors	24,000	-
Trade creditors	-	17,000
Cash at bank	5,000	-
Cash in hand	1,000	-
	5,47,000	5,47,000

The following further information is given:

(1) Wages outstanding – $ 1,000.
(2) Depreciate Plant and Machinery and Furniture and Fixtures @ 10 % p.a.
(3) The Head Office sent goods to Branch for ₹ 39,40,000.
(4) The Head Office shows an amount of ₹ 43,00,000 due from Branch.
(5) Stock on 30th September, 2021 – $ 52,000.
(6) There were no in transit items either at the start or at the end of the year.
(7) On September 1, 2019, when fixed assets were purchased, the rate of exchange was ₹ 38 to one $.
On October 1, 2020, the rate was ₹ 39 to one $.
On September 30, 2021, the rate was ₹ 41 to one $.
Average rate during the year was ₹ 40 to one $.

You are asked to prepare:

(a) Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees.
(b) Trading and Profit and Loss Account for the year ended 30th September, 2021 and Balance Sheet as on that date depicting the profitability and net position of the Branch as would appear in India for the purpose of incorporating in the main Balance Sheet.

Question 28 Pg no._____

Omega Ltd., an Indian company has a branch at New York (USA). The trial balance of the Branch as at 31st March, 2021 is as follows:

Particulars	Dr. (US $)	Cr. (US $)
Fixed Assets	51,200	
Opening Stock	22,400	
Purchases/Sales	96,000	1,66,400
Goods sent from H.O	32,000	

Carriage inward	400	
Branch Expenses	4,800	
Head Office Account		45,600
Sundry Debtors/Creditors	9,600	6,800
Cash at Bank	2,400	
	2,18,800	2,18,800

The following further information is given below:

1) Expenses outstanding $ 400.
2) Depreciate Fixed Assets @ 10% p.a. at written down value.
3) The Head Office sent goods to Branch for ₹ 15,80,000.
4) The head office shown an amount of ₹ 20,50,000 due from Branch.
5) Closing Stock $ 21,500.
6) There were no transit items either at the start or at the end of the year.
7) On April 1, 2019 when the fixed assets were purchased the rate of exchange was ₹ 43 to one $. On April 1, 2020, the rate was ₹ 47 per $. On March 31, 2021, the rate was ₹ 50 per $. Average Rate during the year was ₹ 45 to one $.

Convert the USA Branch trial balance in ₹ assuming that Branch is an Integral Foreign Operation of the Company. Calculate Foreign Exchange gains/loss & show its Accounting Treatment as per AS11.

Question 29 *(RTP May 2019)* Pg no._____

M/s ABC & Co. has head office at New York (U.S.A.) and branch in Bangalore (India). Bangalore branch is an integral foreign operation of ABC & Co. Bangalore branch furnishes you with its trial balance as on 31st March, 2021 and the additional information given thereafter:

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 2020	300	-
Purchases and sales	800	1,200
Sundry Debtors and Creditors	400	300
Bills of Exchange	120	240
Wages and Salaries	560	-
Rent, rates and taxes	360	-
Sundry charges	160	-
Computers	240	-
Bank balance	420	-
New York office a/c	-	1,620
	3,360	3,360

Additional information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.

(b) Unsold stock of Bangalore branch was worth ₹ 4,20,000 on 31st March, 2021.

(c) The rates of exchange may be taken as follows:

- On 01.04.2020 @ ₹ 55 per US $
- On 31.03.2021 @ ₹ 60 per US $
- Average exchange rate for the year @ ₹ 58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2021 and the balance sheet as on that date of Bangalore branch as would appear in the books of New York head office of ABC & Co. You are informed that Bangalore branch account showed a debit balance of US $ 29845.35 on 31.3.2021 in New York books and there were no items pending reconciliation.

Question 30 *(Inter May 2019) (8 Marks)* Pg no._____

M/s Ravi & Co. has head office at New York and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Ravi & Co. Delhi branch furnishes you with its Trial Balance as on 31st March, 2021 and the additional information thereafter:

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 2020	600	-
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	-
Rent, rates and taxes	720	-
Sundry Expenses	320	-
Computers	600	-
Bank Balance	520	-
Singapore Office a/c	-	3,040
Total	6,520	6,520

Additional information:

(a) Computers were acquired from remittance of US dollar 12,000 received from US Head Office & paid to suppliers. Depreciate Computers at the rate of 40% for the year.

(b) Closing Stock of Delhi branch was ₹ 15,60,000 on 31st March, 2021.

(c) The Rates of Exchange may be taken as follows:

- (i) on 1.4.2020 @ ₹ 50 per US Dollar
- (ii) on 31.3.2021 @ ₹ 52 per US Dollar
- (iii) average Exchange Rate for the year @ ₹ 51 per US Dollar
- (iv) conversion in US Dollar shall be made upto two decimal accuracy.

(d) Delhi Branch Account showed a debit balance of US Dollar 59,897.43 on 31.3.2021 in the Head Office books and there were no items pending for reconciliation.

In the books of Head office, you are required to prepare:

(1) Revenue statement for the year ended 31st March, 2021 (in US Dollar)

(2) Balance Sheet as on that date (in US Dollar)

Question 31 *(RTP Nov 2020) (Similar)/ (RTP Nov 2022)* Pg no._____

M & S Co. of Lucknow has a branch in Canberra, Australia. At the end of 31st March 2021, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

Particulars	(₹ '000)		(Aust. Dollars in '000)	
	Debit	Credit	Debit	Credit
Capital		2,000		
Reserves and Surplus		1,000		
Land	500			
Building (cost)	1,000			
Buildings Depreciation Reserve		200		

Plant & Machinery (cost)	2,500		200	
Plant & Machinery Depreciation Reserve		600		130
Trade receivables/payables	280	200	60	30
Stock (01-04-2020)	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Director's salary	30			
Wages & Salaries	75		45	
Rent			12	
Office Expenses	25		18	
Commission receipts		256		100
Branch/H.O. Current A/c	120			7
Total	4,880	4,880	390	390

The following information is also available:

(i) Stock as at 31st March, 2021
Lucknow ₹ 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 $ = ₹ 50
Closing rate 1 A $ = ₹ 53
Average rate 1 A $ = ₹ 51.00
For Fixed Assets 1 A $ = ₹ 46.00

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2021 showing to the extent possible H.O. results and Branch results separately

Question 32 *(ICAI Study Material)* Pg no._____

S & M Ltd., Bombay, have a branch in Sydney, Australia. Sydney branch is an integral foreign operation of S & M Ltd. At the end of 31st March, 2021, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office:

	Bombay (₹thousands)		Sydney (Australian dollars thousands	
	Debit	Credit	Debit	Credit
Share Capital	-	2,000	-	-
Reserves & Surplus	-	1,000	-	-
Land	500	-	-	-
Buildings (Cost)	1,000	-	-	-
Buildings Dep. Reserve	-	200	-	-
Plant & Machinery (Cost)	2,500	-	200	-
Plant & Machinery Dep. Reserve	-	600	-	130
Debtors / Creditors	280	200	60	30
Stock (1.4.2020)	100	-	20	-

Branch Stock Reserve	-	4	-	-
Cash & Bank Balances	10	-	10	-
Purchases / Sales	240	520	20	123
Goods sent to Branch	-	100	5	-
Managing Director's salary	30	-	-	-
Wages & Salaries	75	-	45	-
Rent	-	-	12	-
Office Expenses	25	-	18	-
Commission Receipts	-	256	-	100
Branch / H.O. Current A/c	120	-	-	7
	4,880	**4,880**	**390**	**390**

The following information is also available:

(1) Stock as at 31.3.2021:

a. Bombay ₹ 1,50,000

b. Sydney A $ 3,125

You are required to convert the Sydney Branch Trial Balance into rupees;

(use the following rates of exchange :

Opening rate	A $ = ₹ 20
Closing rate	A $ = ₹ 24
Average rate	A $ = ₹ 22
For Fixed Assets	A $ = ₹ 18

Question 33

Pg no._____

The Washington branch of ABC India sent the following trial balance as on 31st December, 2021.

Particulars	$	$
Head office A/c	-	13,680
Sales	-	50,400
Debtors and creditors	2,880	2,040
Machinery	14,400	-
Cash at bank	720	-
Stock, 1 January, 2021	6,720	-
Goods from H.O.	38,400	-
Expenses	3,000	-
	66,120	**66,120**

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

Particular	₹	Particular	₹
To Balance b/d	4,86,000	By Cash	23,25,600
To Goods sent to branch	23,55,600	By Balance c/d	5,16,000
	28,41,600		28,41,600

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2016, when $ 1.00 = ₹ 46.

Exchange rate per US$ were:

1st January, 2021	₹ 64
31st December, 2021	₹ 66
Average Rate	₹ 65

Machinery is depreciated @ 10% on written down value basis. The branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to prepare in the books of Head Office:

a) Branch Trading & Profit & Loss A/c in dollars.
b) Convert the Trial Balance of branch into Indian currency.
c) Branch Trading & Profit and Loss Account in Rupees
d) Branch Account

Question 34 *(RTP May 2020) / (ICAI Study Material)* ***Pg no._____***

"Assets and liabilities and income and expenditure items in respect of dependent foreign branches (integral foreign operations) are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to statement of Profit and Loss." Comment.

Question 35 *(Inter May 2023) (5 Marks)* ***Pg no._____***

Artis Limited has a branch at Seattle USA. Its Trial Balance as on 31st December, 2022 is as follows.:

	Dr. in US $	Cr. In US $
Stock as on 01.01.2022	22,000	-
Purchases	1,00,000	-
Sales	-	1,30,500
Goods from H.O.	30,000	-
Salaries	4,000	-
Head Office A/c.	-	27,000
Sundry Debtors	2,200	-
Sundry Creditors	-	1,500
Cash at Bank & Hand	800	-
Total	1,59,000	1,59,000

The following information is given

a. Salaries outstanding are $ 500.
b. The Head Office sent goods to Branch for ₹ 24,00,000.
c. The Head Office shows an amount of ₹ 21,90,000 due from Branch.

The exchange rates were as below :

- On 1ST January 2022 - ₹ 79 to 1 $.
- On 31st December 2022 - ₹ 83 to 1 $.
- Average rate during the year was ₹ 79.50 to 1 $.

You are required to prepare the Seattle Branch Trial Balance incorporating adjustments given above, converting dollars into rupees.

AS 13: ACCOUNTING FOR INVESTMENTS

CH 7

"If People are not Laughing at your Goals, your Goals are too Small."

-Azim Premji

Meaning	Investments are assets held by an enterprise for: ✓ Earning income by way of dividends, interest, and rentals, ✓ Capital appreciation, or ✓ Other benefits to the investing enterprise. Note: Assets held as stock-in-trade are not 'investments'.	
Non Applicability	This Standard does not deal with: ❖ Bases for recognition of interest, dividends and rentals earned on investments which are covered by AS:9 on Revenue Recognition ❖ Operating or finance leases ❖ Investments of retirement benefit plans and life insurance enterprises ❖ mutual funds and venture capital funds and/or the related asset management companies, banks and public financial institutions	
Forms of Investments	→ Some investments have no physical existence and are represented merely by certificates or similar documents (e.g., shares) while others exist in a physical form (e.g., buildings). → For some investments, an active market exists from which a market value can be established. For such investments, market value generally provides the best evidence of fair value. For other investments, an active market does not exist and other means are used to determine fair value.	
Investment Properties	An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise. *An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10,*	
Meaning of Fair Value	It is the amount for which an asset could be exchanged between a knowledgeable, willing buyer & a knowledgeable, willing seller in an arm's length transaction. Under appropriate circumstances, market value or net realisable value provides evidence of fair value.	
Meaning of Market Value	It is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.	
Classification of Investments	Current Investment	It is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.
	Long Term Investment	It is an investment other than a current investment.

<table>
<tr><th colspan="2">COST OF INVESTMENTS</th></tr>
<tr><td>Direct Purchase</td><td>The cost of an investment includes acquisition charges such as brokerage, fees and duties.</td></tr>
<tr><td>In exchange for share /Other Securities</td><td>Cost of Investment is
➢ Fair Market Value (FMV) of Securities issued or
➢ Fair Market Value (FMV) of the Investment acquired
whichever is more clearly evident.</td></tr>
<tr><td><u>Note</u>
PARA 13</td><td>When right shares offered are subscribed for, the cost of the right shares is added to the carrying amount of the original holding. If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement. However, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value.</td></tr>
<tr><th colspan="2">CARRYING AMOUNT OF INVESTMENTS</th></tr>
<tr><td>Current Investments</td><td>Lower of Cost and Fair value.
Lower can be on Individual basis or category wise (i.e. equity shares, debentures, preference shares etc.) but not on global/overall basis.
However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.

Any reduction to fair value is debited to profit and loss account, however, if fair value of investment is increased subsequently, the increase in value of current investment up to the cost of investment is credited to the P&L A/c (and excess portion, if any, is ignored).</td></tr>
<tr><td>Long Term Investments</td><td>Usually Carried at cost.
Valuation determined on Individual investment basis.
Where there is a decline, other than temporary, in the carrying amounts of long term investments, the resultant reduction in the carrying amount is charged to the P&L A/c.
The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

Indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.</td></tr>
<tr><th colspan="2">RECLASSIFICATION OF INVESTMENTS</th></tr>
<tr><td>Reclassified from Long Term to Current</td><td>Reclassified from Current to Long Term</td></tr>
<tr><td>Transfers are made at the lower of cost and carrying amount at the date of transfer</td><td>Transfers are made at the lower of cost and fair value at the date of transfer.</td></tr>
<tr><th colspan="2">DISPOSAL OF INVESTMENTS</th></tr>
<tr><td colspan="2">On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses, is recognised in the profit and loss statement.</td></tr>
</table>

DISCLOSURE REQUIREMENTS
Following disclosures in financial statements in relation to investments are appropriate: - (i) The accounting policies for the determination of carrying amount of investments. (ii) The amounts included in profit and loss statement for: a. Interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid. b. Profits and losses on disposal of current investments and changes in carrying amount of such investments. c. Profits and losses on disposal of long term investments and changes in the carrying amount of such investments. (iii) Significant restrictions on the right of ownership, realizability of investments or the remittance of income and proceeds of disposal. (iv) The aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments. (v) Other disclosures as specifically required by relevant statute governing the enterprise.

Valuation of Investments

	Cost	Market/ Fair value
Inv. in Equity shares		
A1	40	45
A2	50	48
A3	60	54
Inv. in Mutual Funds		
MF1	30	25
MF2	40	50

Investment
(Assets held for the purpose of earning Income)

- Revenue Nature
  - Dividend (Shares)
  - Interest (Deb./Bonds)
  - Rentals (Investment Property)
- Capital Nature
  - Capital Appreciation (Investment Property)

Classification of Investments
[On the basis of Period of Holding]

- Current Investment / Short term Investment
  [Intention to hold ≤ 1 Year]
  → **Valued at <u>Lower</u> of Cost $\boxed{\text{or}}$ Market value / Fair value**
- Non current Investment / Long Term Investment
  [> 1 Year]
  → **Valued at Cost**
  [Unless there is permanent decline]

Classification of Investments
[On the basis of Income]

- Fixed Income Bearing Scrips / Securities (FIBS)
  → **Debentures, Bonds, Govt. securities**
- Variable Income Bearing Scrips / Securities (VIBS)
  → **Equity shares**

Fixed Income Bearing Scrips / Securities (FIBS)
(Journal Entries)

1) Purchase of Investment

Investment A/c – Dr
Interest on Inv. A/c – Dr
To Bank A/c

2) Receipt of Interest

Bank A/c – Dr
To Interest on Inv. A/c

3) Sale of Investment

Bank A/c – Dr
To Investment A/c
To Interest on Inv. A/c

4) Profit / (Loss) on Sale

Profit: Investment A/c – Dr
To P&L A/c

Loss: P&L A/c – Dr
To Investment A/c

Notes:

1) Interest is always calculated on Face Value

2) Transaction can be Ex-interest or Cum-interest

Ex-interest : Excluding Interest
Cum-interest : Including Interest

3) Cost of Investment

Purchase cost	xx
+ Brokerage / Commission	xx
+ Stamp Duty	xx
	xx

4) Incidental Expenses like brokerage, commission, etc.
Purchase : + Sale : –

Variable Income Bearing Scrips / Securities (VIBS)

1) Original shares

Investor A → Company X Ltd.

No. of shares 100000
Face value 10
Issue Price 20

A

Inv. in Equity Shares of X Ltd. A/c – Dr	1L × 20	
To Bank A/c		1L × 20

X Ltd.

Bank A/c – Dr	1L × 20	
To Equity Share Cap. A/c		1L × 10
To Securities Premium A/c		1L × 10

2) Bonus shares : Shares issued free of cost

Original shares 100000
Bonus Scheme 1 for every 2
Bonus Shares = $1L \times \frac{1}{2}$ = 50000 shares

A

No Entry for Bonus Issue. Only no. of shares will increase which reduces cost / share

X Ltd.

Reserves & Surplus A/c – Dr	50000 × 10	
To Equity Share cap. A/c		50000 × 10

3) Right shares : Offer given to existing shareholders to purchase shares at concessional rate. Shareholders can subscribe shares or they can sell their rights to outsiders.

Original shares = 100000

Right Issue = 1 for every 4 @ 15/share

Right shares = $1L \times \frac{1}{4}$ = 25000 shares

A

Right Entitlement = 25000

Subscribe: 15000 @ 15/sh.

Sale of Rights: 10000 @ 2/right → 20000 trfd. to P&L A/c as per PARA 13 of AS-13

Inv. in Eq. Sh. - Dr 15000 X 15

To Bank A/c 15000 X 15

X Ltd.

Bank A/c - Dr 25000 X 15

To Equity Share Cap. A/c 25000 X 10

To Securities Premium A/c 25000 X 5

Note: Person (B) purchasing right from A

Total Cost of Investment to B = 17 per share

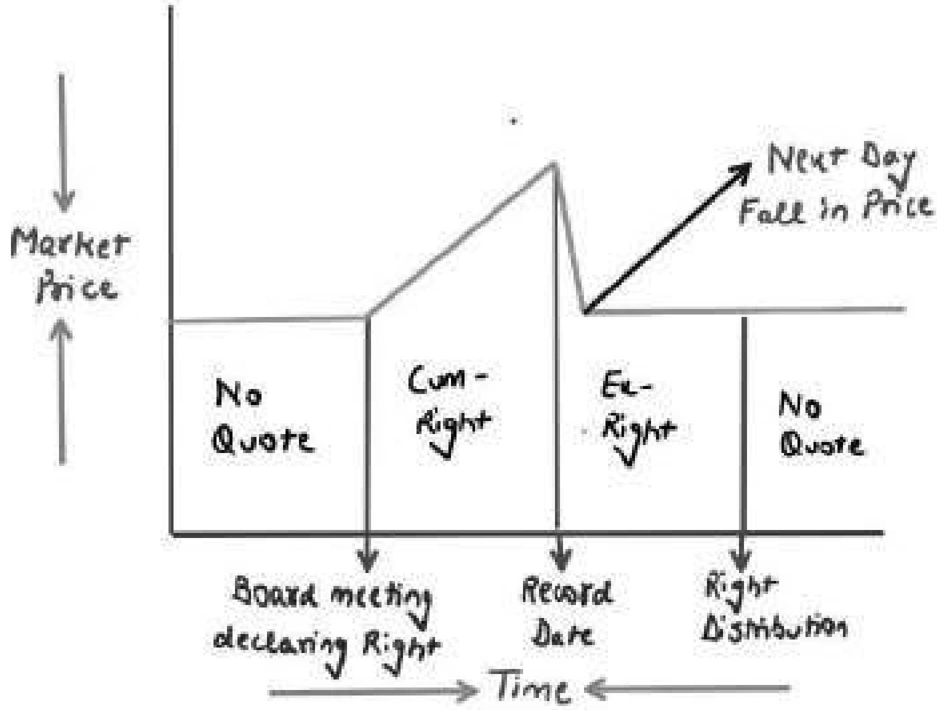
- 2 paid to A
- 15 paid to X Ltd.

Inv. in Equity Shares of X Ltd. A/c - Dr 10000 X 17

To Bank A/c 10000 X 17

CUM RIGHT PURCHASE: (Exception to Para 13 of AS 13)

<u>PARA 13 of AS 13:</u> When right shares offered are subscribed for, the cost of the right shares is added to the carrying amount of the original holding. If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement. However, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value.



Example:

Cum Right Price of share = 12000

Ex-Right Price of share = 10000

So sale of right upto maximum of 2000 will be credited to Investment A/c. (Cost of Investment will reduce)

Any excess will be profit on sale of right. (tfd. to P&L A/c)

Case 1: Right sale = 3000 → 2000 credited to Investment A/c
→ 1000 credited / tfd. to P&L A/c

Case 2: Right sale = 1500 → 1500 credited to Investment A/c

ASSIGNMENT QUESTIONS

TOPIC 1: FIXED INCOME BEARING SCRIPS / SECURITIES

Question 1 *Pg no.____*

Mr. Tushil purchased 1,000 nos. 10% debentures of ₹ 100 each on 1st April, 2021 at ₹ 96 cum-interest, the previous interest date being 31st December, 2020.
Compute cost of investment & pass journal entry.

Question 2 *(ICAI Study Material)* *Pg no.____*

Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (₹ 100 each) of P Ltd., held as Current assets:

1.4.2021	Opening balance – Face value ₹ 1,20,000, Cost ₹ 1,18,000
1.7.2021	100 Debentures purchased ex-interest at ₹ 98
1.10.2021	Sold 200 Debentures ex-interest at ₹ 100
1.1.2022	Purchased 50 Debentures at ₹ 98 ex-interest
1.2.2022	Sold 200 Debentures ex-interest at ₹ 99

Due dates of interest are 30th September and 31st March.
Mr. Purohit closes his books on 31.3.2022.
Brokerage at 1% is to be paid for each transaction (at ex-interest price). Show Investment account as it would appear in his books. Market value of 8% Debentures of P Limited on 31.3.2022 is ₹ 99. Assume FIFO method.

Question 3 *(RTP Nov 2020) (Similar) / ICAI Study Material* *Pg no.____*

In 2020, M/s. Wye Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.
On 1st December, 2021, M/s. Bull & Bear purchased 10,000 of these debentures at ₹ 101 ex-interest price, also paying brokerage @ 1% of ex-interest amount of the purchase. On 1st March, 2022 firm sold all of these debentures at ₹ 103 ex-interest price, again paying brokerage @ 1 % of ex-interest amount. Prepare Investment Account in books of M/s. Bull & Bear for the period 1st Dec, 2021 to 1st Mar, 2022.

Question 4 *(ICAI Study Material)* *Pg no.____*

Following information is presented by Mr. Z, relating to his holding in 9% Central Government Bonds.
Opening balance (face value) ₹ 1,20,000, Cost ₹ 1,18,000 (Face value of each unit is ₹ 100).

1.3.2021	Purchased 200 units, ex-interest at ₹ 98.
1.7.2021	Sold 500 units, ex-interest out of original holding at ₹ 100.
1.10.2021	Purchased 150 units at ₹ 98, cum interest.
1.11.2021	Sold 300 units, ex-interest at ₹ 99 out of original holdings.

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

Question 5 *(RTP May 2023)* *Pg no.____*

Remo Ltd. held on 1st April, 2021, 1000 9% Government Securities at ₹ 90,000 (Face Value of Security ₹ 100 each). Three month's interest had accrued on the above date. On 1st May, the company purchased the same Government Securities of the face value of ₹ 80,000 at ₹ 95

cum-interest. On 1st June, ₹ 60,000 face value of the security was sold at ₹ 94 cum-interest. Interest on the security was paid each year on 30th June and 31st December and was credited by the bank on the same date. On 30th September, ₹ 40,000 face value of the Govt. securities were sold at ₹ 97 cum-interest. On 1st December, the company purchased the same security ₹ 10,000 at par ex-interest. On 1st March, the company sold ₹ 10,000 face value of the government securities at ₹ 95 ex-interest.
You are required to draw up the 9% Government Security Account in the books of Remo Limited. FIFO method shall be followed.
Calculation shall be made to the nearest rupee or multiple thereof.

Question 6 *Pg no._____*

Prepare Investment A/c in the above question assuming weighted average method is being followed.

TOPIC 2: VARIABLE INCOME BEARING SCRIPS / SECURITIES

Question 7 *(ICAI Study Material)* *Pg no._____*

Mr. X purchased 500 equity shares of ₹100 each in Omega Company Limited for ₹ 62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalise its profit and to issue to the holders of equity shares one equity share as Bonus for every equity share held by them. Prior to capitalization, the shares of Omega Company Limited were quoted at ₹ 175 per share. After the capitalization, the shares were quoted at ₹ 92.50 per share. Mr. X sold the Bonus shares and received ₹90 per share. Show Investment A/c in X's books on average cost basis.

Question 8 *(ICAI Study Material)* *Pg no._____*

On 1.4.2021, Mr. Krishna Murty purchased 1,000 equity shares of ₹ 100 each in TELCO Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31.1.2022 Bonus was declared in the ratio of 1:2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share & ₹ 90 per share respectively. On 31.3.2022 Mr. Krishna Murty sold bonus shares to a Broker, who charged 2% brokerage.
Prepare Investment Account in the books of Mr. Krishna Murty, who held shares as Current assets & closing value shall be made at Cost or Market value whichever is lower.

Question 9 *(ICAI Study Material) / (RTP Nov 2023) (Similar)* *Pg no._____*

On 1st April, 2021, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (face value ₹ 10 each).
He provides you the further information:
On 20th June, 2021 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.
On 1st August, 2021, P Ltd. issued one equity bonus share for every six shares held by the shareholders.
On 31st October, 2021, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part. Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 2021.
You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2022.

Question 10 Pg no._____

On 1st January 2021, Singh had 20,000 equity shares in X Ltd. Face value of the shares was ₹ 10 each but their book value was ₹ 16 per share. On 1st June 2021, Singh purchased 5,000 more equity shares in the company at a premium of ₹ 4 per share.

On 30th June, 2021, the directors of X Ltd. announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd August, 2021. The terms of the rights issue were:

a) Rights shares to be issued to the existing holders on 10th August, 2021.
b) Rights issue would entitle the holders to subscribe to additional equity shares in the Company at the rate of one share per every three held at ₹ 15 per share-the whole sum being payable by 30th September, 2021.
c) Existing shareholders may, to the extent of their entitlement, either wholly in part, transfer their rights to outsiders.
d) Singh exercised his option under the issue for 50% of his entitlements and the balance of rights he sold to Ananth for a consideration of ₹ 1.50 per share.
e) Dividends for the year ended 31st March, 2021, at the rate of 15% were declared by the Company and received by Singh on 20th October, 2021.
f) On 1st November, 2021, Singh sold 20,000 equity shares at a premium of ₹ 3 per share.

The market price of share on 31-12-2021 was ₹ 13. Show the Investment Account as it would appear in Singh's books on 31-12-2021 and the value of shares held on that date.

Question 11 *(RTP May 2020)* Pg no._____

Meera carried out the following transactions in the shares of Kumar Ltd.:

(a) On 1st April, 2021 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.
(b) On 15th May 2021, Meera sold 8,000 shares for ₹ 15,200.
(c) At a meeting on 15th June 2021, the company decided:
  (i) To make bonus issue of 1 fully paidup share for every 4 shares held on 1st June 2021 &
  (ii) To give its members the right to apply for one share for every five shares held on 1st June 2021 at a price of ₹ 1.50 per share of which 75 paise is payable on or before 15th July 2021 and the balance, 75 paise per share, on or before 15th September, 2021.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2021.

(a) Meera received his bonus shares and took up 4000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2021.
(b) On 15th March 2022, he received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2021.
(c) On 30th March he received ₹ 28,000 from the sale of 20,000 shares

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2022 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

Question 12 *(Inter May 2018) (10 Marks)* Pg no._____

Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of ₹ 10 per share.

Date	No. of Shares	Terms
01.01.2021	600	Buy @ ₹ 20 per share
15.03.2021	900	Buy @ ₹ 25 per share
20.05.2021	1000	Buy @ ₹ 23 per share

25.07.2021	2500	Bonus Shares received
20.12.2021	1500	Sale @ ₹ 22 per share
01.02.2022	1000	Sale @ ₹ 24 per share

Addition information:

1) On 15.09.2021 dividend @ ₹ 3 per share was received for the year ended 31.03.2021.
2) On 12.11.2021 company made a right issue of equity shares in the ratio of one share for five shares held on payment of ₹ 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of the premium of ₹ 3 per share.
3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2021 and 31.03.2022.

Question 13 *Pg no._____*

A Limited purchased 5,000 equity shares (face value ₹ 100 each) of Allianz Limited for ₹ 105 each on 1st April, 2021. The shares were quoted cum dividend. On 15th May, 2021, Allianz Limited declared & paid dividend of 2% for year ended 31st March, 2021.

On 30th June, 2021 Allianz Limited issued bonus shares in ratio of 1:5. On 1st October, 2021 Allianz Limited issued rights share in the ratio of 1:12 @ 45 per share.

A limited subscribed to half of the rights issue and the balance was sold at ₹ 5 per right entitlement. The company declared interim dividend of 1% on 30th November, 2021.

Right shares were not entitled to dividend.

The company sold 3,000 shares on 31st December, 2021 at ₹ 95 per share. The company A Ltd. incurred 2% as brokerage while buying and selling shares.

Prepare Investment Account in books of A Ltd. for the year ended 31st March, 2022.

TOPIC 3: COMBINED: INVESTMENT IN FIXED & VARIABLE BEARING SCRIPS

Question 14 *Pg no._____*

The following transactions of Nidhi took place during the year ended 31st March 2022:

Apr 1	Purchased ₹ 12,00,000, 8% bonds at ₹ 80.50 cum-interest. Interest is payable on 1st November and 1st May.
Apr 12	Purchased 1,00,000 equity shares of ₹ 10 each in X Ltd. for ₹ 40,00,000
May 1	Received half-year's interest on 8% bonds.
May 15	X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 bonus shares for ₹ 20 each
Oct 1	Sold ₹ 3,00,000, 8% bonds at ₹ 81 ex- interest
Nov 1	Received half-year's bond interest.
Dec 1	Received 18% interim dividend on equity shares (including bonus shares) in X Ltd.

Prepare relevant investment account in the books of Nidhi for the year ended 31st March, 2022.

Question 15 *(Inter July 2021) (20 Marks)* *Pg no._____*

Mr. Z has made following transactions during the financial year 2020-21:

Investment 1: 8% Corporate Bonds having face value ₹ 100.

Date	Particulars
1.06.2020	Purchased 36,000 Bonds at ₹ 86 cum-interest. Interest is payable on 30th September and 31st March every year
15.02.2021	Sold 24,000 Bonds at ₹ 92 ex-interest

Interest on the bonds is received on 30th September and 31st March.

Investment 2: Equity Shares of G Ltd having face value ₹ 10

Date	Particulars
01.04.2020	Opening balance 8,000 equity shares at a book value of ₹ 190 per share
01.05.2020	Purchased 7,000 equity shares@ ₹ 230 on cum right basis; Brokerage of 1% was paid in addition.
15.06.2020	The company announced a bonus issue of 2 shares for every 5 shares held
01.08.2020	The company made a rights issue of 1 share for every 7 shares held at ₹ 230 per share. The entire money was payable by 31.08.2020
25.08.2020	Rights to the extent of 30% of his entitlements was sold @ ₹ 75 per share. The remaining rights were subscribed.
15.09.2020	Dividend @ ₹ 6 per share for the year ended 31.03.2020 was received on 16.09.2020. No dividend payable on Right issue and Bonus issue.
01.12.2020	Sold 7,000 shares @ 260 per share. Brokerage of 1% was incurred extra.
25.01.2021	Received interim dividend @ ₹ 3 per share for the year 2020-21.
31.03.2021	The shares were quoted in the stock exchange @ ₹ 260.

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2021, Mr. Z decides to reclassify investment in equity shares of G Ltd. as Long term Investment. On 15th May 2021, shares were quoted in the stock exchange @ ₹ 180.

You are required to:

a) Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.

b) Profit and loss Account for the year 2020-21, based on the above information.

c) Suggest values at which investment in equity shares should be reclassified in accordance with AS 13.

Question 16 *(RTP May 2019)* *Pg no._____*

A Ltd. purchased on 1st April, 2021 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 2021 A Ltd. purchased another ₹ 1,00,000 debenture @ ₹ 112 cum interest.

On 1st October, 2021 ₹ 80,000 debenture was sold @ ₹ 105. On 1st December, 2021, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. receive 5,000 equity shares 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 2021 is ₹ 110 and ₹ 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.

TOPIC 4: CUM RIGHT PURCHASE

Question 17 *(RTP Nov 2020)* *Pg no._____*

Mr. X acquires 200 shares of a company on cum right basis for ₹ 60,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 105 each. He does not subscribe but sells all the rights for ₹ 15,000. The market value of the shares after their becoming ex-rights has also gone down to ₹ 50,000. What should be the accounting treatment in this case?

Solution

As per AS 13, where the investments are acquired on cum right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value. In this case, the amount of the ex-right market value of 200 shares bought by X immediately after the declaration of rights falls to ₹ 50,000.

In this case out of sale proceeds of ₹ 15,000, ₹ 10,000 may be applied to reduce the carrying amount to bring it to market value ₹ 50,000 and ₹ 5,000 would be credited to the Profit & Loss account.

Question 18 *(RTP May 2021)* *Pg no.____*

On 1st April, 2021 Mr. Shyam had an opening balance of 1000 equity shares of X Ltd ₹ 1,20,000 (face value ₹100 each). On 5.04.2021 he further purchased 200 cum-right shares for ₹ 135 each. On 8.04.2021 the director of X Ltd announced right issue in the ratio of 1:6.

Mr. Shyam waived off 100% of his entitlement of right issue in the favour of Mr. Rahul at the rate of ₹ 20 each. All the shares held by Shyam had been acquired on cum right basis and the total market price (ex-right) of all these shares after the declaration of rights got reduced by ₹ 3,400.

On 10.10.2021 Shyam sold 350 shares for ₹ 140 each.

On 31.03.2022, the market price of each share is ₹ 125 each.

You are required to prepare the Investment account in the books of Mr. Shyam for the year ended 31.03.2022 assuming that the shares are being valued at average cost.

PRACTICE QUESTIONS

TOPIC 1: FIXED INCOME BEARING SCRIPS / SECURITIES

Question 1 *(Inter Nov 2023) (10 Marks)* *Pg no._____*

Following information is given by Mr. Happy (stock broker) relating to his holding in 10% Government Bonds:

a) Opening Balance as 1st April, 2022 was 5,000 units (Nominal value ₹ 100 each), Cost ₹ 4,85,000
b) On 1st June, 2022, Purchased 600 units, cum-interest @ ₹ 99
c) On 1st August, 2022, Purchased 2400 units, ex-interest @ ₹ 97.50
d) On 1st October, 2022, Sold 2,500 units @ ₹ 98.50, ex-interest
e) On 1st January, 2023, Sold 3,000 units @ ₹ 99 cum interest

Interest is received on 30th June and 31st December each year. Mr. Happy closes his books on 31st March each year.

Prepare Investment Account in the books of Mr. Happy assuming that FIFO method of valuation is followed by Mr. Happy.

Question 2 *(RTP May 2022)* *Pg no._____*

Mr. Wise had 12% Debentures of Face Value ₹ 100 of M/s. Alpha Ltd. as current investments. He provides the following details relating to the investments.

Date	Particulars
1-4-2021	Opening balance 4000 debentures costing ₹ 98 each
1-6-2021	Purchased 2000 debentures @ ₹ 120 cum interest
1-9-2021	Sold 3000 debentures @ ₹ 110 cum interest
1-12-2021	Sold 2000 debentures @ ₹ 105 ex interest
31-1-2022	Purchased 3000 debentures @ ₹ 100 ex interest
31-3-2022	Market value of the investments ₹ 105 each

Interest due dates are 30th June and 31st December.

Mr. Wise closes his books on 31-3-2022. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Wise assuming FIFO method is followed.

Question 3 *(Inter Nov 2019) (10 Marks)* *Pg no._____*

Mr. Harsh provides the following details relating to his holding in 10% debentures (face value of ₹ 100 each) of Exe Ltd., held as current assets:

1.4.2021	Opening balance – 12,500 debentures, cost ₹ 12,25,000
1.6.2021	Purchased 9,000 debentures @ ₹ 98 each ex-interest
1.11.2021	Purchased 12,000 debentures @ ₹ 115 each cum-interest
31.1.2022	Sold 13,500 debentures @ ₹ 110 each cum-interest
31.3.2022	Market value of debentures @ ₹ 115 each

Due dates of interest are 30th June and 31st December. Brokerage at 1% is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2022. Show investment account as it would appear in his books assuming FIFO method is followed.

Question 4 *(RTP May 2018) / (RTP Nov 2022)* *Pg no._____*

Muskaan purchased 5,000, 13.5% Debentures of Face Value of ₹ 100 each of Shorya Ltd. on 1st May 2021 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st

& 30th of March & September respectively. On August 1st 2021 she again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2021 the company sold 2,000 Debentures @ ₹ 103 each. The market value of the debentures as at the close of the year was ₹ 106.

Prepare the Debenture Investment Account in the books of Muskaan for the year ended 31st Dec. 2021 on Average Cost Basis.

TOPIC 2: VARIABLE INCOME BEARING SCRIPS / SECURITIES

Question 5 *Pg no._____*

On 01-04-2021, Mr. T. Shekharan purchased 5,000 equity shares of ₹ 100 each in V Ltd.₹ 120 each from a broker, who charged 2% brokerage. He incurred 50 paisa per ₹ 100 as cost of shares transfer stamps. On 31-01-2022 bonus was declared in the ratio of 1:2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 31-03-2022, Mr. T. Shekharan sold bonus shares to a broker, who charged 2% brokerage.

Show the Investment Account in the books of T. Shekharan, who held the shares as Current Assets and closing value of investments shall be made at cost or market value whichever is lower.

Question 6 *Pg no._____*

On 1st April 2021, Hasan has 20,000 equity shares of Vayu Ltd., at a book value of ₹ 20 per share (face value of ₹ 10 each).

He provides the following information:

(i) On 10th June 2021, he purchased another 5,000 shares in Vayu Ltd., @ ₹ 15 per share.

(ii) On 1st August 2021 Vayu Ltd., issued 1 bonus share for every 5 shares held by the shareholders.

(iii) On 31st August 2021, directors of Vayu Ltd. announced rights issue which entitle the shareholders to subscribe 2 shares for every 6 shares held @ of ₹ 15 per share. The shareholders can transfer their rights in full or in part.

Hasan sold 1/4th of his right shares holding to Harsh for a consideration of ₹ 3 per share and subscribed the rest on 31st of October 2021. Prepare Investment A/c in the books of Hasan as on 31st October, 2021

Question 7 *(ICAI Study Material)* *Pg no._____*

On 1st April, 2021, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of ₹ 4,50,000 (Face Value ₹ 10 per share). On 22nd June, 2021, 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, 2021.

On 31st August, 2021 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, 2021, 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, 2021, Vijay received dividends from X Ltd. @ 20% for the year ended 31st March, 2021. Dividend for the shares acquired by him on 22nd June, 2021 to be adjusted against the cost of purchase.

On 15th November, 2021 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, 2022 assuming the shares are being valued at average cost.

Question 8 *(Inter Nov 2020) (10 Marks)* *Pg no._____*

On 1st April, 2021 Mr. H had 30,000 equity shares of ABC Ltd. at a book value of ₹ 18 per share (Nominal value 10 per share). On 10th June, 2021, H purchased another 10,000 equity shares of the ABC Ltd. at ₹ 16 per share through a broker who charged 1.5% brokerage.

The directors of ABC Ltd. announced a bonus and a right issue. The terms of the issues were as follows:

(i) Bonus shares were declared at the rate of one equity share for every four shares held on 15th July, 2021.

(ii) Right shares were to be issued to the existing equity shareholders on 31st August, 2021. The company decides to issue one right share for every five equity share held at 20% premium and the due date for payment will be 30th September, 2021. Shareholders were entitled to transfer their rights in full or in part.

(iii) No dividend was payable on these issues.

Mr. H subscribed 60% of the rights entitlements and sold the remaining rights for consideration of ₹ 5 per share.

Dividends for the year ending 31st March, 2021 was declared by ABC Ltd. at the rate of 20% and received by Mr. H on 31st October, 2021. On 15th January, 2022 Mr. H sold half of his shareholdings at ₹ 17.50 per share and brokerage was charged @1%.

You are required to prepare Investment account in the books of Mr. H for the year ending 31st March, 2022, assuming the shares are valued at average cost.

Question 9 *(Inter Jan 2021) (10 Marks)* *Pg no._____*

P Ltd. had 8,000 equity shares of K Ltd., at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April, 2021. On 1st September, 2021, P Ltd. acquired another 2,000 equity shares of K Ltd. at a premium of ₹ 4 per share. K Ltd. announced a bonus and right issue for existing shareholders.

The term of bonus and right issue were:

(i) Bonus was declared at the rate of two equity shares for every five shares held on 30th September, 2021.

(ii) Right shares are to be issued to the existing shareholders on 1st December, 2021. The Company had issued two right shares for every seven shares held at 25% premium on face value. No dividend was payable on these shares. The whole sum being payable by 31st December, 2021.

(iii) Existing shareholders were entitled to transfer their rights to outsiders either wholly or in part.

(iv) P Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.

(v) Dividend for the year ended 31st March, 2021 at the rate of 20% was declared by K Ltd. and received by P Ltd. on 20th January, 2022.

(vi) On 1st February, 2022, P Ltd. sold half of its shareholdings at a premium of ₹ 4 per share.

(vii) The market price of share on 31st March, 2022 was ₹ 13 per share.

You are required to prepare the Investment account of P Ltd. for the year ended 31st March, 2022 and determine the value of shares held on that date, assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.

Question 10 *(ICAI Study Material)* **Pg no._____**

On 1.4.2021 Sundar had 25,000 equity shares of X Ltd. at a book value of ₹15 per share (Face value ₹10). On 20.6.2021, he purchases further 5,000 shares of X Ltd at ₹ 16 per share. Directors of X Ltd. announced a bonus and rights issue. No dividend was payable on these issues. The terms of issue were as follows:
Bonus–basis 1:6 (16.8.2021)
Rights–basis 3:7 (31.8.2021) price ₹15 per share
Due date for payment - 30.9.2021
Rights are transferable in full or in part. Accordingly, Sundar sold 1/3 of his entitlement to Sekhar for a consideration of ₹2 per share. Dividend at 20% for year ending 31.3.2021 was declared by X Ltd & received the same on 31.10.2021. Dividends for the share acquired by him on 20.6.2021 are to be adjusted against the cost of purchase.
On 15.11.2021 Sundar sold 25,000 equity shares at premium of ₹5 per share.
Prepare the Investment A/c and Profit &Loss Account in the books of Sundar assuming that he closes his books on 31.12.2021 and shares are valued at average cost.

Question 11 *(ICAI Study Material)* **Pg no._____**

On 1st April, 2021 XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of ₹ 15 per share (face value ₹ 10 per share). On 1st June, 2021, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for ₹ 1,00,000. ABC Ltd. announced a bonus and right issue.
Bonus was declared, at the rate of one equity share for every five shares held, on 1st July 2021. Right shares are to be issued to the existing shareholders on 1st September 2021. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares. Dividend for the year ended 31.3.2021 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st October 2021.
<u>XY Ltd</u>

- Took up half the right issue
- Sold the remaining rights for ₹ 8 per share
- Sold half of its shareholding on 1st Jan, 2022 at ₹ 16.50 per share. Brokerage being 1%.

You are required to prepare Investment account of XY Ltd. for the year ended 31st March 2022 assuming the shares are being valued at average cost.

Question 12 *(Inter May 2022) (5 Marks)* **Pg no._____**

On 1st April 2021 Ms. Jayshree has 5,000 equity shares of Rama Limited (a listed company) of face value of₹ 10 each. Ms. Jayshree has purchased the above shares at ₹ 15 per share and paid a brokerage of 2% and stamp duty of 1 %.
On 15th May,2021 Ms. Jayshree purchased another 5,000 shares of Rama Limited at ₹ 18 including brokerage and stamp duty.
On 26th August,2021 Rama Limited issued one bonus equity share for every 1 equity share held by the shareholders.
On 23rd October,2021 Rama Limited announced a Right Issue which entitles the holders to subscribe 1 equity share for every 2 equity shares held at ₹ 20 per share. Shareholders can exercise their rights in full or in part. Ms. Jayshree sold 1/4th of entitlement to Mr. Mike for a consideration of ₹ 10 per share and subscribed the rest on 1st November 2021.
Ms. Jayshree also sold 10,000 shares at ₹ 25 per share on 1st November,2021. The shares of Rama Limited were quoted at ₹ 11 per share on 31st March,2022.

You are required to prepare Investment account for Ms. Jayshree for the year ended 31st March 2022.

Question 13 *(Inter Nov 2022) (10 Marks)* Pg no._____

Mr. Saurabh held 10,000 equity shares of BT Limited on 1st April,2021. Nominal value of the shares is ₹ 2 each and their book value is ₹ 7 per share.

- On 4th July,2021 he purchased another 7,500 shares at ₹ 10 each.
- On 31st July 2021 the company announced a Bonus and Right issue.
- Bonus was declared of one share for every five shares held and was received on 5th August,2021.
- Right issue to be issued on 12th September,2021, which entitled the holders to subscribe to additional 2 shares for every 7 shares held at ₹ 2 per share. Shareholders were entitled to transfer their rights in full or part. Mr. Saurabh sold whole of his entitlements to Mr. Nihal at ₹ 1.50 per share.
- Dividend was declared for the year ended 31st March,2021 @ 25% and received by Mr. Saurabh on 19th September 2021.
- On 11th December 2021 Mr. Saurabh sold 7,500 shares at ₹ 8 per share.
- The market price of the shares on 31st March,2022 was ₹ 7 per share.

You are required to prepare the Investment Account of Mr. Saurabh on 31st March,2022 considering the above mentioned points, also state the value of shares held on that date. (Assume investment as current investment)

TOPIC 3: COMBINED: INVESTMENT IN FIXED & VARIABLE BEARING SCRIPS

Question 14 *(Inter Nov 2018) (10 Marks) / (RTP Nov 2021) (Similar)* Pg no._____

Following transactions of Nisha took place during the financial year 2021-22

1st April, 2021	Purchased 9,000 8% bonds of ₹ 100 each at ₹ 80.50 cuminterest. Interest is payable on 1st November and 1st May.
1st May, 2021	Received half year's interest on 8% bonds.
10 July, 2021	Purchased 12,000 equity shares of ₹ 10 each in Moon Limited for ₹ 44 each through a broker, who charged brokerage @ 2%.
1st Oct 2021	Sold 2,250 8% bonds at ₹ 81 Ex-interest.
1st Nov, 2021	Received half year's interest on 8% bonds.
15th Jan, 2022	Moon Limited made a rights issue of one equity share for every four Equity shares held at ₹ 5 per share. Nisha exercised the option for 40% of her entitlements and sold the balance rights in the market at ₹ 2.25 per share.
15th Mar, 2022	Received 18% interim dividend on equity shares of Moon Limited.

Prepare separate investment account for 8% bonds and equity shares of Moon Limited in the books of Nisha for the year ended on 31st March, 2022. Assume that the average cost method is followed.

Question 15 *(Inter Dec 2021) (10 Marks)* Pg no._____

During the year ended 31st March 2021, Purple Ltd. entered into the following transactions:

1st April, 2020	Purchased ₹ 4,00,000, 10% Govt. Loan (Interest payable on 30th April and 31st October) at ₹70 cum interest.
1st April, 2020	Purchased 6,000 Equity Shares of ₹ 5 each in XY Ltd. for ₹1,26,000.
1st Oct, 2020	Sold 80,000 10%, Govt. Loan at 75 ex-interest
15th Jan, 2021	XY Ltd. made a bonus issue of four equity shares for every three shares held. Purple Ltd. sold all of the bonus shares for ₹10 each.

1st Mar, 2021	Received Dividend @ 22% on shares in XY Ltd. for the year ended 31st December, 2020.

Prepare Investment Accounts in the books of Purple Ltd.

Question 16 *(RTP Nov 2019)* *Pg no._____*

A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 nos. of 13.5% Convertible Debentures of Face Value of ₹ 100 each of P Ltd. on 1st May 2021 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2021 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2021 the company sold 2,000 Debentures @ ₹ 103 each. On 31st December, 2021 the company received 10,000 equity shares of ₹ 10 each in P Ltd. on conversion of 20% of its holdings. The market value of the debentures and equity shares as at the close of the year were ₹ 106 and ₹ 9 respectively.
Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2021 on Average Cost Basis.

Question 17 *(Inter May 2023) (10 Marks)* *Pg no._____*

The following information is given for Mr. Atwood for the year ended 31.03.2023:

01.04.2022	Mr. Atwood has 3,000 equity shares in Sun Limited at a book value of ₹ 3,30,000 (nominal value ₹ 100 each).
01.07.2022	Purchased 1,500 equity shares in Sun Limited for ₹ 1,38,600.
01.08.2022	Purchased 5,000, 9% Bonds at ₹ 97 cum-interest (face value ₹ 100). The due dates of interest are 1st September and 1st March.
02.10.2022	Dividend declared on equity shares and paid by Sun Limited for the year 2021-2022 @ 10%
15.10.2022	Sun Limited made a bonus issue of two equity shares for every five shares held.
01.01.2023	1,000 equity shares in Sun Limited sold @ ₹ 115 per share
31.03.2023	Sold 4,000, 9% Bonds @ ₹ 99 ex-interest

1. The market price of Equity Shares of Sun Limited is ₹ 125 each and Bonds ₹ 98 each on 31st March 2023.
2. Interest on bonds was received on due dates.

You are required to prepare Investment Account in the books of Mr. Atwood for the year ended 31st March 2023, assuming that the investments are valued at the average cost or market value, whichever is lower. (Round off to nearest Rupee)

TOPIC 4 CUM RIGHT PURCHASE

Question 18 *(ICAI Study Material)* *Pg no._____*

Mr. X acquires 200 shares of a company on cum right basis for ₹ 70,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 107 each. He does not subscribe but sells all the rights for ₹ 12,000. The market value of the shares after their becoming ex-rights has also gone down to ₹ 60,000. What should be the accounting treatment in this case?

AS 13: CASE Study- ASSIGNMENT QUESTIONS

Question 1

Give your comments on the following situations, each being independent of the other.

1) Current Investments are valued at ₹ 60 Lakhs, being the cost of acquisition, fair value of these investments on the Balance Sheet date is ₹ 48 Lakhs.
2) Current investments were acquired at a cost of ₹ 86 lakhs whereas their fair market value as on the Balance Sheet Date was ₹ 90 lakhs. Due to insufficiency of profits from operations, the Company would like to recognize the profit on these investments for 'improving' its Financial Statements.

Solution

1) As per AS 13 "Accounting for Investments", current investments should be carried at cost or fair value, whichever is lower. Here, the current Investment should be carried at fair value of ₹ 48 Lakhs, being the lower of ₹ 60 Lakhs (cost) or ₹ 48 Lakhs (fair value). The difference of ₹ 12 Lakhs should be charged to profit and loss account.
2) Current investment should be carried at cost or fair value, whichever is lower. In the given case, the current investments should be carried at cost of ₹ 86 Lakhs, being the lower of ₹ 86 Lakhs (cost) or ₹ 90 Lakhs (fair value).

Question 2

M/s Naren Garments Company Limited invested in the shares of another company on 1st November, 2021 at a cost of ₹ 3,00,000. It also earlier purchased Gold of ₹ 3,50,000 and Silver of ₹ 1,50,000 on 1st April, 2021. Market value as on 31st March, 2022 of above investments are as follows:

	₹
Shares	2,50,000
Gold	5,00,000
Silver	2,80,000

How above investments will be shown in the books of accounts of M/s Naren Garments Company Limited for the year ending 31st March, 2022 as per provisions of AS 13?

Solution

As per AS 13 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period then it will be shown at the realizable value of ₹ 2,50,000 as on 31st March, 2022.
If equity shares are acquired with an intention to hold for long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, if other than temporary, in the value of the investments.
As per the standard, investment acquired for long term period shall be shown at cost. Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence the investment in Gold and silver (purchases on 1st April 2021 shall continue to be shown at cost as on 31st March 2022 i.e. ₹ 3,50,000 and ₹1,50,000 respectively, though their realizable values have been increased. If held as short term then it should be valued at lower of cost or fair value (Market price)

Question 3

Albert Ltd. has made the following investments:

(a) Purchased the following equity shares from stock exchange on 1st June, 2021:

	Cost
Scrip X	1,80,000
Scrip Y	50,000
Scrip Z	1,70,000
	4,00,000

(b) Purchased government securities at a cost of ₹ 5,00,000 on 1st April, 2021. How will you treat these investments as per applicable AS in the books of the company for the year ended on 31st March, 2022, if the values of these investments are as follows

Shares	₹	₹
Scrip X	1,90,000	
Scrip Y	40,000	
Scrip Z	70,000	3,00,000
Government securities		7,00,000

Solution

As per AS 13 'Accounting for Investments', current investments should be carried at lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis.

Also as per standard, long-term investments are carried at cost except when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline.

a) If the investment in shares is intended to be held as current investment then
Scrip X should be valued at cost i.e. ₹1,80,000 (lower of cost and fair value),
Scrip Y should be valued at fair value i.e. ₹ 40,000 (lower of cost and fair value) and
Scrip Z should be valued at fair value i.e. ₹ 70,000 (lower of cost and fair value).
The total loss of ₹ 1,10,000 on scrip's purchased on 1st June, 2021 is to be charged to profit and loss account for the year ended 31st March, 2022.

If investment is intended to be held as long term investment, then it will continue to be shown at cost in the balance sheet of the company. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of investments, such reduction being determined and made for each investment individually.

b) Value of government securities (purchased on 1st April, 2021) is to be shown at cost of ₹ 5,00,000 in the balance sheet as on 31.3.2022

Question 4

The Investment portfolio of XYZ Ltd. as on 31.03.2022 consisted of the following:

		(₹ In Lacs)	
	Current Investments	Cost	Fair Value as on 31.03.2022
1	1000 Equity Shares of A Ltd.	5	7
2	500 Equity Shares of B Ltd.	10	15
3	1000 Equity Shares of C Ltd.	15	12
		30	34

Give your comments on below:

(i) The company wants to value the above portfolio at ₹ 30 lakhs being lower of cost or fair market value.

(ii) Company wants to transfer 1000 Equity Shares of C Ltd. from current investments to long term investments on 31.03.2022 at cost of ₹ 15 lakhs.

Solution

As per AS 13 "Accounting for Investments", Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed category-wise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.

(i) Hence the company has to value the current investment at ₹ 27 Lacs (A Ltd. shares at ₹ 5 lacs; B Ltd. shares at ₹ 10 lacs and C Ltd. shares at ₹ 12 lacs). The company's decision to value the portfolio at ₹ 30 lacs is not appropriate.

(ii) Moreover, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer. Hence, the company has to make transfer of 1,000 equity shares of C Ltd.at ₹ 12 lacs (fair value) and not ₹ 15 lacs (cost) as the fair value is less than cost.

Question 5 *(ICAI Study Material)*

ABC Ltd. wants to re-classify its investments in accordance with AS–13. Decide and state on the amount of transfer, based on the following information:

a) A portion of Current Investments purchased for ₹ 20 lakhs, to be reclassified as Long Term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.

b) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs

c) Certain long-term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS 13.

Solution

As per AS 13, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

a) In the first case, the market value of the investment is ₹ 25 lakhs, which is higher than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. ₹ 20 lakhs.

b) In the second case, the market value of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e. ₹ 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. ₹ 6.5 lakhs. The loss of ₹ 8.5 lakhs should be charged to profit and loss account.

   As per AS 13, where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

c) In the third case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this reclassified current investment should be carried at ₹ 12 lakhs.

Question 6 *(RTP May 2020) (Similar) / (ICAI Study Material)*

Bluechip Equity Investments Ltd, wants to reclassify its investments in accordance with AS13

a) Long term investments in Company A, costing ₹ 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹ 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is ₹ 6.8 lakhs.

b) Long term investments in Company B, costing ₹ 7 lakhs are to be re-classified as current. The fair value on date of transfer is ₹ 8 lakhs and book value is ₹ 7 lakhs.
c) Current investment in Company C, costing ₹ 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 ₹ 12 lakhs.
d) Current investment in Company D, costing ₹ 15 lakhs are to be re-classified as long term. The market value on date of transfer is ₹ 14 Lakhs.

Solution

As per AS 13 '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. 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:

a) 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 ₹ 6.5 lakhs in the books
b) The carrying / book value of the long term investment is same as cost i.e. ₹ 7 lakhs. Hence this long term investment will be reclassified as current investment at book value of ₹ 7 lakhs only.
c) In this case, reclassification of current investment into long-term investments will be made at ₹ 10 lakhs as cost is less than its market value of ₹ 12 lakhs.
d) In this case, market value is ₹ 14 lakhs which is lower than cost of ₹ 15 lakhs. The reclassification of current investment as long-term investments will be made at ₹ 14 lakhs

Question 7 *(Inter May 2019) (5 Marks)*

On 15th June, 2021, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

1) A portion of long term investments purchased on 1st March, 2020 are to be reclassified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2021 was ₹ 11 lakhs.
2) Another portion of long term investments purchased on 15th January, 2020 are to be re-classified as current investments. The original cost of these investments was ₹ 7 lakhs but had been written down to ₹ 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2021 was ₹ 4.5 lakhs.
3) A portion of current investments purchased on 15th March, 2021 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2021 was ₹ 6 lakhs and fair value on 15th June 2021 was ₹ 8.5 lakhs,
4) Another portion of current investments purchased on 7th December, 2020 for ₹ 4 lakhs are to be re-classified as long term investments. The market value of these investments was: on 31st March, 2021 ₹ 3.5 lakhs on 15th June, 2021 ₹ 3.8 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:

1) 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 ₹ 12 lakhs in the books.

2) In this case also, carrying amount of investment on the date of transfer is less than cost; hence this re-classified current investment should be carried at ₹ 5 lakhs in the books.
3) In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.
4) In this case, market value (considered as fair vale) is ₹ 3.8 lakhs on the date of transfer which is lower than the cost of ₹ 4 lakhs. The reclassification of current investment into long-term investments will be made at ₹ 3.8 lakhs.

Question 8 *(RTP Nov 2020) / (ICAI Study Material)*

X Ltd. on 1-1-2022 had made an investment of ₹ 600 lakhs in the equity shares of Y Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-2022 became ₹ 200 lakhs as Y Ltd. lost a case of copyright.

How will you recognize the reduction in financial statements for the year ended on 31-3-2022 assuming that this reduction in value is not temporary in nature?

Solution

X Ltd. invested ₹ 600 lakhs in the equity shares of Y Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by X Ltd. only for 3 months (from 1.1.2022 to 31.3.2022), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2022 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be charged to the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline.

Here, Y Ltd. lost a case of copyright which drastically reduced the realisable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long term investment by ₹ 200 lakhs and show the investments at ₹ 100 lakhs, since the downfall in the value of shares is other than temporary. The reduction of ₹ 200 lakhs in the carrying value of long term investment will be charged to the Statement of profit and loss.

Question 9 *(ICAI Study Material)*

An unquoted long–term investment is carried in the books at cost of ₹ 2 lacs. The published accounts of unlisted company received in May, 2021 showed that the company has incurred cash losses with decline market share and the long–term investment may not fetch more than ₹ 20,000. How you will deal with it in preparing the financial statements of investing company for the year ended 31.3.2021?

Solution

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On these bases, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to ₹ 20,000 in the financial statements for the year ended 31st March, 2021.

The answer has been given on the assumption that the financial statements are yet to be completed and approved by the Board of Directors. Also, the fall in value of investments has been considered on account of conditions existing on the balance sheet date.

Question 10 *(RTP Nov 2019) / (RTP Nov 2021)*

Sabka Bank has classified its total investment on 31-3-2022 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI guidelines.

'Held to maturity' investments are carried at acquisition cost less amortised amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. Comment whether the policy of the bank is in accordance with AS 13?

Solution

As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Sabka Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued guidelines for classification and valuation of its investment and Sabka Bank should comply with those RBI Guidelines/Norms. Therefore, though Sabka Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

Question 11 *(ICAI Study Material)*

Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without providing for any dimunition in value is correct and in accordance with the provisions of AS 13. If not, what should have been the accounting treatment in such a situation? Explain in brief.

Solution

The accounting treatment 'at cost' under the head 'Long Term Investments' in the financial statements of the company without providing for dimunition in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary in the value of investment. If the decline in the value of investment is other than temporary compared to the time when the shares were purchased, provision is required to be made.

AS 13: CASE Study- PRACTICE QUESTIONS

Question 1 *(Inter May 2019) (1 Marks)*

State whether the following statement is 'True' or 'False'. Also give reason for your answer.
As per the provisions of AS-13, a current investment is an investment, that by its nature, is readily realisable and is intended to be held for not more than six months from the date on which such investment is made.

Solution
False: A current investment is an investment that is by its nature readily realizable and is intended to be held for not more than 1 year from the date on which such investment is made.

Question 2 *(RTP May 2023) / (RTP Nov 2018) (Similar)*

Gowtham Limited invested in shares of another company (with the intention to hold the shares for short-term period) on 30th November, 2021 at a cost of ₹ 4,25,000. It also earlier purchased Gold of ₹ 8,00,000 and Silver of ₹ 3,50,000 on 31st March, 2019.
Market values as on 31st March, 2022, of the above investments are as follows:
Shares ₹ 3,50,000 Gold ₹ 10,25,000 Silver ₹ 5,10,000
You are required to explain how will the above investments be shown (individually and in total) in the books of account of Gowtham Limited for the year ending 31st March, 2022 as per the provisions of AS 13.

Solution
As per AS 13 (Revised) 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹ 4,25,000) and market value (₹ 3,50,000) as on 31 March 2022, i.e., ₹ 3,50,000.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 31st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2022, i.e., ₹ 8,00,000 and ₹3,50,000 respectively, though their market values have been increased.

Thus the shares, gold and silver will be shown at ₹ 3,50,000, ₹ 8,00,000 and ₹ 3,50,000 respectively and hence, total investment will be valued at ₹ 15,00,000 for the year ending on 31st March, 2022 as per AS 13

Question 3 *(ICAI Study Material)*

M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2021 at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1st March, 2019. Market value as on 31st March, 2022 of above investments are as follows: Shares 2,25,000 Gold 6,00,000 Silver 3,50,000
How above investments will be shown in the books of accounts of M/s Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2022 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

Solution
As per AS 13 (Revised) 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair

value, i.e., in case of shares, at lower of cost (₹ 2,50,000) and market value (₹ 2,25,000) as on 31 March 2022, i.e., ₹ 2,25,000.

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognise a decline, if other than temporary, in the value of the investments.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2022, i.e., ₹ 4,00,000 and ₹ 2,00,000 respectively, though their market values have been increased.

Question 4 *(Inter Nov 2020) (5 Marks)*

A Limited invested in the shares of XYZ Ltd. on 1st December, 2021 at a cost of ₹ 50,000. Out of these shares, ₹ 25,000 shares were purchased with an intention to hold for 6 months and ₹ 25,000 shares were purchased with an intention to hold as long-term Investment.

A Limited also earlier purchased Gold of ₹ 1,00,000 and Silver of ₹ 30,00,000 on 1st April, 2021.

Market value as on 31st March, 2022 of above investments are as follows:

Shares ₹ 47,500 (Decline in the value of shares is temporary.)

Gold ₹ 1,80,000

Silver ₹ 30,55,000

How above investments will be shown in the books of accounts of M/s A Limited for the year ended 31st March, 2022 as per the provisions of AS 13 (Revised)?

Solution

As per AS 13 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value.

In the given case ₹ 25,000 shares held as current investment will be carried in the books at ₹ 23,750 (₹ 47,500/2). If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognize a decline, if other than temporary, in the value of the investments. Hence, ₹ 25,000 shares held as long-term investment will be carried in the books at ₹ 25,000.

Gold and silver are generally purchased with an intention to hold them for long term period (more than 1 year) until & unless given otherwise. Hence, investment in Gold & Silver (purchased on 1st April, 2021) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2022. Thus Gold at ₹ 1,00,000 & Silver at ₹ 30,00,000 respectively will be shown in the books.

Question 5 *(RTP Nov 2022)*

Mother Mart Ltd wants to reclassify its investment in accordance with AS 13. Decide treatment to be given in each of the following cases assuming that market value has been determined in an arm's length transaction between knowledgeable and willing buyer and seller:

(i) A portion of current investments purchased for ₹ 25 lakhs to be reclassified as long term investments, as the company has decided to retain them. The market value as on the date of balance sheet was ₹ 30 lakhs.

(ii) Another portion of current investments purchased for ₹ 20 lakhs has to be reclassified as long-term investments. The market value of these investments as on the date of the balance sheet was ₹ 12.5 lakhs.

(iii) One portion of long-term investments, no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 15 lakhs, but had been written down to ₹ 11 lakhs to recognize permanent decline as per AS 13.

Solution

As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer. When long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

(i) In the first case, the market value of the investments is ₹ 30 lakhs, which is higher than its cost i.e. ₹ 25 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. ₹ 25 lakhs

(ii) In the second case, the market value of the investment is ₹ 12.5 lakhs, which is lower than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be made in the books at the market value i.e. ₹ 12.5 lakhs. The loss of ₹ 7.50 lakhs (20-12.5) should be charged to Profit and Loss account.

(iii) In the third case, the book value of the investments is ₹ 11 lakhs, which is lower than its cost, i.e. ₹ 15 lakhs. As the transfer should be at carrying amount, hence this reclassified current investment should be carried at ₹ 11 lakhs.

Question 6 *(Inter Jan 2021) (5 Marks)*

Kunal Securities Ltd. wants to reclassify 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 investment in Company A, costing ₹ 10.5 lakhs is to be re-classified as current investment. The company had reduced the value of these investments to ₹ 9 lakhs to recognize a permanent decline in value. The fair value on the date of reclassification is ₹ 9.3 lakhs.

(ii) Long term investment in Company B, costing ₹ 14 lakhs is to be re-classified as current investment The fair value on the date of reclassification is ₹ 16 lakhs and book value is ₹ 14 lakhs.

(iii) Current investment in Company C, costing ₹ 12 lakhs is to be re-classified as long term investment as the company wants to retain them. The market value on the date of reclassification is ₹ 13.5 lakhs.

(iv) Current investment in Company D, costing ₹ 18 lakhs is to be re-classified as long term investment. The market value on the date of reclassification is ₹ 16.5 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 ₹ 9 lakhs in the books.

(ii) The carrying / book value of the long-term investment is same as cost i.e., ₹ 14 lakhs. Hence this long-term investment will be reclassified as current investment at book value of ₹ 14 lakhs only.

(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 12 lakhs as cost is less than its market value of ₹ 13.5 lakhs.

(iv) Market value of the investment is ₹ 16.5 lakhs, which is lower than its cost i.e., ₹ 18 lakhs. Therefore, the transfer to long term investments should be done in the books at the market value i.e., ₹ 16.5 lakhs.

Question 7 *(RTP May 2018) / (RTP May 2019)*

How you will deal with following in the financial statement of the Paridhi Electronics Ltd. as on 31.3.22 with reference to AS-13?

a) Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2018 at a cost of ₹ 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2022 reveals that the company has incurred cash losses with decline market share and investment of Paridhi Electronics Ltd. may not fetch more than ₹ 45,000.
b) Also Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for ₹5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was ₹ 2.5 lakhs.

Solution

a) As per AS 13, "Accounting for investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On this basis, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to ₹ 45,000 in the financial statements for the year ended 31st March, 2022 and charge the difference of loss of ₹ 2,55,000 to Profit and Loss account.
b) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.
In the given case, the market value of the investment (X Ltd. shares) is ₹ 2.50 lakhs, which is lower than its cost i.e. ₹5 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. ₹2.50 lakhs. The loss of ₹ 2.50 lakhs should be charged to profit and loss account.

Question 8 *(RTP May 2021)*

Paridhi Electronics Ltd. invested in the shares of Dhansukh Ltd. on 1st May 2021 at a cost of ₹ 10,00,000. Three fourth of these investments were current investments and the remaining investments were intended to be held for more than a year. The published accounts of Dhansukh Ltd. received in January, 2022 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than 7,50,000. The reduction in value is apparent to be non-temporary.
You are required to explain how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.22 with reference to AS 13?

Solution

As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. But long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

Paridhi Ltd. made three fourth of ₹ 10,00,000 ie. ₹7,50,000 as current investment and remaining ₹ 2,50,000 as long term. The facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares for both categories of shares to bring them to market value. Hence the carrying value of investments will be shown at amount of ₹ 7,50,000 in the financial statements for the year ended 31st March, 2022 and charge the difference of loss of ₹ 2,50,000 to profit and loss account

Question 9 *(Inter Dec 2021) (5 Marks)*

Mr. Mohan has invested some money in various Mutual funds. Following information in this regard is given:

Mutual Funds	Date of purchase	Purchase cost (₹)	Brokerage Cost (₹)	Stamp duty (₹)	Market value as on 31.03.2021 (₹)
A	01.05.2017	50,000	200	20	48,225
B	05.08.2020	25,000	150	25	24,220
C	01.01.2021	75,000	300	75	78,190
D	07.05.2020	70,000	275	50	65,880

You are required to:

a) Classify his investment in accordance with AS-13 (revised).

b) Value of Investment in mutual fund as on 31.03.2021

Solution

As per AS 13 "Accounting for Investments", a current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value.

A long-term investment is an investment other than a current investment. Long term investments are usually carried at cost. If there is a decline, other than temporary, in the value of a long-term investment; the carrying amount is reduced to recognize the decline.

Mutual Funds	Classification	Cost (₹)	Market value (₹)	Carrying value (₹)
A	Long-term Investment	50,220	48,225*	50,220
B	Current Investment	25,175	24,220	24,220
C	Current Investment	75,375	78,190	75,375
D	Current Investment	70,325	65,880	65,880
Total				2,15,695

Note: *The reduction in value of Mutual fund A is considered to be temporary. If reduction in Market value is assumed as other than temporary in nature, then the carrying value of ₹48,225 will be considered.

Question 10 *(RTP May 2022)*

Pg no.______

JVR Limited has made investment of ₹ 97.84 Crores in Equity Shares of QSR Limited in 2016-17. The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to re-assess the carrying amount of its investment in QSR Limited and wish to provide for diminution in value of investment for the year ended 31st March, 2021. Discuss whether the connection of JVR Limited to bring down the carrying Amount of investment in QSR Limited is in accordance with AS.

Solution:

The investments are classified into two categories as per AS 13, viz., Current Investments and Long-term Investments. A current Investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss. A long - term investment is an investment other than a current investment. The investments referred in the question can be classified as long-term investments and long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognize the decline. The contention of the company to bring down the value of investment may be correct if the decline in value is permanent in nature and the reduction in carrying amount may be charged to the statement of profit and loss. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

Question 11 *(Inter Nov 2022) (5 Marks)*

a) An unquoted long term investment made in the shares of Rachel Limited is carried in the books of Ziva Limited at a cost of ₹ 1,00,000. The audited financial statements of Rachel Limited received in May,2021 showed that the company had been incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 55,000.

b) On 1st December, 2021 Ziva Limited had made an investment of ₹ 5,00,000 in 4,000 Equity Shares of Garry Limited at a price of ₹ 125 per share with an intention to hold it for not more than six months. In the first week of March, 2022, Garry Limited suffered heavy loss due to an earthquake; the loss was not covered by an insurance policy. On 31st March,2022, the shares of Garry Ltd. were traded at a price of ₹ 80 per share on the Stock Exchange.

How would you deal with the above investments in the books of Ziva Limited for the year ended 31st March,2022 as per the provisions of AS 13 'Accounting for Investments'?

Solution:

(a) Investments classified as long term investments should be carried in financial statements at cost. However, provision for diminution should be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

On this basis, the facts of the given case, it would be appropriate to reduce the carrying value of Long-term investments to ₹ 55,000 in the financial statements for the year ended 31st March, 2022.Thus the unquoted investment in the shares of Rachel Ltd. will be valued at ₹ 55,000. The provision for diminution amounting ₹ 45,000 should be made to reduce the carrying amount of the investments.

(b) Equity Shares in Garry Ltd. will be considered as current investment as intended to hold for not more than six months. As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. In respect of current Investments for which as active market exists, market value generally provides the best evidence of fair value.

Since on 31st March,2022, the shares of Garry Limited were trading at a price of ₹ 80 per share on the stock exchange, the equity shares of Garry Ltd. should be carried in the financial statements at realizable value i.e. at ₹ 3,20,000 (4,000 shares @ ₹ 80 per share).The reduction of ₹ 1,80,000 in carrying value of current investment will be charged to the statement of profit and loss for the year ended 31st March,2022.

AS 21: CONSOLIDATED FINANCIAL STATEMENTS

CH 8

"What you do makes a difference, and you have to decide what kind of difference you want to make."

Holding Company	As per *Section 2(46) of the Companies Act, 2013,* "Holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies.
Subsidiary Company	*Section 2(87) of the Companies Act, 2013* defines "subsidiary company" as a company in which the holding company – (i) controls the composition of the Board of Directors; or (ii) exercises or controls more than 50% of total voting power either at its own or together with 1 or more of its subsidiary companies Section 19 prohibits a subsidiary company from holding shares in the holding company. According to this section, no company shall, either by itself or through its nominees, hold any shares in its holding company and no holding company shall allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void. *However, a subsidiary may continue to be a member of its holding company when:* a) the subsidiary company holds such shares as legal representative of a deceased member of the holding company; or b) the subsidiary company holds such shares as a trustee; or c) the subsidiary company is a shareholder even before it became a subsidiary company of the holding company.
Purpose of Preparing the Consolidated Financial Statements	*Section 129 (3) of the Companies Act, 2013* mandated the companies having one or more subsidiaries, to prepare Consolidated Financial Statements. According to this section, where a company has one or more subsidiaries, it shall, in addition to separate financial statements will prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own. *Accounting Standard (AS) 21* also lays down the accounting principles and procedures for preparation and presentation of consolidated financial statements. Consolidated financial statements are presented by the parent (holding company) to provide financial information about the economic activities of the group as a single economic entity. AS 21 is mandatory if an enterprise presents consolidated financial statements. In other words, the accounting standard does not mandate an enterprise to present consolidated financial statements but, if the enterprise presents consolidated financial statements for complying with the requirements of any statute or otherwise, it should prepare and present consolidated financial statements in accordance with AS 21.

Non Applicability of AS 21	This Standard does not deal with: (a) methods of accounting for amalgamations and their effects on consolidation, including goodwill arising on amalgamation (see AS 14), (b) accounting for investments in associates and (c) accounting for investments in joint ventures
Exclusion From Preparation Of Consolidated Financial Statements	As per AS 21, a subsidiary should be excluded from consolidation when: • control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or • it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. Investments in such subsidiaries should be accounted for in accordance with AS 13, Accounting for Investments. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.
Consolidation of subsidiary which is a LLP or a Partnership Firm	Under AS 21, as per the definition of subsidiary, an enterprise controlled by the parent is required to be consolidated. The term 'enterprise' includes a company and any enterprise other than a company. Therefore, LLPs and partnership firms are required to be consolidated. Accordingly, in the given case, holding company is required to consolidate its subsidiary which is an LLP or a partnership firm.
Advantages of Consolidation	a) Single source document: From consolidated financial statements, the users of accounts can get an overall picture of the Group. Consolidated profit and loss account gives the overall profitability of the group. b) Intrinsic value of share: Intrinsic share value of the holding company can be calculated directly from the Consolidated Balance Sheet. c) Acquisition of subsidiary: The minority interest data of the consolidated financial statement indicates that the amount payable to the outside shareholders of the subsidiary company at book value which is used as the starting point of bargaining at the time of acquisition of a subsidiary by the holding company. d) Evaluation of holding company in the market: The overall financial health of the holding company can be judged using consolidated financial statements. Those who want to invest in the shares of the holding company or acquire it, need such consolidated statement for evaluation.
Components Of Consolidated Financial Statements	*As per AS 21*, consolidated financial statements normally include a) Consolidated Balance Sheet b) Consolidated Statement of Profit and Loss Account c) Consolidated Cash Flow Statement (in case parent presents cash flow statement) and d) Notes and statements and explanatory schedules that form the integral part thereof.

Consolidation Procedures	The various steps involved in the consolidation process are as follows: 1) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated. In case cost of acquisition exceeds or is less than the acquirer's interest, goodwill or capital reserve is calculated retrospectively. 2) intragroup transactions, including sales, expenses and dividends, are eliminated, in full 3) unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full 4) unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered; 5) minority interest in the net income of consolidated subsidiaries for the reporting period are identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and 6) minority interests in the net assets of consolidated subsidiaries are identified and presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity.
Calculation Of Goodwill/ Capital Reserve (Cost Of Control)	<u>*Goodwill*</u> = Cost of Investment - Parent's share in the equity of the subsidiary on date of investment <u>*Capital Reserve*</u> = Parent's share in the equity of the subsidiary on date of investment – Cost of investment
Minority Interests	Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the holding (parent) company. In short, It represents claims of the outside shareholders of a subsidiary. 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 profit, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.
Consolidated Profit & Loss Account	All the revenue items are to be added on line by line basis and from the consolidated revenue items, inter-company transactions should be eliminated. If there remains any unrealized profit in the inventory of goods, of any of the Group Company, such unrealized profit should be eliminated from the value of inventory to arrive at the consolidated profit.

Consolidated Cash Flow Statement	All the items of Cash flow from operating activities, investing activities and financing activities are to be added on line by line basis and from the consolidated items, inter-company transactions should be -eliminated.
Uniform Accounting Policies	AS 21 states that consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If any company in the same group uses accounting policies other than those adopted in consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, the fact should be disclosed together with the proportions of items to which different accounting policies have been applied.
Alignment of Reporting Dates	The financial statements used in the consolidation should be drawn up to the same reporting date. If it is not practicable to draw up the financial statements of one or more subsidiaries to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. In any case, the difference between reporting dates should not be more than six months.

ASSIGNMENT QUESTIONS

TOPIC 1 CONSOLIDATED BALANCE SHEET

Question 1 *(ICAI Study Material)* *Pg no._____*

Prepare Consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2021

	H Ltd.	S Ltd.
Property, Plant & Equipment	1,00,000	1,30,000
Investments (8,000 equity shares of S Ltd.)	1,26,000	-
Current Assets	74,000	70,000
Share Capital (Fully paid equity shares of 10 each)	1,50,000	1,00,000
Profit and Loss Account	50,000	40,000
Trade Payables	1,00,000	60,000

H Ltd. acquired the shares of S Ltd. on 01.07.2020 and Balance of Profit & Loss Account of S Ltd. on 01.04.2020 was 30,000

Question 2 *(RTP May 2019) / (ICAI Study Material)* *Pg no._____*

From the following data, determine in each case:

1) Minority interest at the date of acquisition and at the date of consolidation.
2) Goodwill or Capital Reserve.
3) Amount of holding company's profit in the consolidated Balance Sheet assuming holding company's own Profit & Loss Account to be ₹2,00,000 in each case:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition 01.01.2020		Consolidation Date 31.12.2020	
				Share Capital	Profit & Loss A/c	Share Capital	Profit & Loss A/c
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

Question 3 *(Inter July 2021) (5 Marks)* *Pg no._____*

Long Limited acquired 60% stake in Short Limited for a consideration of ₹ 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was ₹ 100 lakhs, Revenue Reserve was ₹ 40 lakhs and balance in Profit & Loss Account was ₹ 30 lakhs.

From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:

(i) On consolidation of Balance Sheet.
(ii) If Long Limited showed the investment in subsidiary at a carrying amount of ₹ 104 lakhs.
(iii) If the consideration paid for acquiring the 60% stake was ₹ 92 lakhs.

Question 4 *(RTP May 2020) (Similar) / (ICAI Study Material)* *Pg no._____*

From the following summarized balance sheets of H Ltd. and its subsidiary S Ltd. drawn up at 31st March, 2020, prepare a consolidated balance sheet as at that date, having regard to the following:

a) Reserves and Profit and Loss Account of S Ltd. stood at ₹25,000 and ₹ 15,000 respectively on the date of acquisition of its 80% shares by H Ltd. on 1st April, 2019.

b) Machinery (Book-value ₹ 1,00,000) and Furniture (Book value ₹ 20,000) of S Ltd. were revalued at ₹ 1,50,000 and ₹ 15,000 respectively on 1st April, 2019 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Summarised Balance Sheet of H Ltd. as on 31st March, 2020

	Note No.	H Ltd.	S Ltd.
Equity & Liabilities			
(1) Shareholders' Funds			
(a) Share Capital	1	6,00,000	1,00,000
(b) Reserves and Surplus	2	3,00,000	1,00,000
(2) Current Liabilities			
(a) Trade Payables		1,50,000	57,000
		10,50,000	2,57,000
Assets			
(1) Non-Current Assets			
(a) PPE & Intangible Assets			
i. Property, Plant & Equipment	3	4,50,000	1,07,000
(b) Non Current Investments	4	6,00,000	1,50,000
		10,50,000	2,57,000

Notes to Accounts:

		H Ltd.	S Ltd.
1.	Share Capital		
	6,000 equity shares of 100 each, fully paid up	6,00,000	
	1,000 equity shares of 100 each, fully paid up		1,00,000
		6,00,000	1,00,000
2.	Reserves & Surplus		
	General Reserve	2,00,000	75,000
	Profit and Loss A/c	1,00,000	25,000
		3,00,000	1,00,000
3.	Property, Plant & Equipment		
	Machinery	3,00,000	90,000
	Furniture	1,50,000	17,000
		4,50,000	1,07,000
4.	Non Current Investments		
	Non Current Investments	4,40,000	1,50,000
	Shares in S Ltd.: 800 shares at ₹ 200 each	1,60,000	
		6,00,000	1,50,000

Question 5

Pg no._____

On 31st March, 2020 the balance sheet of H Ltd. and its subsidiary S Ld. stood as follows:

	H Ltd.	S Ltd.
EQUITIES & LIABILITIES		
Shareholder's Funds:		
Equity Share Capital	8,00,000	2,00,000
General Reserve	1,50,000	70,000
Profit & Loss Account	90,000	55,000
Current Liabilities:		
Creditors	1,20,000	80,000
	11,60,000	4,05,000

ASSETS		
Property, Plant & Equipment	5,50,000	1,00,000
75% Shares in S Ltd. (at cost)	2,80,000	-
Stock	1,05,000	1,77,000
Other Current Assets	2,25,000	1,28,000
	11,60,000	4,05,000

Draw consolidated balance sheet as at 31st March, 2020 after considering the following:

(1) H Ltd. acquired the shares on 31st July, 2019.

(2) S Ltd. earned a profit of ₹ 45,000 for the year ended 31st March, 2020.

(3) In January, 2020 S Ltd. sold to H Ltd. goods costing ₹ 15,000 for ₹ 20,000. On 31st March, 2020 half of these goods were lying as unsold in godown of H Ltd.

Give your working notes.

Question 6 *(RTP Nov 2021) / (ICAI Study Material)* *Pg no._____*

On 31st March, 2021, P Ltd. acquired 1,05,000 shares of Q Ltd. for ₹ 12,00,000. The position of Q Ltd. on that date was as under:

	₹
Property, plant and equipment	10,50,000
Current Assets	6,45,000
1,50,000 equity shares of ₹ 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 31st March, 2023:

	P Ltd. ₹	Q Ltd. ₹
Equity shares of ₹ 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 31.3.2023 in the ratio of one equity share of ₹ 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, 2013:-

(i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases:

a. Before issue of bonus shares;
b. Immediately After issue of bonus shares.

Question 7 *(ICAI Study Material)* *Pg no._____*

A Ltd acquired 1,600 ordinary shares of ₹100 each of B Ltd on 1st July, 2021. On 31st December, 2021, the balance sheets of the two companies were as given below:

Balance Sheet of A Ltd. and its subsidiary, B Ltd. as at 31st December, 2021

Particulars	Note No.	A Ltd. (₹)	B Ltd. (₹)
Equity and Liabilities			
(1) Shareholder's Funds			

a) Share Capital	1	5,00,000	2,00,000
b) Reserves and Surplus	2	2,97,200	1,82,000
(2) Current Liabilities			
a) Trade Payables		47,100	17,400
b) Short term borrowings	3	80,000	
Total		9,24,300	3,99,400
Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment	4	3,90,000	3,15,000
(b) Non-current Investments	5	3,40,000	--
(2) Current assets			
(a) Inventories		1,20,000	36,400
(b) Trade receivables		59,800	40,000
(c) Cash & Cash equivalents	6	14,500	8,000
Total		9,24,300	3,99,400

Notes to Accounts

		A Ltd. ₹	B Ltd. ₹
1.	Share Capital		
	5,000 shares of ₹ 100 each, fully paid up	5,00,000	-
	2,000 shares of ₹ 100 each, fully paid up	-	2,00,000
	Total	5,00,000	2,00,000
2.	Reserves and Surplus		
	General Reserves	2,40,000	1,00,000
	Profit & loss	57,200	82,000
	Total	2,97,200	1,82,000
3.	Short term borrowings		
	Bank overdraft	80,000	--
4.	Property plant and equipment		
	Land and building	1,50,000	1,80,000
	Plant & Machinery	2,40,000	1,35,000
	Total	3,90,000	3,15,000
5.	Non-current Investments		
	Investment in B Ltd (at cost)	3,40,000	--
6.	Cash & Cash equivalents		
	Cash	14,500	8,000

The Profit & Loss Account of B Ltd. showed a credit balance of ₹30,000 on 1st January, 2021 out of which a dividend of 10% was paid on 1st August, 2021; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st January, 2021 was considered as worth ₹ 1,80,000 on 1st July, 2021; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).

Prepare consolidated Balance Sheet as at 31st December, 2021.

Question 8 *(ICAI Study Material)* *Pg no._____*

On 31st March, 2021, the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Particulars	Note No.	H Ltd. (₹ in Lacs)	S Ltd. (₹ in Lacs)
Equity and Liabilities			

(1) Shareholder's Funds			
a) Share Capital	1	12,000	4,800
b) Reserves and Surplus	2	5,499	3,000
(2) Current Liabilities			
a) Trade payables	3	1,833	1,014
b) Short term provisions	4	855	394
c) Other current liabilities (Dividend payable)		1,200	-
Total		21,387	9,208
Assets			
(1) Non-current assets			
a) Property, Plant and Equipment	5	9,468	5,486
b) Non-current Investments (Shares in S Ltd.)		3,000	
(2) Current assets			
a) Inventories		3,949	1,956
b) Trade receivables	6	2,960	1,562
c) Cash and cash equivalents		1,490	204
d) Short term loans and advances	7	520	
Total		21,387	9,208

Notes to Accounts

		H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
1	Share Capital		
	Authorized share capital:		
	Equity shares of ₹ 10 each, fully paid up	15,000	6,000
	Issued and Subscribed:		
	Equity shares of ₹ 10 each, fully paid up	12,000	4,800
2	Reserves and surplus		
	General Reserve	2,784	1,380
	Profit and Loss Account:	2,715	1,620
	Total	5,499	3,000
3	Trade Payables		
	Creditors	1,461	854
	Bills Payable	372	160
		1,833	1,014
4	Short term provisions		
	Provision for Taxation	855	394
5	Property, plant and equipment		
	Land and Buildings	2,718	-
	Plant and Machinery	4,905	4,900
	Furniture and Fittings	1,845	586
	Total	9,468	5,486
6	Trade receivables		
	Debtors	2,600	1,363
	Bills Receivable	360	199
	Total	2,960	1,562
7	Short term loans and advances		
	Sundry Advances	520	--

The following information is also provided to you:

a. H Ltd. purchased 180 lakh shares in S Ltd. on 31st March, 2020 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹ 1,200 lakh respectively.

b. On 1st April, 2020, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2020. H Ltd. credited the dividend received by it to its Profit and Loss Account.
c. On 1st January, 2021, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 2020.
d. On 31st March, 2021, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.
e. On 31st March, 2021, S Ltd.'s inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2021.

Question 9 *(Inter Nov 2020) (15 Marks)* Pg no._____

H Limited acquired 64000 Equity Shares of ₹ 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:

	H Ltd.	S Ltd.
Equity & Liabilities		
Equity Share Capital: Shares of ₹ 10 each	20,00,000	8,00,000
General Reserve (1st April, 2019)	9,60,000	4,20,000
Profit and 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
Total	36,55,200	16,60,000
Assets:		
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
Total	36,55,200	16,60,000

Additional Information:

(1) The Profit & Loss Account of S Ltd. showed credit balance of ₹ 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.

(2) The Plant & Machinery of S Ltd. which stood at ₹ 6,00,000 on 1st April, 2019 was considered worth ₹ 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.

Question 10 *(RTP Nov 2018)* Pg no._____

The Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2020 are as follows:

	X Ltd. (in Lakhs)	Y Ltd. (in Lakhs)
Liabilities		
Share Capital:		
Authorized	20,000	8,000

Issued and Subscribed:		
Equity Shares of ₹ 10 each, fully paid up	15,000	6,000
15% preference shares of ₹ 10 each, fully paid up	4,000	1,000
General Reserve	2,500	1,450
Profit and Loss Account	2,750	1,250
Trade Payables	1,646	1,027
	25,896	10,727
Assets		
Land and Buildings	3,550	1,510
Plant and Machinery	5,275	3,600
Furniture and Fittings	1,945	655
Investment in Y Ltd.: 450 Lakh Equity share in Y Ltd. purchased on 1st April, 2019	6,800	-
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balances	1,174	560
	25,896	10,727

The following information is also given to you

(a) 10% dividend on Equity shares was declared by Y Ltd. on 31st May, 2019 for the year ended 31st March, 2019. 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, 2019 was ₹ 650 Lakhs.

(c) General Reserve of Y Ltd. stood at same ₹ 1,450 Lakhs as on 1st April, 2019.

(d) Y Ltd.'s Plant & machinery showed a balance of ₹ 4,000 Lakh on 1st April 2019. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by ₹ 1,000 Lakh.

(e) Included in Trade Payables of Y Ltd. are ₹ 50 Lakh for goods supplied by X Ltd.

(f) On 31st March, 2020, Y's ltd. inventory included goods for ₹ 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, 2020 giving working notes. (Ignoring dividend on preference shares)

Question 11 *(ICAI Study Material)* — *Pg no._____*

H Ltd. acquired 3,000 shares in S Ltd., at a cost of ₹4,80,000 on 31.7.2020. The capital of S Ltd. consisted of 5,000 shares of ₹ 100 each fully paid. The Profit & Loss Account of this company for 2020 showed an opening balance of ₹1,25,000 and profit for the year was ₹ 3,00,000. At the end of the year, it declared a dividend of 40%. Record entry in the books of H Ltd., in respect of the dividend. Assume the profit is accruing evenly & calendar year as financial year.

Question 12 *(ICAI Study Material)* — *Pg no._____*

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2020 for ₹ 1,40,000. The issued capital of ABC Ltd., on 1st January, 2020 was ₹ 1,00,000 and the balance in the Profit & Loss Account was ₹ 60,000. During the year ended 31st December, 2020, ABC Ltd. earned a profit of ₹ 20,000 and at year end, declared and paid a dividend of ₹ 15,000.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd.

What is the amount of minority interest as on 1st January, 2020 and 31st December, 2020?

Also compute Goodwill/Capital reserve at the date of acquisition.

Question 13 *(ICAI Study Material)* — *Pg no._____*

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2020 at cost of ₹ 70 lakhs. The following information is available from balance sheet of Zed Ltd. as on 31st March, 2020:

	₹ in Lakhs
Property, Plant & Equipment	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Property, Plant & Equipment Up by 20% Investments Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2020 (Face value ₹ 10 per share). Exe Ltd. purchased the shares of Zed Ltd. @ ₹20 per share.
Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

Question 14 *(ICAI Study Material)* — *Pg no._____*

A Ltd. and B Ltd. provide the following information:

	₹ (in '000s)	
	A Ltd.	B Ltd.
Equity Shares	6,000	5,000
6% Preference Shares	Nil	1,000
General Reserve	1,200	800
Profit & Loss Account	1,020	1,790
Trade Payables	3,850	3,410
Dividend Payable	600	500
Goodwill	100	20
Property, Plant & Equipment	3,850	2,750
Investments	1,620	1,100
Inventory	1,900	4,150
Trade Receivables	4,600	4,080
Cash & Bank	600	400

A Ltd. purchased 3/4th interest in B Ltd. at the beginning of the year at the premium of 25%. Following other information is available:

a. Profit & Loss Account of B Ltd. includes ₹ 1,000 thousands bought forward from the previous year.
b. The General Reserve balance is brought forward from the previous year.
c. The directors of both the companies have declared a dividend of 10% on equity share capital for the previous and current year. From the above information calculate Pre- and Post-acquisition Profits, Minority Interest and Cost of Control.

Question 15 *(ICAI Study Material)* — *Pg no._____*

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2013 at cost of ₹ 10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and reserves and surplus of ₹ 80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹ 2,50,000, ₹ 4,00,000, ₹ 5,00,000 and ₹ 1,20,000 respectively. Thereafter in 2017-18, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 2018-19 and 2019-20, B Ltd. recorded annual profits of ₹ 1,00,000 and ₹ 1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

Question 16 *(RTP May 2018)* — *Pg no._____*

From the following summarised Balance Sheets of A Ltd. and its subsidiary B Ltd., prepare Consolidated Balance Sheet:

Balance Sheet as on 31st March, 2020

Equity & Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Equity shares of ₹ 10 each fully paid	1,00,000	20,000	Sundry Assets	93,000	32,000
Profit on sale of shares	3,000	-	Shares in B Ltd 1,200 shares at 15 each	18,000	-
Profit and Loss A/c					
Brought forward	6,000	7,200			
For the year	2,000	4,800			
	1,11,000	32,000		1,11,000	32,000

A Ltd. bought in earlier year 1,600 equity shares in B Ltd. @ ₹ 15 when the Profit & Loss A/c balance in B Ltd. was ₹4,400. A Ltd. sold 400 shares @ ₹22.50, credited difference between the sale proceeds and cost to "Profit on sale of investment account" on 30th September, 2019 and crediting the balance to the investment account. Profit during the year accrued uniformly.

Question 17 *(ICAI Study Material)* ***Pg no._____***

Consider the following summarized balance sheets of subsidiary B Ltd.:

Equity & Liabilities	2019 Amount in ₹	2020 Amount in ₹
Share Capital		
Issued and subscribed 5,000 Equity Shares of ₹100 each	5,00,000	5,00,000
Reserve and Surplus		
General Reserve	2,86,000	7,14,000
Current Liabilities and Provisions		
Trade Payables	4,90,000	4,94,000
Bank Overdraft	-	1,70,000
Provision for Taxation	3,10,000	4,30,000
	15,86,000	23,08,000
Assets		
Property, Plant & Equipment (Cost)	3,20,000	3,20,000
Less: Accumulated Depreciation	(48,000)	(96,000)
	2,72,000	2,24,000
Investment at Cost	-	4,00,000
Current Assets		
Inventory	5,97,000	7,42,000
Trade Receivable	5,94,000	8,91,000
Prepaid expenses	72,000	48,000
Cash at Bank	51,000	3,000
	15,86,000	23,08,000

Also consider the following information:

a) B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as accounting year.
b) A Ltd. values inventory on weighted average basis while B Ltd. used FIFO basis. To bring B Ltd.'s values in line with those of A Ltd. its value of inventory is required to be reduced by ₹ 12,000 at the end of 2019 and ₹ 34,000 at the end of 2020.
c) B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.
d) Prepaid expenses in B Ltd. include advertising expenditure carried forward of ₹ 60,000 in 2019 and ₹ 30,000 in 2020, being part of initial advertising expenditure of ₹ 90,000 in 2019

which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 2019.

Restate the balance sheet of B Ltd. as on 31st December, 2020 after considering the above information, for the purpose of consolidation. Would restatement be necessary to make the accounting policies adopted by A Ltd. and B Ltd. uniform.

Question 18 *(ICAI Study Material)* Pg no._____

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:

(a) 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.

(b) 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.

TOPIC 2 CONSOLIDATED PROFIT & LOSS ACCOUNT

Question 19 *(RTP May 2018) (Similar) / (ICAI Study Material)* Pg no._____

H Ltd & its subsidiary S Ltd. provide following information for the year ended 31st March, 2023:

	H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
Sales and other income	5,000	1,000
Increase in Inventory (closing less opening)	1,000	200
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	100	50

Other Information:

H Ltd. sold goods to S Ltd. of ₹ 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing ₹ 24 lacs. Administrative expenses of S Ltd. include ₹ 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include ₹ 10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of ₹ 1,000 lacs in S Ltd. prior to 2021-2022. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2021-2022.

Prepare a consolidated statement of profit and loss.

Question 20 *Pg no._____*

The Trial Balances of H Ltd. and S Ltd. as on 31.12.2020 were as under:

	H Ltd.		S Ltd.	
	Dr.	Cr.	Dr.	Cr.
Equity Share Capital (Share of ₹100 each)		10,00,000		2,00,000
7% Preference Share Capital (₹100 each)		-		2,00,000
Reserves		3,00,000		1,00,000
6% Debentures		2,00,000		2,00,000
Trade Receivables /Trade Payables	80,000	90,000	50,000	60,000
P&L A/c balance		20,000		15,000
Purchases/Sales	5,00,000	9,00,000	6,00,000	9,50,000
Wages & Salaries	1,00,000		1,50,000	
Debenture Interest	12,000		12,000	
General Expenses	80,000		60,000	
Preference-Dividend up to 30.6.2020		3,500	7,000	
Inventory (31.12.2020)	1,00,000		50,000	
Cash at Bank	13,500		6,000	
Investment in S Ltd.	5,28,000		-	
Property, Plant & Equipment	11,00,000		7,90,000	
	25,13,500	25,13,500	17,25,000	17,25,000

Investment in S Ltd. were acquired on 1.4.2020 and consisted of 80% of Equity Capital and 50% of Preference Capital. Depreciation on Property, Plant & Equipment is written off @ 10% p.a (computed on the basis of useful life. After acquiring control over S Ltd., H Ltd. supplied to it goods at cost plus 20%, the total invoice value of such goods being Rs. 60,000; 1/4 of such goods were still in Inventory at the end of the year. Prepare the Consolidated Profit and Loss Account for the year ended on 31.12.2020.

PRACTICE QUESTIONS

TOPIC 1 CONSOLIDATED BALANCE SHEET

Question 1 *(ICAI Study Material)* *Pg no._____*

Prepare Consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2021 from the following information

	H Ltd.	S Ltd.
Property, Plant & Equipment	5,00,000	3,00,000
Investments (2,000 equity shares of S Ltd.)	2,20,000	-
Current Assets	1,55,000	1,00,000
Share Capital (Fully paid equity shares of 10 each)	5,00,000	2,50,000
Profit and Loss Account	2,00,000	1,00,000
Trade Payables	1,75,000	50,000

H Ltd. acquired the shares of S Ltd. on 31.03.2021

Question 2 *(Inter Nov 2022) (15 Marks)* *Pg no._____*

H Ltd. and S Ltd. provide the following information as at 31st March,2022:

	H Ltd.₹	S Ltd.₹
Property, Plant and Equipment	2,00,000	2,60,000
Investments (14,000 Equity Shares of S Ltd.)	2,52,000	-
Current Assets	1,48,000	1,40,000
Share capital (Fully paid equity shares of ₹ 10 each)	3,00,000	2,00,000
Profit and loss account	1,00,000	80,000
Trade Payables	2,00,000	1,20,000

Additional information:

H Ltd. acquired the shares of S Ltd. on 1st July, 2021 and Balance of profit and loss account of S Ltd. on 1st April, 2021 was ₹ 60,000. Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31st March, 2022.

Question 3 *(ICAI Study Material)* *Pg no._____*

From the Balance Sheets and information given below, prepare Consolidated Balance Sheet of Virat Ltd. and Anushka Ltd. as at 31st March. Virat Ltd. holds 80% of Equity Shares in Anushka Ltd. since its (Anushka Ltd.'s) incorporation.

Balance Sheet of Virat Ltd. and Anushka Ltd. as at 31st March, 2021

	Note No.	Virat Ltd.	Anushka Ltd.
Equity & Liabilities			
(1) Shareholders' Funds			
(a) Share Capital	1	6,00,000	4,00,000
(b) Reserves and Surplus	2	1,00,000	1,00,000
(2) Non Current Liabilities			
(a) Long Term Borrowings		2,00,000	1,00,000
(3) Current Liabilities			
(a) Trade Payables		1,00,000	1,00,000
		10,00,000	7,00,000
Assets			
(1) Non-Current Assets			

(a) PPE & Intangible Assets			
i. Property, Plant & Equipment		4,00,000	3,00,000
(b) Non Current Investments	3	3,20,000	-
(2) Current Assets			
(a) Inventories		1,60,000	2,00,000
(b) Trade Receivables		80,000	1,40,000
(c) Cash & Cash Equivalents		40,000	60,000
		10,00,000	7,00,000

Notes to Accounts:

		Virat Ltd.	Anushka Ltd.
1.	Share Capital		
	60,000 equity shares of 10 each, fully paid up	6,00,000	
	40,000 equity shares of 10 each, fully paid up		4,00,000
		6,00,000	4,00,000
2.	Reserves & Surplus		
	General Reserve	1,00,000	1,00,000
		1,00,000	1,00,000
3.	Non Current Investments		
	Shares in Anushka Ltd	3,20,000	-
		3,20,000	-

Question 4 *(Inter Nov 2019) (5 Marks) / RTP Nov 2020 /ICAI Study Material)* *Pg no._____*

From the following data, determine Minority interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition 01.01.2019		Consolidation Date 31.12.2019	
				Share Capital	Profit & Loss A/c	Share Capital	Profit & Loss A/c
Case A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000
Case C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case D	M	95%	75,000	60,000	35,000	60,000	55,000
Case E	N	100%	1,00,000	40,000	40,000	40,000	65,000

Question 5 *(Inter May 2018) (20 Marks) / (RTP Nov 2019)* *Pg no._____*

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2020:

	H Ltd.	S Ltd.
Equity & Liabilities		
Shareholders' Funds		
Equity Shares of ₹ 10 each, fully paid up	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,22,000	1,23,000
	22,37,000	5,43,000

Assets		
Non-Current Assets		
Property, Plant & Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ ₹ 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000
	22,37,000	5,43,000

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2019. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively. Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of S Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1st April, 2019 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives : Machinery 10% and Furniture 15%). Trade Payables of H Ltd. includes ₹ 35,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing ₹ 55,000 purchased from S Ltd. You are required to prepare Consolidated Balance Sheet as at 31st March, 2020.

Question 6 *(RTP May 2022)* *Pg no._____*

From the following information of Beta Ltd. and its subsidiary Gamma Ltd. drawn up at 31st March, 2021, prepare a consolidated balance sheet as at that date

	Beta Ltd.	Gamma Ltd.
Share Capital		
Shares of ₹ 100 each	15,00,000	2,50,000
Reserves and Surplus		
Reserves	5,00,000	1,87,500
Profit and Loss Account	2,50,000	62,500
Current Liabilities		
Trade Payables	3,75,000	1,42,500
Non-Current Assets		
Property, Plant & Equipment		
Machinery	7,50,000	2,25,000
Furniture	3,75,000	42,500
Other Non Current Assets	11,00,000	3,75,000
Non-Current Investments		
Shares in Gamma Ltd. - 2,000 shares @ ₹200 each	4,00,000	-

Other information:

Reserves and Profit and Loss Account of Gamma Ltd. stood at ₹62,500 and ₹37,500 respectively on the date of acquisition of its 80% shares by Beta Ltd. on 1st April, 2020. Machinery (Book-value ₹ 2,50,000) and Furniture (Book value ₹ 50,000) of Gamma Ltd. were revalued at ₹ 3,75,000 and ₹ 37,500 respectively on 1st April, 2020 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Question 7 *(Inter Jan 2021) (20 Marks)* *Pg no._____*

On 31st March, 2020 summarised Balance Sheets of H Ltd. & subsidiary S Ltd. stood as follows:

	H Ltd.	S Ltd.
Equity & Liabilities		
Shareholders' Funds		
Equity Shares of ₹ 10 each, fully paid up	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit and Loss Account	2,40,000	60,000
Secured Loans		
12% Debentures	1,00,000	-
Current Liabilities		
Trade Payables	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
	25,20,000	6,16,800
Assets		
Non-Current Assets		
Property, Plant & Equipment		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
Non-Current Investments		
Shares in S Ltd. - 19,200 shares @ ₹ 20 each	3,84,000	-
Current Assets		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bills Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000
	25,20,000	6,16,800

The following information is also provided to you:

(a) H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2019, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at ₹ 60,000 and ₹ 36,000 respectively.

(b) Machinery (Book value ₹ 2,40,000) and Furniture (Book value ₹ 48,000) of S Ltd were revalued at ₹ 3,60,000 and ₹ 36,000 respectively on 1st April, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%).

(c) On 31st March, 2020, Bills payable of ₹ 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

Prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020.

Question 8 *(Inter May 2022) (15 Marks)* *Pg no._____*

White Ltd. acquired 2,250 shares of Black Ltd. on 1st October,.2020. The summarized balance sheets of both the companies as on 31st March, 2021 are given below:

	White Ltd. (₹)	Black Ltd. (₹)
(I) Equity and Liabilities		
(1) Shareholder's fund		
Share capital (Equity shares of ₹ 100 each fully paid up)	6,50,000	3,00,000
Reserves and Surplus		
General Reserve	60,000	30,000
Profit and loss account	1,50,000	90,000
(2) Current Liabilities		

Trade payables	1,15,000	75,000
Due to White Ltd.	-	30,000
	9,75,000	5,25,000
(II) Assets:		
(1) Non-current assets		
Property, Plant and Equipment	5,80,000	3,51,000
Investments		
Shares in Black Ltd. (2,250 shares)	2,70,000	
(2) Current assets		
Inventories	50,000	1,20,000
Due from Black Ltd.	36,000	
Cash and Cash equivalents	39,000	54,000
Total	9,75,000	5,25,000

Other information:

(i) During the year, Black Limited fabricated a machine, which is sold to White Ltd. for ₹ 39,000, the transaction being completed on 30th March,2021.

(ii) Cash in transit from Black Ltd. to White Ltd. was ₹ 6,000 on 31st March,2021.

(iii) Profits during the year 2020-2021 were earned evenly.

(iv) The balances of Reserve and Profit and Loss account as on 1st April,2020 were as follows:

	Reserves ₹	Profit and Loss A/c ₹
White Ltd.	30,000	15,000 Profit
Black Ltd.	30,000	10,000 Loss

You are required to prepare consolidated Balance Sheet of the group as on 31st March,2021 as per the requirement of Schedule III of the Companies Act, 2013.

Question 9 – *(Inter May 2023) (15 Marks)* Pg no._____

H Ltd. acquired 15000 shares in S Ltd. for ₹ 1,55,000 on July 1, 2022. The Balance sheet of the two companies as on 31st March, 2023 were as follows:

	H Ltd. ₹	S Ltd. ₹
Equity and Liabilities:		
Equity Share Capital	9,00,000	2,50,000
(Fully paid shares of ₹ 10 each)		
General Reserve	1,60,000	40,000
Surplus i.e., Balance in Statement of Profit and Loss	80,000	25,000
Bills Payable	40,000	20,000
Trade Creditors	50,000	30,000
Total	12,30,000	3,65,000
Assets:		
Machinery	7,00,000	1,50,000
Furniture	1,00,000	70,000
Investment in Equity Shares of S Ltd.	1,55,000	-
Stock-in-Trade	1,00,000	50,000
Trade Debtors	60,000	35,000
Bills Receivable	25,000	20,000
Cash at Bank	90,000	40,000
Total	12,30,000	3,65,000

The following additional information is provided to you:

a. General reserve appearing in the Balance Sheet of S Ltd, remained unchanged since 31st March, 2022.

b. Profit earned by S Ltd. for the year ended 31st March, 2023 amounted to ₹ 20,000.
c. H Ltd. sold goods to S Ltd. costing ₹ 8,000 for ₹ 10,000, 25% of these goods remained unsold with S Ltd. on 31st March, 2023.
d. Creditors of S Ltd. include ₹ 4000 due to H Ltd. on account of these goods.
e. Out of Bills payable issued by S Ltd. ₹ 15,000 are those which have been accepted in favour of H Ltd. Out of these, H Ltd. had endorsed by 31st March, 2023, ₹ 8000 worth of bills receivable in favour of its creditors.

You are required to draw a consolidated Balance Sheet as on 31st March, 2023.

Question 10 - *(RTP Nov 2022)* *Pg no._____*

On 31st March, 2022, H Ltd. and S Ltd. give the following information:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Equity Share Capital – Authorised	5,000	3,000
Issued and subscribed in Equity Shares of ₹ 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 ₹ 1,500 thousand; Profit and Loss Account ₹ 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 ₹ 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 ₹ 50 thousand from H Ltd., which had made a profit of 25% on cost.
e) Details of Trade payables and Trade receivables:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Trade payables		
-Bills Payable	124	80
-Sundry creditors	487	427
	611	507
Trade receivables		
-Debtors	700	683
-Bills Receivables	120	95
	820	778

Prepare a consolidated Balance Sheet as at 31st March, 2022.

Question 11 *(ICAI Study Material)* Pg no._____

Hemant Ltd. purchased 80% shares of Power Ltd. on 1st January, 2020 for ₹ 2,10,000. The issued capital of Power Ltd., on 1st January, 2020 was ₹ 1,50,000 and the balance in the Profit & Loss Account was ₹ 90,000. During the year ended 31st December, 2020, Power Ltd. earned a profit of ₹ 30,000 and at year end, declared and paid a dividend of ₹ 22,500.

What is the amount of minority interest as on 1st January, 2020 and 31st December, 2020? Also compute goodwill/ capital reserve at the date of acquisition.

Question 12 *(ICAI Study Material)* Pg no._____

King Ltd. acquires 70% of equity shares of Queen Ltd. as on 31st March, 2020 at a cost of ₹ 140 lakhs. The following information is available from the balance sheet of Queen Ltd. as on 31st March, 2020:

	₹ in Lakhs
Property, Plant & Equipment	240
Investments	110
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

The following revaluations have been agreed upon (not included in the above figures): Property, plant and equipment- up by 20% and Investments- down by 10%. King Ltd. purchased the shares of Queen Ltd. @ ₹20 per share (Face value - ₹10).

Calculate the amount of goodwill/capital reserve on acquisition of shares of Queen Ltd.

Question 13 *(ICAI Study Material)* Pg no._____

A Ltd. acquired 60% shares of B Ltd. @ ₹ 20 per share. Following is the extract of Balance Sheet of B Ltd.:

	₹
10,00,000 Equity Shares of ₹ 10 each	1,00,00,000
10% Debentures	10,00,000
Trade Payables	55,00,000
Property, Plant & Equipment	70,00,000
Investments	45,00,000
Current Assets	68,00,000
Loans & Advances	22,00,000

On the same day B Ltd. declared dividend at 20% and as agreed between both the companies Property, Plant and Equipment were to be depreciated @ 10% and investment to be taken at market value of ₹ 60,00,000. Calculate the Goodwill or Capital Reserve to be recorded in Consolidated Financial Statements

Question 14 *(RTP May 2021)* Pg no._____

A Ltd. acquired 70% equity shares of B Ltd. @ ₹20 per share (Face value - ₹10) on 31st March, 2021 at a cost of ₹140 lakhs. Calculate the amount of share of A Ltd. and minority interest in the net assets of B Ltd. on this date.

Also compute goodwill/capital reserve for A Ltd. on acquisition of shares of B Ltd. from the following information available from the balance sheet of B Ltd. as on 31st March, 2021

	₹ in Lakhs
Property, Plant & Equipment	360
Investments	90

Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

Question 15 *(Inter May 2019) (10 Marks) / (RTP May 2023)* Pg no._____

H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2013 at a cost of ₹ 5,00,000 when S Ltd. had an equity share capital of ₹ 5,00,000 and reserves and surplus of ₹ 40,000. Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. performed badly and suffered losses of ₹ 1,25,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 60,000 respectively. Thereafter in 2017, S Ltd. experienced turnaround and registered an annual profit of ₹ 25,000. In the next two years i.e. 2018 and 2019, S Ltd. recorded annual profits of ₹ 50,000 and ₹ 75,000 respectively.

Show Minority Interests & Cost of Control at the end of each year for purpose of consolidation.

Question 16 *(Inter Nov 2023) (15 Marks)* Pg no._____

GB Limited acquired 80% of equity shares of TB Limited on 1st April, 2016 at a cost of ₹ 58,00,000 when TB Limited had an Equity share capital of ₹ 50,00,000 and Reserves and Surplus of ₹ 4,64,000. The following information is provided:

Year	Profit/(Loss) of TB Limited (₹)
2016-17	(14,50,000)
2017-18	(23,20,000)
2018-19	(29,00,000)
2019-20	(6,96,000)
2020-21	1,90,000
2021-22	6,80,000
2022-23	12,70,000

You are required to calculate the minority interests and cost of control at the end of each year for the purpose of consolidation.

Question 17 *(Inter Nov 2019) (10 Marks)* Pg no._____

Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

Liabilities	2018-19 Amount in ₹	2019-20 Amount in ₹
Share Capital		
Issued and subscribed 7500 Equity Shares of ₹100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000
	15,88,000	23,08,000
Assets		
Property, Plant & Equipment (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	-	5,30,000

Current Assets		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500
	15,88,000	23,08,000

Other Information:

1) MNT Ltd. is a subsidiary of LTC Ltd.
2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹ 5,000 at the end of 2018-2019 and increased by ₹ 12,000 at the end of 2019-2020. (Inventory of 2018-19 has been sold out during the year 2019-20)
3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.
4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹ 25,000 in 2018-19 and ₹ 12,500 in 2019-20 being part of initial Sales Promotion expenditure of ₹37,500 in 2018-19, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2018-19.

Restate the balance sheet of MNT Ltd. as on 31st March, 2020 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform.

TOPIC 2 CONSOLIDATED PROFIT & LOSS ACCOUNT

Question 18 *(Inter Nov 2018) (10 Marks)* *Pg no._____*

The Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2020 are given below:

Incomes	₹ in Lakhs	
	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
Expenses		
Raw material consumed	1,200	300
Wages and Salaries	1,200	225
Production expenses	300	150
Administrative expenses	300	150
Selling and distribution expenses	300	75
Interest	150	75
Depreciation	150	75
Total	3,600	1,050
Profit before tax	5,400	750
Provision for tax	1,800	300
Profit after tax	3,600	450
Dividend paid	1,800	225
Balance of Profit	1,800	225

The following information is also given:

a) A Ltd sold goods of ₹ 180 Lakhs to B Ltd at cost plus 25%. (1/6 of such goods were still in inventory of B Ltd at the end of the year)
b) Administrative expenses of B Ltd include ₹ 8 Lakhs paid to A Ltd as consultancy fees.

c) Selling and distribution expenses of A Ltd include ₹15 Lakhs paid to B Ltd as commission.
d) A Ltd holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2018-19 is ₹1,500 Lakhs

Prepare a consolidated Profit and Loss Account for the year ended 31st March, 2020.

Question 19 *(Inter May 2023) (15 Marks)* ***Pg no._____***

G Ltd. & its subsidiary K Ltd. give the following information for the year ended 31st March, 2023:

(in crores)

Particulars	G Ltd. ₹	K Ltd. ₹
Sales and other Income	3,000	750
Increase in Inventory	750	100
Raw material consumed	600	100
Wages and Salaries	600	75
Production expenses	100	50
Administrative expenses	75	50
Selling and Distribution expenses	100	25
Interest	75	30
Depreciation	75	30

The following information is also given:

a. G Ltd. sold goods of ₹ 200 crores to K Ltd. at cost plus 25%. (1/5th of such goods were still in inventory of K Ltd. at the end of the year)
b. G Ltd. holds 75% of the Equity share capital of K Ltd. and the Equity share capital of K Ltd. is ₹ 800 crores on 01.04.2022 (date of acquisition of shares)
c. Administrative expenses of K Ltd. include ₹ 5 crore paid to G Ltd. as consultancy fees. Also, selling and distribution expenses of G Ltd. include ₹ 20 crores paid to K. Ltd. as commission.

Prepare a consolidated statement of Profit and Loss of G Ltd, with its subsidiary K Ltd. for the year ended 31st March, 2023.

Question 20 *(Inter Dec 2021) (15 Marks) / (RTP Nov 2023) (Similar)* ***Pg no._____***

Moon Ltd. and its Subsidiary Star Ltd. provided the following information for the year ended 31st March ,2021.

Particulars	Moon Ltd. (₹)	Star Ltd. (₹)
Equity Share Capital	2,00,00,000	60,00,000
Finished Goods Inventory as on 01.04.2020	42,00,000	30,10,000
Finished Goods Inventory as on 31.03.2021	85,75,000	37,62,500
Dividend Income	16,80,000	4,37,500
Other Non-Operating Income	3,50,000	1,05,000
Raw Material Consumed	1,39,30,000	47,25,000
Selling & Distribution Expenses	33,25,000	15,75,000
Production Expenses	31,50,000	14,00,000
Loss on sale of Investments	2,62,500	Nil
Sales & other Operating Income	3,32,50,000	1,90,75,000
Wages & Salaries	1,33,00,000	24,50,000
General & Administrative Expenses	28,00,000	12,25,000
Royalty Paid	Nil	50,000
Depreciation	3,15,000	1,40,000
Interest Expense	1,75,000	52,500

Other Information:

- On 1st September, 2018 Moon Ltd. acquired 50,000 equity shares of ₹ 100 each fully paid up in the Star Ltd.
- Star Ltd paid Dividend of 10% for the year ended 31st March, 2020. The Dividend was correctly accounted for by Moon Ltd.
- Moon Ltd sold goods of ₹ 17,50,000 to Star Ltd. at the profit of 20% on selling price. Inventory of Star Ltd includes goods of ₹ 7,00,000 received from the Moon Ltd.
- Selling & Distribution expense of Star Ltd. include ₹ 2,12,500 paid to the Moon Ltd. as Brokerage Fees.
- General & Administrative Expense of Moon Ltd. includes ₹ 2,80,000 paid to Star Ltd. as consultancy fees.
- Star Ltd. used some resources of Moon Ltd. & Star Ltd. paid ₹ 50,000 to Moon Ltd as royalty.

Prepare Consolidated Statement of P&L of Moon Ltd. and its Subsidiary Star Ltd. for the year ended 31.03.2021 as per Schedule III to the Companies Act, 2013.

Question 21 *(Inter July 2021) (15 Marks)* Pg no._____

The Trial Balances of X Limited and Y Limited as on 31st March, 2021 were as under:

	X Limited (₹ In 000)		Y Limited (₹ In 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of ₹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		120	
Preference share dividend upto 30.09.2020		7	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	
Total	5,027	5,027	3,450	3,450

Investment in Y Limited was acquired on 1st 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 ₹ 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.
Prepare Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021.

Question 22 *(RTP Nov 2020) (Part b) / (ICAI Study Material)* Pg no._____

Suggest the accounting treatment for the below mentioned transactions in the consolidated financial statements of A Ltd giving reference of the relevant guidance/standard.

a. A Ltd holds 80% of the equity capital and voting power in B Ltd. A Ltd sells inventories costing ₹ 180 lacs to B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with B Ltd at the financial year end i.e. 31 March 2019.
b. A Ltd holds 75% of the equity capital and voting power in B Ltd. A Ltd purchases inventories costing ₹ 150 lacs from B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with A Ltd at the financial year end i.e. 31 March 2019.

FRAMEWORK FOR PREPARATION & PRESENTATION OF FINANCIAL STATEMENTS

CH 9

The Accounting Standards Board (ASB) of the ICAI issued framework in July, 2000 which provides the fundamental basis for development of new standards as also for review of existing standards.

PURPOSE OF FRAMEWORK

The framework sets out the concepts underlying the preparation and presentation of general purpose financial statements prepared by enterprises for external users. The main purpose of the framework is to assist:

- ❖ Enterprises in preparation of their financial statements in compliance with the accounting standards (AS) and in dealing with the topics not yet covered by any AS.
- ❖ Accounting Standard Board (ASB) in its task of development and review of AS.
- ❖ ASB in promoting harmonization of regulations, accounting standards & procedures relating to preparation & presentation of financial statements by providing basis for reducing the number of alternative accounting treatments permitted by accounting standards.
- ❖ Auditors in forming an opinion as to whether financial statements conform to the AS.
- ❖ Users in interpretation of financial statements.

COMPONENTS OF FIANANCIAL STATEMENTS

Balance sheet	Portrays value of economics resources controlled by an enterprise.
Statement of P&L	Presents the results of operations of an enterprise.
Cash flow statement	Shows the way an enterprise generates cash and uses it.
Notes & other statements	Presents supplementary information explaining different items

USERS OF FINANCIAL STATEMENTS

Investors	Analysis of performance, profitability, financial position of Co.
Employees	Knowledge of stability, continuity, growth
Suppliers, creditors	Determination of credit worthiness
Customers	Analysis of stability, profitability.
Government	Evaluation of entity's performance & contribution to social objectives.
Lenders	Determine whether their loans and interest will be paid when due.
Public	Determine contribution to the local economy and public at large

FUNDAMENTAL ACCOUNTING ASSUMPTIONS

Accrual	Transactions are recognized as and when they occur, without considering receipt /payment of cash.
Going concern	Enterprise will continue in operation in foreseeable future and will not liquidate.
Consistency	Using same accounting policies for similar transactions in all accounting periods.

QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

Inter Nov 2020 (5 Marks)

Understandability	Information presented in financial statements should be readily understandable by the users with reasonable knowledge of business and economic activities.
Relevance	Financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is called relevant.
Reliability	Information must be reliable; that is to say, they must be free from material error and bias.
Comparability	Financial statements should permit both inter-firm and intra-firm comparison.
True and Fair view	Financial statements should show a true and fair view of the performance, financial position and cash flows of an enterprise.

ELEMENTS OF FINANCIAL STATEMENTS

Inter May 2018 (5 Marks)

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability*	Present obligation of the enterprise arising from past events, the settlement of which is expected to result i n an outflow of a resource embodying economic benefits.
Equity	Residual interest in assets of an enterprise after deducting all its liabilities.
Income/gain	Increase in economic benefits during accounting period in form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during accounting period in form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

* Example: *(RTP May 2020) / (RTP May 2023) / (RTP Nov 2023)*

A Ltd. has entered into a binding agreement with P Ltd. to buy a custom-made machine ₹ 40,000. At the end of 2021-22, before delivery of the machine, A Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.
Advise the accounting treatment & pass the necessary journal entry.

Solution

A liability is recognised when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured.
In the given case, A Ltd. should recognise a liability of ₹ 40,000 to P Ltd. When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense. The accounting entry is suggested below:

P&L A/c Dr. 40,000
To P Ltd. 40,000

(Loss due to change in production method)
(2 separate entries can also be passed instead of 1 entry)

MEASUREMENT BASIS OF ELEMENTS IN FINANCIAL STATEMENTS

Inter Dec 2021 (5 Marks)

Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit & loss. Framework for Preparation and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit & loss.

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

Example 1 **(Historical cost)**

Mr. X purchased a machine on 1st January, 2016 at ₹ 7,00,000. As per historical cost basis, he has to record it at ₹ 7,00,000 i.e. the acquisition price. As on 1.1.2021, Mr. X found that it would cost ₹ 25,00,000 to purchase that machine. Mr. X also took loan from a bank as on 2016 ₹ 5,00,000 @ 18% p.a repayable at the end of 15th year together with interest.

As per historical cost, the liability is recorded at ₹ 5,00,000 at the amount or proceeds received in exchange for obligation and asset is recorded at ₹ 7,00,000.

Example 2 **(Current cost)**

A machine was acquired for $ 10,000 on deferred payment basis. The rate of exchange on date of acquisition was ₹ 49/$. Payments are to be made in 5 equal annual instalments together with 10% interest per year. The current market value of similar machine in India is ₹ 5 lakhs.

Current cost of the machine = Current market price = ₹ 5,00,000.

By historical cost convention, the machine would have been recorded at ₹ 4,90,000.

To settle the deferred payment on current date one must buy dollars at ₹ 49/$. The liability is therefore recognised at ₹ 4,90,000 ($ 10,000 × ₹ 49).

Note that the amount of liability recognised is not the present value of future payments. This is because, in current cost convention, liabilities are recognised at undiscounted amount.

Example 3 **(Present Value)**

Carrying amount of a machine is ₹ 40,000 (Historical cost less depreciation). The machine is expected to generate ₹ 10,000 net cash inflow. The net realisable value (or net selling price) of machine on current date is ₹ 35,000. The enterprise's required earning rate is 10% per year. The enterprise can either use the machine to earn ₹ 10,000 for 5 years. This is equivalent of receiving present value of ₹ 10,000 for 5 years at discounting rate 10% on current date. The value realised by use of the asset is called value in use. The value in use is the value of asset by present value convention.

Value in use = ₹ 10,000 (0.909 + 0.826 + 0.751 + 0.683 + 0.621) = ₹ 37,900

Net selling price = ₹ 35,000

The present value of the asset is ₹ 37,900, which is called its recoverable value. It is obviously not appropriate to carry any asset at a value higher than its recoverable value.

Thus the asset is currently overstated by ₹ 2,100 (₹ 40,000 – ₹ 37,900).

CAPITAL MAINTENANCE

Financial capital maintenance	At historical cost	Opening & closing assets are stated at historical costs.
	At current purchasing power	Restatement at closing prices using average price indices.
Physical capital maintenance	Restatement at closing prices using specific price indices.	

Example 1 **(Financial Capital Maintenance at historical cost)**
A trader commenced business on 01/01/2021 with ₹ 12,000 represented by 6,000 units of a certain product at ₹ 2 per unit. During the year 2021 he sold these units at ₹ 3 per unit and had withdrawn ₹ 6,000. Thus:

Opening Equity = ₹ 12,000 represented by 6,000 units at ₹ 2 per unit.
Closing Equity = ₹ 12,000 (₹ 18,000 – ₹ 6,000) represented entirely by cash.
Retained Profit = ₹ 12,000 – ₹ 12,000 = Nil

The trader can start year 2022 by purchasing 6,000 units at ₹ 2 per unit once again for selling them at ₹ 3 per unit. The whole process can repeat endlessly if there is no change in purchase price of the product.

Example 2 **(Financial Capital Maintenance at current purchasing power)**
In the previous example (Example 1), suppose that the average price indices at the beginning and at the end of year are 100 and 120 respectively.

Opening Equity = ₹ 12,000 represented by 6,000 units at ₹ 2 per unit.
Opening equity at closing price = (₹ 12,000 / 100) x 120 = ₹ 14,400 (6,000 x ₹ 2.40)
Closing Equity at closing price = ₹ 12,000 (₹ 18,000 – ₹ 6,000) represented entirely by cash.
Retained Profit = ₹ 12,000 – ₹ 14,400 = (-) ₹ 2,400

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund ₹ 12,000 is not sufficient to buy 6,000 units again at increased price ₹ 2.40 per unit. In fact, he should have restricted his drawings to ₹ 3,600 (₹ 6,000 – ₹ 2,400).
Had the trader withdrawn ₹ 3,600 instead of ₹ 6,000, he would have left with ₹ 14,400, the fund required to buy 6,000 units at ₹ 2.40 per unit.

Example 3 **(Physical Capital Maintenance)**
In the previous example (Example 1) 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 = (₹ 12,000 / 100) x 125 = 6,000 x ₹ 2.50 = ₹ 15,000
Current cost of closing cash = ₹ 12,000 (₹ 18,000 – ₹ 6,000)
Opening equity at closing current costs = ₹ 15,000
Closing equity at closing current costs = ₹ 12,000
Retained Profit = ₹ 12,000 – ₹ 15,000 = (-) ₹ 3,000

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund ₹ 12,000 is not sufficient to buy 6,000 units again at increased price ₹ 2.50 per unit. The drawings should have been restricted to ₹ 3,000 (₹ 6,000 – ₹ 3,000).
Had the trader withdrawn ₹ 3,000 instead of ₹ 6,000, he would have left with ₹ 15,000, the fund required to buy 6,000 units at ₹ 2.50 per unit.

ASSIGNMENT QUESTIONS

Question 1 (ICAI Study Material)

Mohan started a business on 1st April 2021 with ₹ 12,00,000 represented by 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 2022, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate maximum amount, which can be withdrawn by Mohan in the year 2021-22 if Financial Capital is maintained at historical cost.

Solution

Particulars	₹
Closing equity (₹ 30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x ₹ 20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 – 12,00,000)

Question 2 (ICAI Study Material)

Balance sheet of a trader on 31st March, 2021 is given below

Liabilities	Amount	Assets	Amount
Capital	60,000	Property, Plant & Equipment	65,000
Profit and Loss Account	25,000	Stock	30,000
10% Loan	35,000	Trade receivables	20,000
Trade payables	10,000	Deferred costs	10,000
		Bank	5,000
	1,30,000		1,30,000

Additional information:

a) The remaining life of Property, Plant & Equipment is 5 years. The pattern of use of the asset is even. The net realisable value of Property, Plant & Equipment on 31.03.22 was ₹ 60,000.
b) The trader's purchases and sales in 2021-22 amounted to ₹ 4 lakh and ₹ 4.5 lakh respectively.
c) The cost and net realisable value of stock on 31.03.22 were ₹ 32,000 & ₹ 40,000 respectively.
d) Expenses (including interest on loan) for the year amounted to ₹ 14,900.
e) Deferred cost is amortised equally over 4 years.
f) Debtors on 31.03.22 is ₹ 25,000, of which ₹ 2,000 is doubtful. Collection of another ₹ 4,000 depends on successful re-installation of certain product supplied to the customer.
g) Closing trade payable is ₹ 12,000, which is likely to be settled at 5% discount.
h) Cash balance on 31.03.22 is ₹ 37,100.
i) There is an early repayment penalty for the loan ₹ 2,500.

Prepare the Profit and Loss Accounts and Balance Sheets of the trader in two cases
(i) assuming going concern (ii) not assuming going concern

Solution

Profit and Loss Account for the year ended 31st March, 2022

	Case (i)	Case (ii)		Case (i)	Case (ii)
To Opening Stock	30,000	30,000	By Sales	4,50,000	4,50,000
To Purchases	4,00,000	4,00,000	By Closing Stock	32,000	40,000
To Expenses	14,900	14,900	By Trade payables	-	600
To Depreciation	13,000	5,000			
To Provision for doubtful debts	2,000	6,000			

To Deferred cost	2,500	10,000			
To Loan penalty	-	2,500			
To Net Profit (b.f.)	19,600	22,200			
	4,82,000	4,90,600		4,82,000	4,90,600

Balance Sheet as at 31st March, 2022

Liabilities	Case (i)	Case (ii)	Assets	Case (i)	Case (ii)
Capital	60,000	60,000	Property, Plant & Equipment	52,000	60,000
Profit and Loss A/c	44,600	47,200	Stock	32,000	40,000
10% Loan	35,000	37,500	Trade receivables (less provision)	23,000	19,000
Trade payables	12,000	11,400	Deferred costs	7,500	-
			Bank	37,100	37,100
	1,51,600	1,56,100		1,51,600	1,56,100

Question 3 *(Inter May 2019) (5 Marks)/ (RTP May 2022) / (RTP Nov 2022)*

Summarised Balance Sheet of Cloth Trader as on 31.03.2021 is given below

Liabilities	Amount	Assets	Amount
Capital	3,00,000	Property, Plant & Equipment	360,000
Profit and Loss Account	1,25,000	Stock	1,50,000
10% Loan	2,10,000	Debtors	1,00,000
Creditors	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		6,85,000

Additional Information is as follows:

(1) The remaining life of Property, Plant & Equipment is 8 years. The pattern of use of asset is even. The net realisable value of Property, Plant & Equipment on 31.03.2022 was 3,25,000
(2) Purchases and Sales in 2021-22 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.
(3) Cost & net realizable value of stock on 31.03.2022 were ₹2,00,000 & ₹2,50,000 respectively.
(4) Expenses for the year amounted to ₹ 78,000.
(5) Deferred Expenses are amortized equally over 5 years.
(6) Sundry Debtors on 31.03.22 are 1,50,000 of which 5,000 is doubtful. Collection of another 25,000 depends on successful re-installation of certain product supplied to the customer;
(7) Closing Sundry Creditors are ₹ 75,000, likely to be settled at 10% discount.
(8) Cash balance as on 31.03.2022 is ₹ 4,22,000.
(9) There is an early repayment penalty for the loan of ₹ 25,000.

You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2021-22.
(2) Balance Sheet as on 31st March, 2022.

Solution

Profit and Loss Account for the year ended 31st March, 2022 (not assuming going concern)

	Amount		Amount
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses*	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		

To Deferred cost	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		30,07,500

Balance Sheet as at 31st March, 2022 (not assuming going concern)

Liabilities	Amount	Assets	Amount
Capital	3,00,000	Property, Plant & Equipment	3,25,000
Profit and Loss Account	5,14,500	Stock	2,50,000
10% Loan	2,35,000	Trade receivables (less provision)	1,20,000
Trade payables	67,500	Deferred costs	Nil
		Bank	4,22,000
	11,17,000		11,17,000

*Assumed that ₹ 78,000 includes interest on 10% loan amount for the year.

Question 4 *(ICAI Study Material)*

Opening Balance Sheet of Mr. A is showing the aggregate value of assets, liabilities and equity ₹ 8 lakh, ₹ 3 lakh and ₹ 5 lakh respectively. During accounting period, Mr. A has the following transactions:

(1) Earned 10% dividend on 2,000 equity shares held of ₹ 100 each
(2) Paid ₹ 50,000 to creditors for settlement of ₹ 70,000
(3) Rent of the premises is outstanding ₹ 10,000
(4) Mr. A withdrew ₹ 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:

	Assets (Lakh)	-	Liabilities (Lakh)	=	Equity (Lakh)
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

Question 5

Mr. Roy is engaged in Trading of Item I and II. Following Data are available from his Accounting records for Accounting period (1st April, 2021 to 31st March, 2022)

(i) Purchased item I on cash for ₹ 60,000 in F.Y. 2021-22.
(ii) Purchased item II on credit for ₹ 4,500 in F.Y. 2021-22.
(iii) Sold item II for ₹ 5,000 in cash in F.Y. 2021-22.
(iv) He also sold item I for ₹ 60,000 in cash and ₹ 15,000 on credit in F.Y. 2021-22.
(v) Payment for Item II purchase was done on 20th April 2022 for ₹ 4,300 as full and final payment
(vi) Paid Insurance ₹ 2,400 for one year as on 1 st July, 2021
(vii) Wages to worker is payable for the month of March, 2022 ₹ 200.

Prepare Profit & Loss A/c of trader by applying cash basis and accrual basis of accounting

Solution

Cash basis of accounting
Profit and Loss Account for the period 2021-22

Particulars	₹	Particulars	₹
To Purchase	60,000	By Sale	65,000
To Insurance	2,400		
To Net Profit	2,600		
	65,000		65,000

Accrual basis of accounting
Profit and Loss Account for the period 2021-22

Particulars	₹	Particulars	₹
To Purchase	64,500	By Sale	80,000
To Wages*	200	By Discount Received**	200
To Insurance (2,400 less prepaid 600)	1,800		
To Net Profit	13,700		
	80,200		80,200

*Considered that there was no payment of wages during the year. This worker was hired only in month of March.
** This discount was known and determined in the year 2021-22 (till 31st March, 2022).

PRACTICE QUESTIONS

Question 1 *(RTP Nov 2019) / (RTP May 2021)*

Aman started a business on 1st April 2021 with ₹ 24,00,000 represented by 1,20,000 units of ₹ 20 each. During the financial year ending on 31st March, 2022, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 2021-22 if Financial Capital is maintained at historical cost.

Solution

Particulars	₹
Closing equity (₹ 30 x 60,000 units)	36,00,000 represented by cash
Opening equity	1,20,000 units x ₹ 20 = 24,00,000
Permissible drawings to keep Capital intact	12,00,000 (36,00,000 – 24,00,000)

Question 2 *(Inter Jan 2021) (5 Marks)*

Explain how financial capital is maintained at historical cost?
Kishore started a business on 1st April, 2021 with ₹ 15,00,000 represented by 75,000 units of ₹ 20 each. During the financial year ending on 31st March, 2022, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Kishore in the year 2021-22 if Financial Capital is maintained at historical cost.

Solution

Financial capital maintenance at historical cost: Under this convention, opening and closing assets are stated at respective historical costs to ascertain opening and closing equity. If retained profit is greater than or equals to zero, the capital is said to be maintained at historical costs. This means the business will have enough funds to replace its assets at historical costs. This is quite right as long as prices do not rise.
Maximum amount which can be withdrawn by Kishore in year 2021-22 if Financial capital is maintained at historical cost

Particulars	₹
Closing equity (₹ 30 x 75,000 units)	22,50,000 represented by cash
Opening equity	75,000 units x ₹ 20 = 15,00,000
Permissible drawings to keep Capital intact	7,50,000 (22,50,000 – 15,00,000)

Thus ₹ 7,50,000 is the maximum amount that can be withdrawn by Kishore in year 2021-22 if Financial capital is maintained at historical cost.

Question 3 *(Inter July 2021) (5 Marks)*

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

Solution

Physical Capital Maintenance at Current Cost

In the given case, the specific price index applicable to the product is 125 (25/20X100).

Current cost of opening stock = (₹ 1,20,000/100) x 125 Or 6,000 units x ₹ 25	₹ 1,50,000

Current cost of closing cash (₹ 1,80,000 – ₹ 60,000)	₹ 1,20,000
Opening equity at closing current costs	₹ 1,50,000
Closing equity at closing current costs	₹ 1,20,000
Retained Profit = ₹ 1,20,000 – ₹ 1,50,000	(-) ₹ 30,000

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

If the trader had not withdrawn any amount, then the answer would have been as below:

Current cost of opening stock	₹ 1,80,000
Opening equity at closing current costs	₹ 1,50,000
Retained Profit (₹ 1,80,000 – ₹ 1,50,000)	₹ 30,000

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

Question 4 *(ICAI Study Material)*

Balance Sheet of Anurag Trading Co. on 31st March, 2021 is given below:

Liabilities	Amount	Assets	Amount
Capital	50,000	Property, Plant & Equipment	69,000
Profit and Loss Account	22,000	Stock	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Payables	18,000	Deferred Expenses	15,000
		Bank	3,000
	1,33,000		1,33,000

Additional Information:

a) Remaining life of Property, Plant & Equipment is 5 years with even use. The net realizable value of Property, Plant & Equipment as on 31st March, 2022 was ₹ 64,000.
b) Firm's sales and purchases for the year 2021-22 amounted to ₹ 5 lacs and ₹ 4.50 lacs respectively.
c) The cost and net realizable value of the stock were ₹ 34,000 and ₹ 38,000 respectively.
d) General Expenses for the year 2021-22 were ₹ 16,500.
e) Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 2020-21 i.e. ₹ 5,000 per year.
f) Out of debtors worth ₹ 10,000, collection of ₹ 4,000 depends on successful redesign of certain product already supplied to the customer.
g) Closing trade payable is ₹ 10,000, which is likely to be settled at 95%.
h) There is pre-payment penalty of ₹ 2,000 for Bank loan outstanding,

Prepare Profit & Loss Account for the year ended 31st March, 2022 by assuming it is not a Going Concern.

Solution

Profit and Loss Account for the year ended 31st March, 2022 (not assuming going concern)

	Amount		Amount
To Opening Stock	36,000	By Sales	5,00,000
To Purchases	4,50,000	By Closing Stock	38,000
To Expenses*	16,500	By Trade payables	500
To Depreciation	5,000		
To Provision for doubtful debts	4,000		
To Deferred cost	15,000		

To Loan penalty	2,000		
To Net Profit (b.f.)	10,000		
	5,38,500		5,38,500

*Assumed that General Expenses includes interest on 10% loan amount for the year.

Question 5 *(Inter Nov 2020) (5 Marks)*

Following is the Balance Sheet of M/s. S Traders as on 31st March, 2021:

Liabilities	Amount	Assets	Amount
Capital	1,50,000	Fixed Assets	1,05,000
Profit and Loss Account	56,000	Stock	76,000
11% Bank Loan	80,000	Debtors	68,000
Trade Payables	52,000	Deferred Expenses	24,000
		Cash & Bank	65,000
	3,38,000		3,38,000

Additional Information:

(i) Remaining life of Fixed Assets is 6 years with even use. The net realizable value of Fixed Assets as on 31st March, 2022 is ₹ 90,000.

(ii) Firm's Sales & Purchases for the year ending 31st March, 2022 amounted to ₹ 7,80,000 and ₹ 6,25,000 respectively.

(iii) The cost & net realizable value of the stock as on 31st March, 2022 was, ₹ 60,000 and ₹ 66,000 respectively.

(iv) General expenses (including interest on Loan) for the year 2021-22 were ₹ 53,800.

(v) Deferred expenditure is normally amortised equally over 5 years starting from the Financial year 2020-21 i.e. ₹ 6,000 per year.

(vi) Debtors on 31st March, 2022 is ₹ 65,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 10,000 debtors depends on successful re-installation of certain products supplied to the customer.

(vii) Closing Trade payable ₹ 48,000, which is likely to·be settled at 5% discount.

(viii) There is a prepayment penalty of ₹ 4,000 for Bank loan outstanding.

(ix) Cash & Bank balances as on 31st March, 2022 is ₹ 1,65,200.

Prepare Profit & Loss Account for the year ended 31st March, 2022 and Balance Sheet as on 31st March, 2022 assuming the firm is not a going concern

Solution

Profit and Loss Account for the year ended 31st March, 2022 (not assuming going concern)

	Amount		Amount
To Opening Stock	76,000	By Sales	7,80,000
To Purchases	6,25,000	By Closing Stock	66,000
To General Expenses	53,800	By Trade payables	2,400
To Depreciation	15,000		
To Provision for doubtful debts	15,000		
To Deferred expenses	24,000		
To Loan penalty	4,000		
To Net Profit (b.f.)	35,600		
	8,48,400		8,48,400

Balance Sheet as at 31st March, 2022 (not assuming going concern)

Liabilities	Amount	Assets	Amount
Capital	1,50,000	Fixed Assets	90,000
Profit and Loss Account 56,000+35,600	91,600	Stock	66,000
11% Loan	84,000	Trade receivables (less provision)	50,000
Trade payables	45,600	Deferred costs	Nil
		Cash & Bank	1,65,200
	3,71,200		3,71,200

Question 6 *(Inter Dec 2021) (5 Marks)*

Mrs. A is showing the consolidated aggregate opening balance of equity, liabilities and assets of ₹ 6 lakh, 4 lakh and 10 lakh respectively. During the current year Mrs. A has the following transactions:

1. Received 20% dividend on 10,000 equity shares of ₹ 10 each held as investment.
2. The amount of ₹ 70,000 is paid to creditors for settlement of ₹ 90,000.
3. Salary is pending by ₹ 20,000.
4. Mrs. A's drawing ₹ 20,000 for her personal use.

You are required to prepare the statement of the effect of aforesaid each transaction on closing balance sheet in the form of Assets – Liabilities = Equity after each transaction.

Solution

Effect of each transaction on Balance sheet of Mrs. A is shown below:

Transactions	Assets	–	Liabilities	=	Equity (₹ lakh)
Opening	10.00	–	4.00	=	6.00
(1) Dividend earned	10.20 [10.00+0.20]	–	4.00	=	6.20 [6.00+0.20]
(2) Settlement of Creditors	9.50 [10.20-0.70]	–	3.10 [4.00-0.90]	=	6.40 [6.20+0.20]
(3) Salary Outstanding	9.50	–	3.30 [3.10+0.20]	=	6.20 [6.40-0.20]
(4) Drawings	9.30 [9.50-0.20]	–	3.30	=	6.00 [6.20-0.20]

Question 7 *(Inter Nov 2022) (5 Marks)*

As on 1st April, 2021 opening Balance Sheet of Mr. Mohanty is showing the aggregate value of Assets, Liabilities and Equity ₹ 12 Lakhs, 3 Lakhs and 9 lakhs respectively.

During the accounting period 01/04/2021 to 31/03/2022, Mr. Mohanty has the following transactions:

(a) A liability of ₹ 50,000 was finally settled at a discount of 2%.
(b) Dividend earned @ 15% on 1,000 (F.V 100 each) Equity shares held @ ₹ 12,000.
(c) Rent of the premises paid ₹ 20,000.
(d) Mr. Mohanty withdrew ₹ 10,000 for personal purposes and also withdrew Goods worth ₹ 5,000 for personal purposes.
(e) ₹ 15,000 were received against Bill Receivables.

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

Solution

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

Transactions	Assets	–	Liabilities	=	Equity
	₹ lakh		₹ lakh		₹ lakh
Opening	12	–	3	=	9
(1) Settlement of Creditors	12 – 0.49 = 11.51	–	3 – 0.50 = 2.5	=	9.0 + 0.01 = 9.01
(2) Dividend earned	11.51 + 0.15 = 11.66	–	2.5	=	9.01+0.15 = 9.16
(3) Rent paid	11.66 -0.20 = 11.46	–	2.5	=	9.16 -0.20 = 8.96
(4) Drawings	11.46 -0.15 = 11.31	–	2.5	=	8.96 -0.15 = 8.81
(5) *Money received against B/R	11.31+0.15 -0.15 = 11.31	–	2.5	=	8.81

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

Question 8 *(ICAI Study Material)*

"One of the characteristics of financial statements is neutrality"- Do you agree with this statement?

Solution

Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results.

Question 9 – *(Inter May 2023) (5 Marks)* *Pg no._____*

Mille started a business on 01.04.2022 with a capital of ₹ 15,00,000. She purchased 1,500 units of stock at ₹ 1,000 each. She sold the entire stock for ₹ 1,500 each unit till 31.03.2023.
You are required to calculate the maximum amount which can be withdrawn by Mille in order to keep her capital intact, if Financial Capital is maintained at:

a. Historical Cost
b. Current Purchasing Power (opening index at 100 and closing index at 125)
c. Physical Capital Maintenance (Price per unit at the end of year is ₹ 1,350)

Solution

Financial Capital Maintenance at historical Costs

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,000	15,00,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	(ii)-(i)	7,50,000

Financial Capital Maintenance at current purchasing power

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,000 x 125/100	18,75,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	(ii)-(i)	3,75,000

Financial Capital Maintenance at Physical Capital Maintenance

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x1,350	20,25,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	(ii)-(i)	2,25,000

INTRODUCTION TO ACCOUNTING STANDARDS

CH 10

Generally Accepted Accounting Principles (GAAP)	• GAAP refer to a common set of accepted accounting principles, standards, and procedures that business reporting entity must follow when it prepares and present its financial statements. • It's a combination of authoritative standards (set by policy boards) & the commonly accepted ways of recording & reporting accounting information • At international level such authoritative standards are known as International Financial Reporting Standards (IFRS) and in India we have authoritative standards named as AS and IND-AS.
Meaning of AS	Accounting standards are <u>written policy documents</u> issued <u>by expert accounting body</u> or <u>by government</u> with the support of other regulatory bodies [*e.g. MCA issuing AS for companies in consultation with NFRA (National Financial Reporting Authority)*] covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.
Issues dealt by AS	➢ <u>Recognition</u> of events and transactions in the financial statements. ➢ <u>Measurement</u> of these transactions and events. ➢ <u>Presentation</u> of these transactions & events in financial statements in a manner that is meaningful and understandable to the reader. ➢ The <u>disclosure</u> requirements which should be there to enable public at large, the stakeholders and potential investors in particular, to get an insight in to what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.
Objectives	➢ The primary objective is to establish standards which have to be complied with to ensure that the financial statements are prepared in accordance with generally accepted accounting principles. ➢ To provide standard for the diverse accounting policies and principles. ➢ To eliminate the non-comparability of financial statements. ➢ To increase/improve the reliability of the financial statements. ➢ To provide standards which are transparent for users.
Benefits	➢ Standardization of alternative accounting treatment (Reduce/ eliminate the confusing variations in the accounting treatments used to prepare the financial statements) ➢ Requirement for additional disclosures. (disclosures which are not statutorily required) ➢ Comparability of financial statements.
Limitations	➢ Difficulties in making choice between different treatments. ➢ Lack of flexibilities ➢ Restricted scope (accounting standards cannot override the statute)

Standards setting process	ICAI has constituted the Accounting Standard Board (ASB) in 1977. ASB is responsible for setting accounting standards. Although ASB is a body constituted by council of ICAI, it is independent in the formulation of accounting standards and council of ICAI is not empowered to make any modifications in the draft AS formulated by ASB without consulting with the ASB.
Process	➢ Identification of area (where standardization is required) ➢ Constitution of study groups (for research) ➢ Preparation of draft and its circulation ➢ Ascertainment of views of different bodies on draft (like SEBI, CBDT, C&AG) ➢ Finalization of exposure draft ➢ Comments reviewed on exposure draft (public comments) ➢ Modification of the draft ➢ Issue of AS • For Non Corporate Entities by ICAI • For Corporate Entities by Ministry of Corporate Affairs in consultation with NFRA

NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS

Each country has its own set of rules and regulations for accounting and financial reporting. Therefore, when an enterprise decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply and this in turn will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country of origin.
International analysts and investors would like to compare financial statements based on similar accounting standards, and this has led to the growing support for an internationally accepted set of accounting standards for cross-border filings.

Few aspects which required the need for convergence are : Raising funds from international markets, Comparability of financial statements, Uniformity, Comparability, Transparency etc. and Global Investment.

SIGNIFICANCE:

- ➢ Global Standards facilitate cross border flow of money, global listing in different stock markets and comparability of financial statements.
- ➢ The convergence of financial reporting and Accounting Standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders.
- ➢ It improves the ability of investors to compare investments on a global basis and, thus, lower their risk of errors of judgment.
- ➢ It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS AS GLOBAL STANDARDS

The term International Financial Reporting Standards (IFRS) comprises IFRS issued by IASB; IAS issued by International Accounting Standards Committee (IASC); Interpretations issued by the Standard Interpretations Committee (SIC) and Interpretations issued by the IFRS Interpretations Committee of the IASB.
International Financial Reporting Standards (IFRSs) are considered a "principles based" set of standards. In fact, they establish broad rules rather than dictating specific treatments.

BECOMING IFRS COMPLIANT

Any country can become IFRS compliant *either* by adoption process or by convergence process.
Adoption would mean that the country sets a specific timetable when specific entities would be required to use IFRS as issued by the IASB.
Convergence means that the country will develop high quality, compatible accounting standards over time. Convergence means alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially. Indian Accounting Standards are almost similar to IFRS but with few carve outs so as to make them suitable for Indian Environment.

Convergence with IFRS will result in following benefits:
- Improves investor confidence across the world with transparency and comparability
- Improves inter-unit/ inter-firm/inter-industry comparison
- Group consolidation will be easy with same standard by all companies in group irrespective of their global location.
- Acceptability of financial statements stock exchanges across the globe, which will facilitate entry of any Indian company to any stock exchange.

ISSUE OF IND AS

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.

Accordingly, while formulating IFRS converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential.

Indian Accounting Standards (Ind AS) are IFRS converged standards issued by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with NFRA. NFRA recommends these standards to the MCA and MCA has to spell out the AS applicable for companies in India.
Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS).

In July 2014, the Finance Minister of India at that time, Shri Arun Jaitely ji, in his Budget Speech, announced an urgency to converge the existing accounting standards with the International Financial Reporting Standards (IFRS) through adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies

The Ministry of Corporate Affairs (MCA) has issued the Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 covering the revised roadmap of implementation of Ind AS for companies other than Banking companies, Insurance Companies and NBFCs and Indian Accounting Standards (Ind AS).
As per the Notification, Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) shall be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April, 2016. Separate roadmaps have been prescribed for implementation of Ind AS to Banking, Insurance companies and NBFCs respectively.

CARVE OUTS/INS IN IND AS

- Various terminology related changes have been made to make it consistent with the terminology used in law, e.g., 'statement of profit and loss' in place of 'statement of comprehensive income' and 'balance sheet' in place of 'statement of financial position'.
- Removal of options in accounting principles and practices in Ind AS vis-a-vis IFRS, have been made to maintain consistency and comparability of the financial statements to be prepared by following Ind AS. However, these changes will not result into carve outs.
- Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as <u>'Carve-outs'</u>.
- Additional guidance given in Ind AS over and above what is given in IFRS, is termed as <u>'Carve in'</u>

ROADMAP FOR IMPLEMENTATION OF INDAS:

For Companies other than Banks, NBFCs and Insurance Companies

<u>Phase I</u>: 1st April 2015 or thereafter (with Comparatives): Voluntary Basis for any company (other than Banks, NBFCs and Insurance companies) and its holding, subsidiary, Joint venture (JV) or Associate Company.

<u>1st April 2016: Mandatory Basis</u>

(a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth of INR 500 crore or more;
(b) Unlisted Companies having net worth of INR 500 crore or more;
(c) Parent, Subsidiary, Associate and JV of above.

<u>Phase II: 1st April 2017: Mandatory Basis</u>

(a) All companies which are listed/or in process of listing on Stock Exchanges in India or outside India not covered in Phase I (other than companies listed on SME Exchanges);
(b) Unlisted companies having net worth of INR 250 crore or more but less than INR 500 crore;
(c) Parent, Subsidiary, Associate and JV of above.

<u>Special Points to Consider:-</u>

- Companies listed on SME exchange are not required to apply Ind AS. Such companies shall continue to apply existing ASs unless they choose otherwise.
- Once Ind AS are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements i.e. there is no looking back once the Ind AS are adopted by companies.
- Companies not covered by the above roadmap shall continue to apply Accounting Standards notified in Companies (Accounting Standards) Rules, 2006.

For Non-Banking Financial Companies (NBFCs), Scheduled Commercial Banks (Excluding RRBs) and Insurers/Insurance Companies

Non-Banking Financial Companies (NBFCs)	
Phase I:	From 1st April, 2018 (with comparatives)
	NBFCs (whether listed or unlisted) having net worth INR 500 crores or more
	Holding, Subsidiary, JV & Associate companies of above NBFC other than those already covered under corporate roadmap shall also apply from said date
Phase II:	From 1st April, 2019 (with comparatives)
	NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than INR 500 crores
	NBFCs that are unlisted having net worth INR 250 crores or more but less than INR 500 crores
	Holding, Subsidiary, JV and Associate companies of above companies other than those already covered under corporate roadmap shall also apply Ind AS from the said date.
• Applicable to both Consolidated and Individual Financial Statements	
• NBFC having net worth below INR 250 crores and not covered under the above provisions shall continue to apply ASs specified in Annexure to Companies (Accounting Standards) Rules, 2006.	
• Adoption of Ind AS is allowed only when required as per the roadmap	
• Voluntary adoption of Ind AS is not allowed.	
Scheduled Commercial banks (excluding RRBs)	
➢ Scheduled Commercial Banks (SCBs) excluding Regional Rural Banks (RRBs) were initially required to implement Ind AS from 1 April 2018. However, RBI (Reserve Bank of India) vide a press release dated 5 April 2018, deferred the implementation of Ind AS by one year i.e. to be effective from 1 April 2019 instead of 1 April 2018. ➢ Further, the RBI through a notification dated 22 March 2019, deferred the Ind AS implementation till further notice. Urban Cooperative banks (UCBs) and Regional Rural banks (RRBs) are not required to apply Ind AS.	
Insurers/Insurance companies	
➢ MCA had outlined the road map for implementation of Ind AS by insurers/insurance companies from 1 April 2018. ➢ IRDAI (Insurance Regulatory and Development Authority of India) deferred the implementation of Ind AS in the insurance sector in India for a period of two years whereby the effective date was deferred to 1st April 2020. IRDAI, vide circular dated 21 January 2020, has deferred implementation of Ind AS in the insurance sector till further notice.	

APPLICABILITY OF ACCOUNTING STANDARDS

CH 10

Enterprises to which Accounting Standards apply

Accounting Standards apply in respect of any enterprise (whether organized in corporate, cooperative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes.

AS however, do not apply to enterprises solely carrying on the activities, which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the AS would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature.

Even if a very small proportion of activities of an enterprise were considered to be commercial, industrial or business in nature, the AS would apply to all its activities including those, which are not commercial, industrial or business in nature

LEGAL PROVISION: COMPANIES ACT 2013

- Section 129 (1) of the Companies Act, 2013 requires companies to present their financial statements in accordance with the accounting standards notified under Section 133 of the Companies Act, 2013.
- Also, the auditor is required by Section 143(3)(e) to report whether, in his opinion, the financial statements of the company audited, comply with the accounting standards referred to in Section 133 of the Companies Act, 2013.
- As per Section 133 of the Companies Act, 2013, the Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the ICAI in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA)

Criteria for classification of Non-company entities by ICAI

For the purpose of applicability of Accounting Standards, Non-company entities are classified into four categories, viz., Level I, Level II, Level III and Level IV.
Level I entities are large size entities, Level II entities are medium size entities, Level III entities are small size entities and Level IV entities are micro entities. Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs).

Level	Criterion
Level I Entities	Non-company entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities: (i) Entities whose securities are listed or are in the process of listing on any stock exchange, whether in India or outside India. (ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business. (iii) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds ₹ 250 crore in the immediately preceding accounting year. (iv) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of ₹ 50 crore at any time during the immediately preceding accounting year. (v) Holding and subsidiary entities of any one of the above.

Level II Entities	Non-company entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities: (i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds ₹ 50 crore but does not exceed ₹ 250 crore in the immediately preceding accounting year. (ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of ₹ 10 crore but not in excess of ₹ 50 crore at any time during the immediately preceding accounting year. (iii) Holding and subsidiary entities of any one of the above.
Level III Entities	Non-company entities which are not Level I and Level II entities but fall in any one or more of the following categories are classified as Level III entities: (i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds ₹ 10 crore but does not exceed ₹ 50 crore in the immediately preceding accounting year. (ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of ₹ 2 crore but not in excess of ₹ 10 crore at any time during the immediately preceding accounting year. (iii) Holding and subsidiary entities of any one of the above.
Level IV Entities	Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities

Additional Requirements:

(1) MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME, the Level of MSME and that it has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be.

(2) Where an entity, being covered in Level II or Level III or Level IV, had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be covered in Level II or Level III or Level IV, as the case may be. The fact that the entity was covered in Level II or Level III or Level IV, as the case may be, in the previous period and it had availed of the exemptions or relaxations available to that Level of entities shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.

(3) Where an entity has been covered in Level I & subsequently, ceases to be so covered and gets covered in Level II or Level III or Level IV, the entity will not qualify for exemption/ relaxation available to that Level, until the entity ceases to be covered in Level I for 2 consecutive years. Similar is the case in respect of an entity, which has been covered in Level II or Level III and subsequently, gets covered under Level III or Level IV.

(4) If an entity covered in Level II or Level III or Level IV opts not to avail of the exemptions or relaxations available to that Level of entities in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemption or relaxation.

(5) If an entity covered in Level II or Level III or Level IV opts not to avail any one or more of the exemptions or relaxations available to that Level of entities, it shall comply with the relevant requirements of the Accounting Standard.

(6) An entity covered in Level II or Level III or Level IV may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard: Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.

(7) In respect of Accounting Standard (AS) 15, Employee Benefits, exemptions/ relaxations are available to Level II and Level III entities, under two subclassifications, viz., (i) entities whose average number of persons employed during the year is 50 or more, and (ii) entities whose average number of persons employed during the year is less than 50. The requirements stated in paragraphs (1) to (6) above, mutatis mutandis, apply to these subclassifications.

EXEMPTIONS or RELAXATIONS FOR NON-COMPANY ENTITIES FALLING IN LEVEL II / LEVEL III AND LEVEL IV

	Level II	Level III	Level IV
AS not Applicable	AS 3, AS 17, AS 20, AS 21, AS 23, AS 25, AS 27	AS 3, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27	AS 3, AS 14, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27, AS 28
AS applicable with Disclosure Exemptions	AS 19, AS 28, AS 29	AS 10, AS 11, AS 19, AS 28, AS 29	AS 10, AS 11, AS 13, AS 19, AS 26, AS 29
Applicable with Exemptions	AS 15	AS 15	AS 15, AS 22

AS 21, 23, 25 & 27 is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

LIST OF ACCOUNTING STANDARDS (AS) IN INDIA

AS	AS TITLE	AS	AS TITLE
1	Disclosure of Accounting Policies	16	Borrowing Costs
2	Valuation of Inventories	17	Segment Reporting
3	Cash Flow Statements	18	Related Party Disclosures
4	Events Occurring after Bal. Sheet Date	19	Leases
5	Net P/L for the period, Prior Period Items & Changes in A/cing Policies	20	Earnings Per Share
6	~~Depreciation Accounting~~ -Withdrawn-	21	Consolidated Financial Statements
7	Construction Contracts	22	Accounting for Taxes on Income
8	-Withdrawn-	23	Accounting for Investment in Associates in CFS
9	Revenue Recognition	24	Discontinuing Operations
10	Property, Plant & Equipment	25	Interims Financial Reporting
11	Effects of changes in Foreign Exchange Rates	26	Intangible assets

12	Accounting for Government Grants	27	Financial Reporting of Interest in Joint Ventures
13	Accounting for Investments	28	Impairment of assets
14	Accounting for Amalgamation	29	Provisions, Contingent Liabilities and Contingent Assets
15	Employee Benefits		

CRITERIA FOR CLASSIFICATION OF COMPANIES AS PER COMPANIES (ACCOUNTING STANDARDS) RULES, 2021

Company	Criterion
SMC *(Inter Nov 2023)* *(5 Marks)*	Small and Medium-Sized Company (SMC) as defined in Clause 2(e) of the Companies (Accounting Standards) Rules, 2021: “Small and Medium Sized Company” (SMC) means, a company- (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; (ii) which is not a bank, financial institution or an insurance company; (iii) whose turnover (excluding other income) does not exceed ₹ 250 crore in the immediately preceding accounting year; (iv) which does not have borrowings (including public deposits) in excess of ₹ 50 crore at any time during immediately preceding accounting year; and (v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company. Explanation: For the purposes of clause 2(e), a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period
Non-SMCs	Companies not falling within the definition of SMC are considered as Non- SMCs.

Same Additional requirements for Companies as was for non Companies

AS not applicable to SMC’s in their entirety
AS 17 Segment Reporting AS 21* Consolidated Financial Statements AS 23* Accounting for Investments in Associates in Consolidated Financial Statements AS 25* Interim Financial Reporting AS 27* Financial Reporting of Interests in Joint Ventures *Applicable to only certain Non SMC’s
AS in respect of which relaxations from certain requirements given to SMCs
AS 15 Employee Benefits AS 19 Leases AS 20 Earnings Per Share AS 28 Impairment of Assets AS 29 Provisions, Contingent Liabilities and Contingent Assets

Question 1

M/s Omega & Co. (a partnership firm), had a turnover of ₹ 1.25 crores (excluding other income) and borrowings of ₹ 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2021. Advise the management of M/s Omega & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

<u>Solution</u>

The question deals with the issue of Applicability of Accounting Standards to a noncorporate entity. For availment of the exemptions, first of all, it has to be seen that M/s Omega & Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 4 levels viz Level I, Level II, Level III and Level IV entities.

Non-corporate entities which meet following criteria are classified as Level IV entities:

(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) does not exceed rupees 10 crores in the immediately preceding accounting year.

(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) does not exceed ₹ 2 crores at any time during immediately preceding accounting year

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

As the turnover of M/s Omega & Co. is less than ₹ 10 crores and borrowings less than ₹ 2 crores, it falls under Level IV non-corporate entities.

In this case, AS 3, AS 14, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27 and AS 28 will not be applicable to M/s Omega & Co. Relaxations from certain requirements in respect of AS 10, AS 11, AS 13, AS 15, AS 19, AS 22, AS 26 and AS 29 are also available to M/s Omega & Co.

Question 2

Comment whether the following Companies can be classified as a Small and Medium Sized Company (SMC) as per the Companies (Accounting Standards), Rules, 2021:

a) A Pvt. Ltd., a subsidiary of a multinational company listed on London Stock Exchange. It has a turnover of ₹ 12 crores and borrowings of ₹ 5 crores.

b) B Pvt. Ltd., has a turnover of ₹ 45 crores, other income of ₹ 7 crores & bank borrowings of ₹ 9 crores.

<u>Solution</u>

a) As per the definition of SMC, a company will be a SMC, if it is not holding or subsidiary company of another company which is not a SMC. Since A Pvt. Ltd., is a subsidiary of another Company which is listed, on London Stock Exchange (and is therefore not a SMC), A Pvt. Ltd., cannot be a SMC. The turnover and borrowings are not relevant in this case.

b) As per the definition of SMC, a company will be a SMC if its turnover does not exceed ₹ 250 crores or borrowings do not exceed ₹ 50 crore. For calculating this turnover, other income is not to be included. Since B Pvt. Ltd., has a turnover of ₹ 45 crores and borrowing of ₹ 9 crores, it will satisfy the definition and can be classified as SMC.

Question 3 *<u>(ICAI Study Material)</u>*

A company was classified as Non-SMC in 2021-22. In 2022-23 it has been classified as SMC. The management desires to avail the exemption or relaxations available for SMCs in 2022-23. However, the accountant of the company does not agree with the same. Comment.

Solution

As per Companies (Accounting Standards) Rules, 2021, an existing company, which was previously not an SMC and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of accounting standards available to an SMC until the company remains an SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions available with the SMCs for the FY 2022-23.

Question 4 *(ICAI Study Material)*

XYZ Ltd., with a turnover of ₹ 50 crores during the previous year and borrowings of ₹ 1 crore during any time in the previous year, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2021. Advise the management on the exemptions that are available as per the Companies (AS) Rules, 2021.

Solution

The question deals with the issue of Applicability of Accounting Standards for corporate & non-corporate.

The companies can be classified under two categories viz SMCs and Non SMCs under the Companies (AS) Rules, 2021.
Since, XYZ Ltd.'s turnover of ₹ 50 crores does not exceed ₹ 250 crores & borrowings of ₹ 1 crore is less than ₹ 50 crores, it is a small and medium sized company (SMC)
In this case, AS 3, AS 17, AS 21, AS 23, AS 27 will not be applicable to XYZ Ltd. Relaxations from certain requirements in respect of AS 15, AS 19, AS 20, AS 28 and AS 29 are also available to XYZ Ltd.

Question 5 *(RTP May 2022)*

A company with a turnover of ₹ 225 crores and borrowings of ₹ 51 crore during the year ended 31st March, 2021, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3. 2021. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021.

Solution:

The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz SMCs and Non-SMCs under the Companies (Accounting Standards) Rules, 2021. As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are:
"Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;
- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was ₹ 225 crores which does not exceed ₹ 250 crores but borrowings of ₹ 51 crore are more than ₹ 50 crores, it is not a small and medium sized company (SMC). The exemptions available to SMC are not available to this company.

Question 6 ***(RTP May 2022)***

An organization whose objects are charitable or religious, believes that the Accounting Standards are not applicable to it since only a very small proportion of its activities are business in nature. Comment.

Solution:

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

DISCLOSURE OF ACCOUNTING POLICIES

AS 01

<table>
<tr><th colspan="3">Objectives</th></tr>
<tr><td colspan="3">• Disclosure of significant accounting policies followed in preparing and presenting financial statements.
• Manner in which accounting policies are disclosed in financial statements</td></tr>
<tr><th colspan="3">Accounting Policies</th></tr>
<tr><td>Meaning</td><td colspan="2">These are:
→ Specific accounting principles (Eg: AS 2 – Lower of Cost or NRV) and
→ Methods of applying those principles (Eg: AS 2 FIFO or Weighted Average) adopted by the enterprise in the preparation & presentation of financial statements.</td></tr>
<tr><td>Notes</td><td colspan="2">• There is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which the enterprises operate make alternative accounting policies acceptable.
• Choice of the appropriate accounting policies in these specific circumstances of each enterprise requires considerable judgement by the management of the enterprise.</td></tr>
<tr><th colspan="3">Fundamental Accounting Assumptions</th></tr>
<tr><td rowspan="3">Name</td><td>Going concern</td><td>It is assumed that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.</td></tr>
<tr><td>Consistency</td><td>It is assumed that accounting policies are consistent from one period to another.</td></tr>
<tr><td>Accrual</td><td>Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.</td></tr>
<tr><td>Notes</td><td colspan="2">• If the above said assumptions are followed in financial statements, specific disclosure is not required.
• If a fundamental accounting assumption is not followed, the fact should be disclosed.
• Disclosure is necessary if not followed.</td></tr>
<tr><th colspan="3">Considerations in the selection of Accounting Policies</th></tr>
<tr><td>Primary consideration</td><td colspan="2">Financial statements should present true and fair view of
→The state of affairs of the enterprise as at the balance sheet date and
→The profit or loss for the period ended on that date</td></tr>
<tr><td>Secondary consideration</td><td>Prudence</td><td>While recognizing the incomes, expenses and losses the principle of prudence should be followed.
The income should be recognized only when it is certain to be received. (Profits are not anticipated)
The provision should be created for all the known liabilities and losses.</td></tr>
</table>

<table>
<tr><td rowspan="2"></td><td>Substance over form</td><td>It implies that suitable changes may be made in the legal form of presentation to disclose the substance in a true and fair manner. <u>Example:</u>
a) Agreement to Sell
b) Hire Purchase Transaction</td></tr>
<tr><td>Materiality</td><td>Any item of financial statements which can influence the decision of user is termed as material item & all material items should be disclosed in the financial statements.
<u>Example</u>: A company should disclose by way of notes additional information regarding any item of income or expenditure which exceeds 1% of the revenue from operations or 1,00,000 whichever is higher. (Sch III)</td></tr>
<tr><td colspan="3">Disclosure of Accounting Policies</td></tr>
<tr><td>Points to note</td><td colspan="2">➢ All the accounting policies need to be <u>disclosed</u> at <u>one place</u>
➢ These should <u>form an integral part</u> of the financial statements.
➢ These are usually disclosed in “<u>Notes to Accounts</u>”</td></tr>
<tr><td>Examples (Areas in which different accounting policies may be adopted)</td><td colspan="2">• Valuation of Inventory
• Treatment of Goodwill
• Valuation of Investment
• Treatment of Retirement benefit
• Valuation of Fixed assets
• Treatment of Contingent liabilities.
• Treatment of Expenditure during construction
• Conversion or translation of Foreign currency items.</td></tr>
<tr><td colspan="3">Change in an Accounting Policy</td></tr>
<tr><td>When change can be done?</td><td colspan="2">Accounting policy may be changed only if
→ Required by <u>Statute</u>
→ For <u>Compliance with an Accounting Standard</u>
→ For <u>better presentation</u> or true and fair view of the financial statements</td></tr>
<tr><td>Points to note</td><td colspan="2">• Any change in an accounting policy which has a <u>material effect in the current period or</u> which is reasonably expected to have a <u>material effect in later periods should be disclosed</u>
• The <u>amount</u> by which any item is affected by such change should also be <u>disclosed</u> to the extent <u>ascertainable</u>.
• Where such <u>amount is not ascertainable</u> wholly or in part, the <u>fact</u> should be indicated.
• Any change in policy which does <u>not affect the current period</u> but can have material <u>effect in the later periods</u>, then such <u>fact</u> should be disclosed.</td></tr>
<tr><td>Disclosure requirement</td><td colspan="2">• Old policy
• New policy
• Reason for change in policy
• Impact of such change</td></tr>
</table>

ASSIGNMENT QUESTIONS

Question 1

X Limited has sold its building for ₹ 50 lakhs to the purchaser who has paid the full price. Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March, 2022, documentation and legal formalities are pending. The company has not recorded the sale. It has shown the amount received as advance. Do you agree with this accounting treatment done by X Ltd.? What accounting treatment should the buyer give in its financial statements?

Solution

Although legal title has not been transferred, the economic reality & substance is that rights and beneficial interest in the immovable property have been transferred. Therefore, recording of disposal by the transferor would in substance represent the transaction entered into.

In view of this, X Ltd. should record the sales and recognize the profit of ₹ 15 lakhs in its Statement of Profit and Loss. It should remove building account from its balance sheet.

Further, in its 'Notes to Accounts', X Ltd. should disclose the following:

"Building has been sold and full consideration has been received and possession of the same has been handed over to the buyer. However, documentation and legal formalities are pending as on 31.3.2022."

The buyer should recognize the building as an asset in his balance sheet and charge depreciation on it. The buyer should disclose in his notes to account that possession has been received however documentation and legal formalities are pending.

Question 2 *(RTP May 2020) (Similar) / (ICAI Study Material)*

State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

(ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

(iii) All significant accounting policies adopted in the preparation & presentation of financial statements should form part of the financial statements.

(iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the facts need not to be indicated.

(v) There is no single list of accounting policies which are applicable to all circumstances

Solution

(i) False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) False; As per AS 1, if fundamental accounting assumptions; Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

(iv) False; 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. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(v) True; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

Question 3 *(ICAI Study Material) / (RTP May 2023) (Similar)*

In the books of M/s Prashant Ltd. closing inventory as on 31.03.2022 amounts to ₹ 1,63,000 (on the basis of FIFO method). The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2021-22. On the basis of weighted average method, closing inventory as on 31.03.2022 amounts to ₹ 1,47,000. Realisable value of the inventory as on 31.03.2022 amounts to ₹ 1,95,000.
Discuss disclosure requirement of change in accounting policy as per AS-1.

Solution

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. 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.

Thus Prashant Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose change in accounting policy in the following manner:

'The company values its inventory at lower of cost and net realisable value. Since net realisable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2021-22, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by ₹ 16,000'.

Question 4 *(RTP May 2018) / (RTP May 2021) (Similar) / (ICAI Study Material)*

Jagannath Ltd. had made a rights issue of shares in 2021. In the offer document to its members, it had projected a surplus of ₹ 40 crores during the accounting year to end on 31st March, 2022. 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) 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.

(iii) 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 2021-2022.

Solution

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:

1) 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.
2) 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.
3) 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 5 *(ICAI Study Material)*

ABC Financial Services Ltd. is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claims/petitions in a Special Court. ABC Financial Services Ltd. has accepted Inter Corporate Deposits (ICDs) and it is making its best efforts to settle the dues. There were claims at varied rates of interest, from lenders, from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non-provision of interest from the due date to date of repayment was mentioned in financial statements. On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt", and the same has been disclosed by way of a note in the accounts instead of making a provision in the Profit and Loss Account. State whether the treatment done by the company is correct or not as per relevant accounting Standard.

Solution

AS 1 recognizes 'prudence' as one of the major considerations governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information. Also as per AS 1, 'accrual' is one of the fundamental accounting assumptions.

Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be replaced in a disadvantageous position for non-payment of interest in respect of overdue amount. From the aforesaid, it is apparent that the company has an obligation on account of the overdue interest.

In this situation, the company should provide for the liability (since it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case. However, in respect of the overdue interest amounts, which are settled, the liability should be accrued to the extent of amounts settled. Non-provision of the overdue interest liability amounts to violation of accrual basis of accounting. Therefore, the treatment, done by the company, of not providing the interest amount from due date to the date of repayment is not correct.

Question 6 *(Inter Nov 2018) (5 Marks) / (RTP May 2020) / (RTP Nov 2023) (Similar)*

HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months upto 31.03.2021. The company now wants to make provision based on technical evaluation during the year ending 31.03.2022.

Total value of stock ₹ 120 lakhs

Provision required based on technical evaluation ₹ 3.00 lakhs.

Provision required based on 12 months no issues ₹ 4.00 lakhs.

You are requested to discuss the following points in the light of Accounting Standard (AS)-1:

(i) Does this amount to change in accounting policy?

(ii) Can the company change the method of accounting?

Solution

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made but the basis for making provision will not constitute accounting policy. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 4 lakhs to ₹ 3 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of HIL Ltd. for the year 2021-22 in the following manner:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the value of net assets at the end of the year would have been lower by ₹ 1 lakh."

PRACTICE QUESTIONS

Question 1 *(Inter Dec 2021) (5 Marks)*

a) ABC Ltd. was previously making provision for non-moving stocks based on stocks not issued for the last 12 months up to 31.03.2020. Now, the company wants to make provisions based on technical evaluation during the year ending 31.03.2021.
Total value of stock ₹ 133.75 lakhs
Provision required based on technical evaluation ₹ 4.00 lakhs
Provision required based on 12 months not issued ₹ 5.00 lakhs.

b) In the Books of Kay Ltd., Closing stock as on 31st March, 2021 amounts to ₹ 1,24,000 (on the basis of FIFO method)
The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2020-2021. On the basis of weighted average method, closing stock as on 31st March, 2021 amounts to ₹ 1,15,000. Realisable value of the inventory as on 31st March, 2021 amounts to ₹ 1,54,000.

Discuss Disclosure Requirements of change in accounting policy in above cases as per AS 1.

Solution

a) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating amount of provision maybe changed in case more prudent estimate canbe made In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 5 lakhs to ₹ 4 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2020 -21:
"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by ₹ 1 lakh."

b) As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. 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. Thus company should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:
"The company values inventory at lower of cost & net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2020-21, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit & value of inventory by ₹ 9,000."

Question 2 *(Inter May 2022) (5 Marks)*

State whether following statements are 'True' or 'False'. Also give reason for your answer.

a) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

b) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

c) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.

d) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the facts need not to be indicated.

Solution

a) False: As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

b) False: As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If fundamental accounting assumption is not followed, fact should be disclosed.

c) True: To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

d) False: 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. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

Question 3 *(ICAI Study Material)*

Give examples of areas where accounting policies adopted could be different for different enterprises. Would there be any adverse impact due to the adoption of different policies, and if yes, how does Accounting Standard 1 seek to address such issue?

Solution

There are various areas where different accounting policies could be adopted by different entities within the same industry. An entity may choose to value its inventories using FIFO method, whereas another entity may choose to value the same using Weighted Average method. While an entity is free to choose its accounting policy as long as in the financial statements reflect a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended, the application of different accounting policies by different entities affects the comparability of the financial statements of such different entities by stakeholders, analysts, investors etc.

To mitigate the loss of comparability, Accounting Standard 1, Disclosure of Accounting Policies requires disclosure of significant accounting policies as a part of the financial statements. This would help users of the financial statements to understand the policies followed by different entities, particularly if they belong to the same industry, and make a correct analysis of each entity resulting in more informed decision-making.

Question 4 – *(Inter May 2023) (5 Marks)*

You are required to comment on the following cases as per the provisions of Accounting Standard-1 'Disclosure of Accounting Policies'

a) 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.

b) 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 March 2023, documentation and legal formalities are pending. The company has not recorded the disposal and the amount received is shown as an advance.

c) Dee Limited has prepared its accounts on cash basis and the same is not disclosed.

d) Jee Limited disclosed significant accounting policies adopted in the preparation of financial statements, in the Directors' Report.

Solution

a) 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.

b) 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.

c) 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.

d) 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).

Question 5 *(Inter Nov 2023) (5 Marks)*

Discuss Disclosure requirements in following cases as per AS 1.

(i) Accountant of A Ltd. charges a probable loss of losing a suit in books of accounts and also disclosed the same fact in financial statements. The probability of losing the suit is 25%.

(ii) Accountant of A Ltd. capitalized all the revenue expenses of repair and maintenance during the year to Plant & Machinery and is also disclosing the same as company policy in financial statements.

(iii) A Ltd. has followed accrual basis of accounting since incorporation. The chief accountant also disclosed this fact in financial statements.

(iv) A Ltd. was providing for after sales expenses @ 2% of sales for covering expenses during the warranty period. Now A Ltd. observes that actual after sales expenses were much less as compared to provision because of better technology used in manufacturing of the products. Now, the Board of A Ltd. decides to account for these expenses as and when they occur. Sales during the period are ₹ 50 crores.

VALUATION OF INVENTORIES

AS 02

Meaning of Inventories	These are the assets: → Held for sale in the ordinary course of business (Finished goods/Stock in trade) → In the process of production for such sale (Work –in-Progress) → In the form of material or supplies to be consumed in the production process or in the rendering of services (raw material, stores and spares*, etc.) * *Inventories do not include spare parts, servicing equipment & standby equipment which meet the definition of property, plant and equipment as per AS 10. Such items are accounted for in accordance with AS 10.*
Common Classification of Inventories	(a) Raw materials & components (b) Work-in progress (c) Finished goods (d) Stock-in- trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose tools (g) Others (specify nature).
Non - Applicability	This standard <u>does not apply</u> to: • WIP arising under construction contracts • WIP of service providers • Shares, debentures & other financial instruments held as stock in trade • Producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measured at net realisable value in accordance with well established practices in those industries, e.g. where sale is assured under a forward contract or a government guarantee or where a homogenous market exists and there is negligible risk of failure to sell.
Measurement (PARA 5)	<u>Inventories should be valued at lower of cost and net realizable value</u>

Cost of Inventories

→ Cost of Purchase

→ Conversion cost

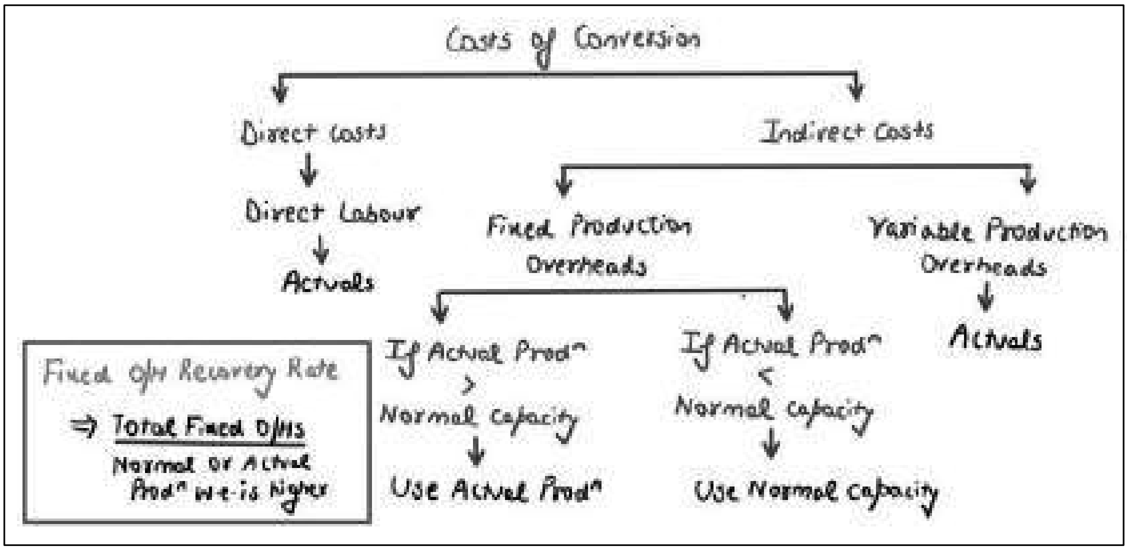
→ Other cost incurred in bringing the inventory to their present location and condition

A. COST OF PURCHASE

Basic Purchase Price		XX
Add	Duties and Taxes (non refundable)	XX
Add	Freight inwards	XX
Add	Other expenditure directly attributable to the acquisition (Note)	XX
Less	Trade discount and rebates	(XX)
	Cost of Purchase	XX

<u>Note:</u> Examples of expenditure directly attributable for purchases are- (a) Costs of Containers (b) Transit Insurance, (c) Buying Commission where purchase of material is possible only through buying agents

B. COST OF CONVERSION



ABC Ltd. has a plant with the capacity to produce 1 lac unit of a product per annum and the expected fixed overhead is ₹ 18 lacs. Fixed overhead on the basis of normal capacity is ₹ 18 (18 lacs/1 lac).

Case 1:

Actual production is 1 lac units. Fixed overhead on the basis of normal capacity and actual overhead will lead to same figure of ₹ 18 lacs.
Therefore, it is advisable to include this on normal capacity.

Case 2:

Actual production is 90,000 units. Fixed overhead is not going to change with the change in output and will remain constant at ₹ 18 lacs, therefore, overheads on actual basis is ₹ 20 per unit (18 lacs/ 90 thousands).
Hence by valuing inventory at ₹ 20 each for fixed overhead purpose, it will be overvalued and the losses of ₹ 1.8 lacs will also be included in closing inventory leading to a higher gross profit then actually earned.
Therefore, it is advisable to include fixed overhead per unit on normal capacity to actual production (90,000 x 18) ₹ 16.2 lacs and rest ₹ 1.8 lacs should be transferred to P&L Account.

Case 3:

Actual production is 1.2 lacs units. Fixed overhead is not going to change with the change in output and will remain constant at ₹ 18 lacs, therefore, overheads on actual basis is ₹ 15 (18 lacs/ 1.2 lacs).
Hence by valuing inventory at ₹ 18 each for fixed overhead purpose, we will be adding the element of cost to inventory which actually has not been incurred. At ₹ 18 per unit, total fixed overhead comes to ₹ 21.6 lacs whereas, actual fixed overhead expense is only ₹ 18 lacs.
Therefore, it is advisable to include fixed overhead on actual basis (1.2 lacs x 15) ₹ 18 lacs.

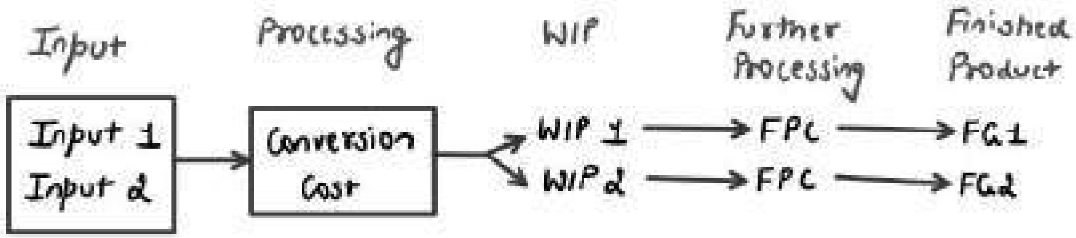
COST OF CONVERSION IN CASE OF PRODUCTION PROCESS RESULTING IN MORE THAN ONE PRODUCT BEING PRODUCED SIMULTANEOUSLY

(NOT SEPARATELY IDENTIFIABLE)

CASE 1: JOINT PRODUCT:

When the cost of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis.

Allocation may be based for e.g., Relative sales value of each product either at the stage in production process when the products become separately identifiable or at the completion of production.



Basis of Allocation of Conversion Cost

At the stage in Production process	At the completion of Production
↓	↓
On the relative sales value of WIP 1 and WIP 2	On the relative sales value of FG 1 and FG 2

CASE 2: MAIN PRODUCT AND BY PRODUCT:

- Most by products as well as scrap or waste materials, by their nature are immaterial.
- In such a case, they are measured at NRV and such value is deducted from the cost of main product.

C. OTHER COST

Other costs are included in cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

Example: Cost of designing products for specific customers.

EXCLUSIONS FROM THE COST OF INVENTORIES (PARA 13)

- Abnormal amount of wasted materials, labour or other production cost (Abnormal loss)
- Storage cost unless those are necessary in the production process prior to a further production stage.
- Administrative overheads that do not contribute to bringing the inventories to their present location and condition.
- Selling and distribution cost
- Interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are therefore usually not included in cost of inventory *(Para 12)*

COST FORMULAS

For items that are not ordinarily interchangeable	For other items
Specific identification of cost method: Specific costs are attributed to identified items of inventory	FIFO: Inventory which were purchased or produced first are sold or consumed first. or Weighted Average method: Weighted average of cost of similar items

TECHNIQUES FOR MEASUREMENT OF COST
(May Be Used For Convenience if Results Approximate Actual Cost)

Standard Cost method	Retail method
Takes into account normal levels of consumption of materials and supplies, labour, efficiency and capacity utilization	• Often used in the retail trade for measuring inventories of large numbers of rapidly changing items that have similar margins. • Inventory is determined by reducing from sales value of inventory the appropriate GP %

Example

Calculate cost of inventories using adjusted selling price/retail method:

Sales = 2,00,000 Purchases = 2,00,000 Closing Stock at selling price = 50,000

NET REALISABLE VALUE (NRV)

Estimated Selling Price	XX
Less: Estimated selling expenses	(XX)
Less: Estimated cost of completion	(XX)
NRV	XX

- NRV is to be seen on each and every balance sheet date.
- Inventories should be usually written down to NRV on an item by item basis (individual basis) and not on global basis.
- In case of firm/committed contract of sale, NRV shall be calculated at the contract price.

Example

X Ltd deals in 2 products A & B neither similar nor interchangeable. At the end of year, the Historical Cost and NRV of items of closing stock are given below. Determine the value of closing stock.

Items	Historical Cost	Net Realizable Value
Item 1	50,000	45,000
Item 2	20,000	24,000

Example

Closing Stock: 3,000 units. Cost per Unit 40. Selling Price per Unit 45.
There is firm contract for 1,000 units @ 37 per unit.

VALUATION OF MATERIALS AND OTHER SUPPLIES *(PARA 24)*

If finished product in which such raw material is to be used is expected to be sold at or above cost price [$SP_{FG} \geq CP_{FG}$]	Other cases [$SP_{FG} < CP_{FG}$]
Value Raw Material at Cost Price.	Value Raw Material at Lower of Cost price or Replacement price [CP or RP ↓]

DISCLOSURE REQUIREMENTS:

- Accounting policies
- Cost formula used
- Total carrying amount of inventories
- Classification of amount of inventories

ASSIGNMENT QUESTIONS

Question 1 *Pg no._____*

Cost of a partly finished unit at end of 2021-22 is ₹ 150. The unit can be finished next year by a further expenditure of ₹ 100.The finished unit can be sold at ₹ 250 subject to payment of 4% brokerage on selling price. What is the value of inventory?

Question 2 *Pg no._____*

A company had 5,000 units of stock "A", costing @ ₹ 50 each on 31.3.2022. Out of this stock, 3,000 units are to be supplied under a firm contract at ₹ 45 each. Show how the valuation will be done of such stock when

(i) the general selling price is ₹ 49 each.

(ii) the general selling price is ₹ 52 each.

Question 3 *Pg no._____*

The closing inventory at cost of a company amounted to ₹ 2,84,700. The following items were included at cost in the total:

(a) 400 coats, which had cost ₹ 80 each and normally sold for ₹ 150 each. Owing to a defect in manufacture, they were all sold after the balance sheet date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.

(b) 800 skirts, which had cost ₹ 20 each. These too were found to be defective. Remedial work in April cost ₹ 5 per skirt and selling expenses for the batch totaled ₹ 800. They were sold for ₹ 28 each. What should the inventory value be according to AS 2 after considering the above items?

Question 4 *(ICAI Study Material)* *Pg no._____*

You are required to value the inventory per kg of finished goods consisting of:

	₹ Per kg
Material cost	200
Direct labour	40
Direct variable overhead	20

Fixed production charges for the year on normal working capacity of 2 lakh kgs is ₹ 20 lakhs. 4,000 kgs of finished goods are in stock at the year end.

Question 5 *(RTP May 2019) / (RTP Nov 2021) (Similar) / (ICAI Study Material)* *Pg no._____*

On 31st March 2021 a business firm finds that cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2021-22 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 4% brokerage on selling price.

The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2021 for preparation of final accounts.

Assume that partly finished goods cannot be sold in semi finished form and its NRV is zero without processing it further.

Question 6 *(Inter May 2022) (5 Marks)* *Pg no._____*

SM Enterprises is a leading distributor of petrol. A detailed inventory of petrol in hand is taken when the books are closed at the end of each month.

For the month ending June 2021 following information is available:

(i) Sales for the month of June 2021 was ₹30,40,000.

(ii) General overheads cost ₹4,00,000.

(iii) Inventory at beginning 10,000 litres @ ₹ 92 per litre.

(iv) Purchases-June 1, 2021, 20,000 litres @ ₹ 90 per litre, June 30, 2021, 10,000 litres @ ₹ 95 per litre.

(v) Closing inventory 13,000 litres.

You are required to compute the following by FIFO method as per AS 2:

a) Value of Inventory on 30th June, 2021.
b) Amount of cost of goods sold for June,2021.
c) Profit/Loss for the month of June,2021.

Question 7 *(RTP May 2022)* *Pg no._____*

On the basis of information given below, find value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing Balance Sheet as on 31st Mar, 2022 on weighted Average Basis.

Details of Purchases:

Date of Purchase	Unit (Nos)	Purchase cost per unit
01-03-2022	20	108
08-03-2022	15	107
17-03-2022	30	109
25-03-2022	15	107

Details of Issue of Inventory:

Date of Issue	Unit (Nos)
03-03-2022	10
12-03-2022	20
18-03-2022	10
24-03-2022	20

Net realizable value of inventory as on 31st March, 2022 is ₹ 107.75 per unit. What will be the value of Inventory as per AS 2?

Question 8 *Pg no._____*

ABC Pvt. Limited ordered 10,000 kg. of certain material at ₹ 100 per kg. The purchase price includes GST ₹ 10 per kg., in respect of which full credit is admissible. Freight, Loading and Unloading incurred amounted to ₹ 40,800. Normal Transit Loss is 2%. Enterprise, actually received 9760 kg. & consumed 9500 kg. Determine cost of inventory and allocation of material cost as per AS–2.

Question 9 *(ICAI Study Material)* *Pg no._____*

In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case?

Question 10 *Pg no._____*

A Ltd. purchased 1,00,000 MT at ₹ 100 each of raw material and introduced it in the production process and get 85,000 MT as output. Normal wastage is 5%. In the process, company incurred the following expenses:

Direct Labour ₹ 10,00,000

Direct Variable Overheads ₹ 1,00,000

Direct Fixed Overheads ₹ 1,00,000 (Including interest ₹ 40,625)

Of the above 80,000 MT was sold during the year and remaining 5,000 MT remained in closing inventory. Due to fall in demand in market the selling price for the finished goods on the closing day was estimated to be ₹ 105 per MT. Calculate the value of closing inventory.

Question 11 Pg no._____

In a manufacturing process of Vijoy Limited, 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 (Unit)	Closing inventory
Raw material	15,000	1,60,000	MP1- 6,250	800
Wages	-	82,000	MP2- 5,000	200
Fixed overhead	-	58,000	BP-1,600	-
Variable overhead	-	40,000	-	-

Average market price of MP1 and MP2 is ₹ 80 per unit and ₹ 50 per unit respectively, by-product is sold @ ₹ 25 per unit. On By-product separate processing charges of ₹ 4,000 and packing charges of ₹ 6,000 incurred and also ₹ 6,000 was realised from sale of scrap.
Calculate the value of closing inventory of MP1 and MP2.

Question 12 Pg no._____

Z Limited ordered 13,000 kg. of chemicals at ₹ 90 per kg. The purchase price includes GST of ₹ 5 per kg, in respect of which full credit is admissible. Freight incurred amounted to ₹ 30,000. Normal transit loss is 4%. The company actually received 12,400 kg and consumed 10,000 kg. The company has received trade discount in the form of cash amounting to ₹ 1 per kg. The chemicals were delivered in containers. The containers were not reusable, hence sold for ₹ 500. The administrative expenses incurred to bring the chemicals were ₹ 10,000.
Compute the value of inventory and allocate the material cost as per AS-2

Question 13 *(ICAI Study Material)* Pg no._____

A trader purchased certain articles for ₹ 85,000. He sold some of articles for ₹ 1,05,000. The average percentage of gross markup is 25% on cost. Opening stock of inventory at cost was ₹ 15,000. Compute Closing Stock.

Question 14 Pg no._____

Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing balance	500 units
	₹ per unit
Cost price including GST	200
GST (Credit is receivable on the GST paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150
Finished goods Y	
Closing Balance	1200 units
	₹ per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units.
Calculate the value of the closing stock, when

(i) Net Realizable Value of the Finished Goods Y is ₹ 400.
(ii) Net Realizable Value of the Finished Goods Y is ₹ 300.

Question 15 *(ICAI Study Material)* — *Pg no._____*

Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2022. His factory produces Product X using Raw material A.

a) 600 units of Raw material A (purchased @ ₹ 120). Replacement cost of raw material A as on 31-3-2022 is ₹ 90 per unit.
b) 500 units of partly finished goods in process of producing X & cost incurred till date ₹ 260 per unit. These units can be finished next year by incurring additional cost of ₹ 60 per unit.
c) 1500 units of finished Product X and total cost incurred ₹ 320 per unit.

Expected selling price of Product X is ₹ 300 per unit. Determine how each item of inventory will be valued as on 31-3-2022. Also calculate the value of total inventory as on 31-3-2022.

Question 16 *(RTP May 2020)* — *Pg no._____*

Calculate the closing inventory considering the following data:

Particulars		Kg	₹
Opening Inventory	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Fixed Overheads			75,000
Sales		10,000	2,80,000
Closing Inventory	Raw Materials	900	
	Finished Goods	1,200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was ₹ 20 per kg and the replacement cost for the raw material was ₹ 9.50 per kg on the closing day.

Solution

Calculation of cost of closing inventory

Particulars	₹
Purchase costs (10,200*10)	1,02,000
Direct Labour	76,500
Fixed Overheads (75,000/15,000*10,200)	51,000
Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	22.50
Net realizable value per unit	20.00

Since net realizable value is less than cost, closing inventory will be valued at ₹ 20.
As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost ₹ 9.50.
Therefore, value of closing inventory
Finished Goods: 1,200*20 = 24,000
Raw Materials: 900*9.50 = 8,550
32,550

Question 17 — *Pg no._____*

The company X Ltd, has to pay for delay in cotton clearing charges. The company up to 31.3.2021 has included such charges in the valuation of closing stock. This being in the nature of interest, X Ltd. decided to exclude such charges from closing stock for the year 2021-22. This would result in decrease in profit by ₹ 5 lakhs. Comment.

Solution

As per AS 2, interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are therefore, usually not included in the cost of inventories. However, X Ltd. was in practice to charge the cost for delay in cotton clearing in the closing stock. As X Ltd. decided to change this valuation procedure of closing stock, this treatment will be considered as a change in accounting policy and such fact to be disclosed as per AS 1. Therefore, any change in amount mentioned in financial statement, which will affect the financial position of the company should be disclosed properly as per AS 1, AS 2 and AS 5.

Also a note should be given in the annual accounts that, had the company followed earlier system of valuation of closing stock, the profit before tax would have been higher by ₹ 5 lakhs.

Question 18 *(RTP Nov 2023)* *Pg no.*_____

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:

a) Decide whether the inventory of empty bottles is an asset of the company;
b) 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

a) 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.
b) As per AS 2 "Valuation of Inventories", 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. Hence inventory of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

Question 19 *(RTP May 2018)* *Pg no.*_____

A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realisable 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. Comment on the valuation of the inventories by the company

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 realisable 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 realisable value and not at net realisable 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 20 *(RTP May 2022)* *Pg no._____*

Rohan Pvt. Ltd., a wholesaler in agriculture products, has valued the inventory on Net Realizable Value on the ground that AS 2 does not apply to inventory of agriculture products.

Solution:

AS 2 does not apply to producers of agricultural products but applies to traders in agricultural products. Hence AS 2 will apply to Rohan Pvt. Ltd. and it will have to value inventory at lower of cost or market value.

Question 21 *(Inter Nov 2023) (5 Marks)* *Pg no._____*

In the following cases, find the value of closing stock as per AS 2:

(i) Sonu is a retailer dealing in toys. During the year, he purchased items worth for ₹ 1,47,000 and made a total sale ₹ 1,54,000. The average percentage of gross margin is 10% on cost. Opening stock of toys at cost was ₹ 20,000.

(ii) On 21st March, 2023, Mohan purchased 250 chairs at ₹ 300 each. The selling price of the chair is ₹ 400 each. Owing to a manufacturing defect, net realisable value of the whole lot of chair was determined at 70% of their normal selling price. No chairs were sold during the year.

PRACTICE QUESTIONS

Question 1 *(ICAI Study Material)* *Pg no._____*

The company deals in three products, A, B and C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2021-22, the Historical Cost and Net Realizable Value of the items of closing stock are determined as follows:

	Historical Cost (₹ In Lakhs)	Net Realisable Value (₹ In Lakhs)
A	40	28
B	32	32
C	16	24

What will be the value of Closing Stock?

Solution

As per para 5 of AS 2 on 'Valuation of Inventories', inventories should be valued at lower of cost and net realizable value. Inventories should be written down to net realizable value on an item-by-item basis in the given case.

	Historical Cost (₹ In Lakhs)	Net Realisable Value (₹ In Lakhs)	Valuation of closing stock (₹ in lakhs)
A	40	28	28
B	32	32	32
C	16	24	16
	88	84	76

Hence, closing stock will be valued at ₹ 76 lakhs.

Question 2 *Pg no._____*

Best Ltd. deals in five products, P, Q, R, S, and T which are neither similar nor interchangeable. At the time of closing of its accounts for the year ending 31st March 2022, the historical cost and net realizable value of the items of the closing stock are determined as follows:

Items	Historical cost	Net realizable value
P	5,70,000	4,75,000
Q	9,80,000	10,32,000
R	3,16,000	2,89,000
S	4,25,000	4,25,000
T	1,60,000	2,15,000

What will be the value of closing stock for the year ending 31st March, 2022 as per AS 2.

Solution

As per para 5 of AS 2 on 'Valuation of Inventories', inventories should be valued at lower of cost and net realizable value. Inventories should be written down to net realizable value on an item-by-item basis in the given case.

Items	Historical cost	Net realizable value	Value of Closing Stock
P	5,70,000	4,75,000	4,75,000
Q	9,80,000	10,32,000	9,80,000
R	3,16,000	2,89,000	2,89,000
S	4,25,000	4,25,000	4,25,000
T	1,60,000	2,15,000	1,60,000
			23,29,000

Question 3 *(Inter May 2019) (1 Mark)* *Pg no.*_____

State whether the following statements is 'True' or 'False'. Also give reason for your answer. As per provisions of AS-2, inventories should be valued at the lower of cost and selling price.

Solution

False: Inventories should be valued at the lower of cost and net realizable value (not selling price) as per AS 2.

Question 4 *(RTP Nov 2019) / (ICAI Study Material) (Similar)* *Pg no.*_____

Hello Limited purchased goods at the cost of ₹ 20 lakhs in October. Till the end of financial year, 75% of the stocks were sold. The company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

Solution

As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.
In this case, the cost of inventory is ₹ 5 lakhs.
The net realizable value is (5,50,000 – 5,50,000 × 10%) = ₹ 4,95,000.
So, the stock should be valued at ₹ 4,95,000.

Question 5 *Pg no.*_____

The closing inventory at cost of XYZ Ltd. amounted to ₹ 9,56,700. 350 Shirts, which had cost ₹ 380 each and normally sold for ₹ 750 each are included in this amount of ₹ 9,56,700. 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. What should be the closing inventory value?

Solution

Calculation of value of closing inventory

Value of closing inventory (given)	9,56,700
Less: Adjustment to bring the stock of shirts at NRV (W.N 1)	(8,313)
Revised value of clo sing inventory as per AS 2	9,48,387

Working Notes 1: Valuation of Shirts as per AS 2

Cost price (per shirt)	380
NRV per shirt :	
Sale price (per shirt) ₹ 750 × 50% = 375.00	
Less: Selling expenses (5% of ₹ 375) = (18.75)	
NRV (per shirt) = 356.25	356.25
As per AS 2, inventories are valued at cost or NRV whichever is less	356.25
Difference of cost and NRV	23.75
Therefore, value of inventory of shirts to be reduced by ₹ 8,313 (approx) (₹ 23.75 x 350 shirts)	

Question 6 *(RTP Nov 2022) (Similar)* *Pg no.*_____

The closing stock of finished goods at cost of a company amounted to ₹ 4,50,000. The following items were included at cost in the total:

(a) 100 coats, which had cost ₹ 2,200 each and normally sold for ₹ 4,000 each. Owing to a defect in manufacture, they were all sold after the balance sheet date at 50% of their normal selling price.
(b) 200 skirts, which had cost ₹ 50 each. These too were found to be defective. Remedial work in April cost ₹ 2 per skirt and selling expenses for the batch totaled ₹ 200. They were sold for ₹ 55 each.
(c) Shirts which had cost ₹ 50,000, their net realizable value at Balance sheet date was ₹ 55,000. Commission @ 10% on sales is payable to agents.

What should the inventory value be according to AS 2 after considering the above items?

Solution

Valuation of closing stock

Closing stock at cost	4,50,000
Less: Adjustment for 100 coats (Working Note 1)	(20,000)
Value of inventory	4,30,000

Working Notes:

1. Adjustment for Coats
   Cost included in Closing Stock 2,20,000
   NRV of Coats 2,00,000
   Adjustment to be made as NRV is less than Cost 20,000
2. No adjustment required for skirts and shirts as their NRV is more than their cost which was included in value of inventory.
   a. For Skirts Cost = 50*200 = 10,000 NRV = 55-2-1 (200/200) = 52*200 = 10400
   b. For Shirts Cost = 50,000 NRV = 55,000 (word NRV is written so its after Commission)

Question 7 *(RTP May 2021)* Pg no.______

The inventory of Rich Ltd. as on 31st March, 2022 comprises of Product – A: 200 units and Product – B: 800 units.

Details of cost for these products are:

Product – A: Material cost, wages cost and overhead cost of each unit are ₹ 40, ₹ 30 and ₹ 20 respectively, Each unit is sold at ₹ 110, selling expenses amounts to 10% of selling costs.

Product – B: Material cost and wages cost of each unit are ₹ 45 and ₹ 35 respectively and normal selling rate is ₹ 150 each, however due to defect in the manufacturing process 800 units of Product-B were expected to be sold at ₹ 70.

You are requested to value closing inventory according to AS 2 after considering the above.

Solution

According to AS 2 'Valuation of Inventories', inventories should be valued at the lower of cost and net realizable value.

Product – A

Material cost	40 * 200 = 8,000	
Wages cost	30 * 200 = 6,000	
Overhead	20 * 200 = 4,000	
Total cost		18,000
Realizable value [200 x (110-11)]		19,800
Hence inventory value of Product –A		18,000

Product – B

Material cost	45 * 800 = 36,000	

Wages cost	35 * 800 = 28,000	
Total cost		64,000
Realizable value [800 x 70]		56,000
Hence inventory value of Product –B		56,000

Total Value of closing inventory i.e. Product A + Product B (18,000+ 56,000) = 74,000

Question 8 *(RTP May 2023)* Pg no._____

An enterprise ordered 20000 kg of certain material at ₹ 110 per unit. The purchase price includes GST at ₹ 12 per kg, in respect of which full input tax credit (ITC) is admissible. Freight incurred amounted to ₹ 1,17,600. Normal transit loss is 2%. The enterprise actually received 19,500 Kg and consumed 18,000 Kg. You are required to calculate cost of material per Kg & Allocation of material cost?

Solution

Purchase price (20,000 Kg. x ₹ 110)	22,00,000
Less: GST Credit (20,000 Kg. x ₹ 12)	(2,40,000)
	19,60,000
Add: Freight	1,17,600
Total material cost	20,77,600
Number of units normally received = 98% of 20,000 Kg.	19,600 kg
Normal cost per Kg. (20,77,600/19,600)	106

	Kg	₹ /Kg.	₹
Materials consumed	18,000	106	19,08,00
Cost of inventory	1,500	106	1,59,000
Abnormal loss	100	106	10,600
Total material cost	19,600		20,77,600

Note: Abnormal losses are recognised as separate expense

Question 9 *(ICAI Study Material)* Pg no._____

Capital Cables Ltd., has a normal wastage of 4% in the production process. During the year 2021-22 the
Company used 12,000 MT of raw material costing ₹ 150 per MT. At the end of the year 630 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

Explain in the context of AS 2 the treatment of abnormal loss and abnormal loss and also find out the amount of abnormal loss if any.

Solution

As per para 13 of AS 2, abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Abnormal Loss:

Material used 12,000 MT @ ₹150	₹ 18,00,000
Normal Loss (4% of 12,000 MT)	480 MT
Net quantity of material	11,520 MT
Abnormal Loss in quantity	150 MT
Abnormal Loss [150 units @ ₹ 156.25 (₹ 18,00,000/11,520)]	₹ 23,437.50

Amount ₹ 23,437.50 will be charged to the Profit and Loss statement.

Question 10 *(Inter May 2019) (5 Marks)* *Pg no._____*

Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2021-22, the Company used 16,000 MT of Raw material costing ₹ 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books. You are required to:
(1) Calculate the amount of abnormal loss.
(2) Explain the treatment of normal loss and abnormal loss. [In the context of AS-2 (Revised)]

Solution

As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Abnormal Loss:
Material used 16,000 MT @ ₹ 190 = ₹ 30,40,000
Normal Loss (5% of 16,000 MT) 800 MT (included in calculation of cost of inventories)
Net quantity of material 15,200 MT

Abnormal Loss in quantity (950 - 800) 150 MT
Abnormal Loss ₹ 30,000 [150 units @ ₹ 200 (₹ 30,40,000/15,200)]
Amount of ₹ 30,000 (Abnormal loss) will be charged to the Profit and Loss statement.

Question 11 *(RTP Nov 2018) / (RTP Nov 2020) (Similar)* *Pg no._____*

A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2022.

	₹ per unit
Raw material X	
Cost price	380
Unloading charges	20
Freight inward	40
Replacement cost	300
Chemical Y	
Material consumed	440
Direct labour	120
Variable overhead	80

Additional Information:
(i) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 20,000 units.
(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when
(a) Net realizable value of Chemical Y is ₹ 800 per unit
(b) Net realizable value of Chemical Y is ₹ 600 per unit

Solution

(a) When Net Realizable Value of the Chemical Y is ₹ 800 per unit
NRV is greater than the cost of Finished Goods Y i.e. ₹ 660 (Refer W.N.)
Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock:

	Qty.	Rate	Amount
Raw Material X	1,000	440	4,40,000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

(b) When Net Realizable Value of the Chemical Y is ₹ 600 per unit
NRV is less than the cost of Finished Goods Y i.e. ₹ 660.
Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.
Value of Closing Stock:

	Qty.	Rate	Amount
Raw Material X	1,000	300	3,00,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,40,000

Working Note:
Statement showing cost calculation of Raw material X and Chemical Y

Raw material X	₹ per unit
Cost price	380
Add: Unloading charges	20
Add: Freight inward	40
Cost	440
Chemical Y	₹ per unit
Material consumed	440
Direct labour	120
Variable overhead	80
Fixed overheads (4,00,000/20,000)	20
Cost	660

Question 12

Pg no._____

U.S.A Ltd. purchased raw material @ ₹ 400 per kg. Company does not sell raw material but uses it in production of finished goods. The finished goods in which raw material is used are expected to be sold at below cost. At the end of the accounting year, company is having 10,000 kg of raw material in stock.
As the company never sells the raw material, it does not know the selling price of raw material and hence cannot calculate the realizable value of the raw material for valuation of inventories at the end of the year. However replacement cost of raw material is ₹ 300 per kg. How will you value the inventory of raw material?

Solution

As per Para 24 of AS 2, materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.
However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. Therefore, in this case, USA Ltd. will value the stock of raw material at ₹ 30,00,000 (10,000 kg. @ ₹ 300 per kg.).

Question 13 *(Inter Nov 2019) (5 Marks)* Pg no._____

Mr. Rakshit gives the following information relating to items forming part of inventory as on 31st March, 2022. His factory produces product X using raw material A.

a) 800 units of raw material A (purchased @ ₹140 per unit). Replacement cost of raw material A as on 31st March, 2022 is ₹190 per unit.

b) 650 units of partly finished goods in the process of producing X and cost incurred till date ₹310 per unit. These units can be finished next year by incurring additional cost of ₹50 per unit.

c) 1,800 units of finished product X and total cost incurred ₹360 per unit.

Expected selling price of product X is ₹350 per unit.

In the context of AS-2, determine how each item of inventory will be valued as on 31st March, 2022. Also, calculate the value of total inventory as on 31st March, 2022.

Solution

As per AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product X is ₹350 and total cost per unit for production is ₹360.

Hence the valuation will be done as under:

a) 800 units of raw material will be valued at cost 140.

b) 650 units of partly finished goods will be valued at 300 per unit i.e. lower of cost (₹310) or Net realizable value ₹300 (Estimated selling price ₹ 350/unit less additional cost of ₹50).

c) 1,800 units of finished product X will be valued at NRV of ₹350 per unit since it is lower than cost ₹360 of product X.

Valuation of Total Inventory as on 31.03.2022:

Particulars	Units	Cost (₹)	NRV/ Replacement cost ₹	Value = units x cost or NRV whichever is less (₹)	₹
Raw material A	800	140	190	1,12,000	(800 x 140)
Partly finished goods	650	310	300	1,95,000	(650 x 300)
Finished goods X	1800	360	350	6,30,000	(1,8 Pg no._____
Value of Inventory				9,37,000	

Question 14 *(Inter Jan 2021) (5 Marks)*

Mr. Jatin gives the following information relating to the items forming part of the inventory as on 31.03.2021. His enterprise produces product P using Raw Material X.

(i) 900 units of Raw Material X (purchases @ ₹ 100 per unit). Replacement cost of Raw Material X as on 31.03.2021 is ₹ 80 per unit

(ii) 400 units of partly finished goods in the process of producing P. Cost incurred till date is ₹ 245 per unit. These units can be finished next year by incurring additional cost of ₹ 50 per unit.

(iii) 800 units of Finished goods P and total cost incurred is ₹ 295 per unit.

Expected selling price of product P is ₹ 280 per unit, subject to a payment of 5% brokerage on selling price.

Determine how each item of inventory will be valued as on 31.03.2021. Also calculate the value of total Inventory as on 31.03.2021.

Solution

As per AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value.

In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product P is ₹ 266 and total cost per unit for production is ₹ 295.

Hence the valuation will be done as under:

(i) 900 units of raw material X will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 80 per unit.

(ii) 400 units of partly finished goods will be valued at 216 per unit i.e., lower of cost (₹ 245) or Net realizable value ₹ 216 (Estimated selling price ₹ 266 per unit less additional cost of ₹ 50).

(iii) 800 units of finished product P will be valued at NRV of ₹ 266 per unit since it is lower than cost ₹ 295.

Particulars	Units	Cost (₹)	NRV/ Replacement cost ₹	Value = units x cost or NRV whichever is less (₹)
Raw material X	900	100	80	72,000
Partly finished goods	400	245	216	86,400
Finished goods P	800	295	266	2,12,800
Value of Inventory				3,71,200

Question 15

Pg no._____

CC Ltd., a Pharmaceutical Company, while valuing its finished stock at the year end wants to include interest on Bank Overdraft as an element of cost, for the reason that overdraft has been taken specifically for the purpose of financing current assets like inventory and for meeting day to day working expenses". State your comments on this treatment.

Solution

As per AS 2 "Valuation of Inventories", cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. However, it makes clear that interest and other borrowing costs are usually not included in the cost of inventories because generally such costs are not related in bringing the inventories to their present location and condition.

Therefore, the proposal of CC Ltd. to include interest on bank overdraft as an element of cost is not acceptable because it does not form part of cost of production

Question 16

Pg no._____

Hema Ltd. is in the business of manufacturing computers. During the year ended 31st March, 2022 the company manufactured 550 computers, it has the policy of valuing finished stock of goods at a standard cost of ₹ 1.8 lakhs per computer.

The details of the cost are as under:

	(₹ in lakhs)
Raw material consumed	400
Direct Labour	250
Variable production overheads	150
Fixed production overheads (including interest of ₹ 100 lakhs)	290

Compute the value of cost per computer for the purpose of closing stock and also comment on the policy of valuation of inventory adopted by Hema Ltd.

Solution

As per AS 2 'Valuation of Inventories', for inclusion in the cost of inventory, allocation of fixed production overheads is based on the normal capacity of the production facilities.

In this, case finished stock has been valued at a standard cost of ₹ 1.8 lakhs per computer which incidentally synchronizes with the value computed on the basis of absorption costing as under:

	(₹ in lakhs)
Raw material consumed	400
Direct Labour	250
Variable production overheads	150
Fixed production overheads (290 - 100)	190
Total cost	990

Number of computers produced = 550 computers (Assumed to be normal production)

Cost per computer ₹ 990 lakhs/550 computers = ₹ 1.80 lakhs

Policy of the company to value closing stock on the basis of standard costing is not as per AS 2. As per AS 2, the techniques of standard cost method may be used for convenience if the result approximates to the actual cost. However, standard cost should be regularly reviewed, if necessary, and be revised in the light of the current conditions. In the instant case, the cost of inventory can be conveniently calculated
as per absorption costing. Therefore, there is no reason to adopt standard costing method.

Question 17 *(Inter July 2021) (5 Marks)* — *Pg no._____*

Joy Ltd. purchased 20,000 kilograms of Raw Material @ ₹ 20 per kilogram during the year 2020-21. They have furnished you with the following further information for the year ended 31st March, 2021:

Particulars	Units	Amount (₹)
Opening Inventory:		
Finished Goods	2,000	1,00,000
Raw Materials	2,200	44,000
Direct Labour		3,06,000
Fixed Overheads		3,00,000
Sales	20,000	11,20,000
Closing Inventory:		
Finished Goods	2,400	
Raw Materials	1,800	

The plant has a capacity to produce 30,000 Units of finished product per annum. However, the actual production of finished products during the year 2020-21 was 20,400 Units. Due to a fall in the market demand, the price of the finished goods in which the raw material has been utilized is expected to be sold @ ₹ 40 per unit. The replacement cost of the raw material was ₹ 19 per kilogram.

You are required to ascertain value of closing inventory as at 31st March, 2021 as per AS 2.

Solution

Statement Showing the Computation of Value of Closing Inventory

Value of Closing Finished Goods

Particulars	Amount (₹)
Cost of Raw Material consumed (20,400 units X ₹ 20 per kg)	4,08,000
Direct Labour	3,06,000
Fixed Overheads (3,00,000/30,000 x 20,400)	2,04,000
Cost of Production	9,18,000
Cost of Closing Inventory of Finished Goods per unit (9,18,000/20,400)	45
Net Realizable Value (NRV) per unit	40

Since net realizable value is less than cost, closing inventory of Finished Goods will be valued at ₹ 40 per unit

Value of Closing Raw Materials

As NRV of finished goods is less than its cost, the relevant raw material will be valued at its replacement cost, which is the best available measure of its NRV i.e. @ ₹ 19 per kg.

Therefore, value of closing inventory would be as under:

Finished Goods 2,400 units @ ₹ 40/- per unit	₹ 96,000
Raw Materials 1,800 kg @ ₹ 19/- per kg	₹ 34,200
Total	₹ 1,30,200

Working Note:

Calculation of raw material consumed during the year

Particulars	Unit (Kg)
Opening Inventory	2,200
Purchases	20,000
Less: Closing Inventory	(1,800)
Raw Material Consumed	20,400

Question 18 *(RTP May 2022)* Pg no._____

"In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred". Provide examples of such costs as per AS 2 'Valuation of Inventories'.

Solution:

As per AS 2 "Valuation of Inventories", certain costs are excluded from the cost of the inventories and are recognised as expenses in the period in which incurred. Examples of such costs are: (a) abnormal amount of wasted materials, labour, or other production costs; (b) storage costs, unless those costs are necessary in the production process prior to a further production stage; (c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and (d) selling and distribution costs

Question 19 *(Inter Nov 2022) (5 Marks)* Pg no._____

Following information of Sarah Limited is given:

Sarah Limited uses Raw Material 'A' for production of production of Finished Goods 'B'

Closing balance of Raw Material 'A' in units on 31st March,2022	750
	Price Per Unit in ₹
Cost Price	150
Freight inward	10
Replacement Cost	152

Closing balance of Finished Good 'B' in units on 31st March,2022	1,600
	Price Per Unit in ₹
Material Consumed	225
Direct Labour	75
Direct variable overhead	60

Total Fixed Overheads amounts to ₹ 1,00,000 on normal capacity of 20,000 units.
You are required to calculate the value of Closing Stock of Raw materials and Closing Stock of Finished Goods, as on 31st March, 2022, as per AS 2, when selling price of Finished Goods 'B' is ₹ 360 per unit.

Solution

Raw Material A	₹
Cost Price	150
Add: Freight Inward	10
Cost per unit	160
Replacement cost per unit of raw material	152

As per AS 2 (Revised) "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value. Materials and other supplies held for use in the production of inventories are written down below cost if the selling price of finished product containing the material does not exceed the cost of the finished product.
In the given case, net realizable value of the Product 'B' (Finished Goods) is ₹ 360 per unit which is less than its cost ₹ 365 per unit.
Raw Material is to be valued at replacement cost. Value of the closing stock of raw material on 31/03/2022 would be ₹ 1,14,000 (750 units X ₹152 per unit).

Finished Goods B	₹
Materials consumed	225
Direct Labour	75
Direct Variable overheads	60
Fixed overheads (₹ 1,00,000/20,000 units)	5
Cost per unit	365
Net realizable value per unit	360

As per AS 2 (Revised) "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value. Hence, Finished Goods are to be valued at NRV since NRV is less than the cost.
Value of the closing stock of Finished goods as on 31/03/2022 would be ₹ 5,76,000 (1,600 units X ₹ 360 per unit).