CA INTER ADVANCED ACCOUNTING - CASE SCENARIO FOR MAY 2024

1. Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of equipment/components. The Company has a contract with the Indian Railways for a brake component which is structured such that:

- The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.
- Railways sends an order for a defined quantity.
- The Company manufactures the required quantity and informs Railways for carrying out the inspection.
- Railways representatives visit the Company's factory and inspect the components and mark each component with a quality check sticker.
- Goods once inspected by Railways are marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location.
- The Company raises an invoice once it dispatches the goods.

The management of RTS is under discussion with the auditors of the Company in respect of accounting of a critical matter as regards its accounting with respect subsequent events i.e. events after the reporting period. They have been checking as to which one of the following events after the reporting period provides evidence of conditions that existed at the end of the reporting period?

(i) Nationalisation or privatization by government
(ii) Out of court settlement of a legal claim
(iii) Rights issue of equity shares
(iv) Strike by workforce
(v) Announcing a plan to discontinue an operation

The Company has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed ₹ 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent. RTS has a subsidiary, A Ltd, which is evaluating its production process wherein 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 was ₹ 1,000. The entire quantity of waste was on stock at the end of the financial year. **(RTP - MAY 24)**

(1) When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006? Would your answer be different if inspection is normally known to lead to no quality rejections?
 (a) Revenue should be recognized on dispatch of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
 (b) Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
 (c) Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections.
 (d) Revenue should be recognized on delivery of the component to the Railways' stockyard. The assessment would change where inspection is normally known to lead to no quality rejections.

(2) In respect of A Ltd, state with reference to Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006, what would be value of the inventory to be recorded in the books of accounts?
 (a) ₹ 47,00,000.
 (b) ₹ 50,00,000.
 (c) ₹ 49,50,000.
 (d) ₹ 49,47,368.

(3) Please guide regarding the accounting treatment of both the grants mentioned above in line with the requirements of Accounting Standard 12.
 (a) Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct.
 (b) Distribution of dividend out of grant is incorrect. In the second case, not recording land in the books of accounts is correct.

(c) Distribution of dividend out of grant is correct. In the second case, land should be recorded in the books of accounts at a nominal value.
(d) Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value.

2. SEAS Ltd., the "Company", is in the business of tours and travels. It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package.

The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.
The Company bought a forward contract for three months of US$ 1,00,000 on 1 March 2024 at 1 US$ = INR 83.10 when exchange rate was US$ 1 = INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US$ 1 = INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances.
The Company is evaluating below mentioned schemes:

(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex - gratia payments to employees on retirement.
(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

SEAS Ltd. has a subsidiary, ADI Ltd., which is in the business of construction having turnover of ₹ 200 crores. SEAS Ltd. and ADI Ltd. hold 9% and 23% respectively in an associate company, ASOC Ltd. Both SEAS Ltd. and ADI Ltd. prepare consolidated financial statements as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006. **(MTP I - MAY 24)**

(1) What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards?
(a) Gross basis.
(b) Net basis.
(c) Depends on the accounting policy of the Company.
(d) Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis.

(2) Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11.
(a) MTM (marked to market value) of contract will be recorded on 31 March 2024.
(b) MTM (marked to market value) of contract will be computed as at 31 March 2024 and only if there is loss, it will be recorded during the year ended 31 March 2024.
(c) No accounting will be done during the year ended 31 March 2024.
(d) Premium on contract will be amortized over the life of the contract.

(3) You are requested to advise the Company in respect of the accounting requirements of above schemes related to employee benefits as to which one of those schemes should be considered as a change in accounting policy during the year.
(a) 1 – Change in accounting policy. 2 – Change in accounting policy.
(b) 1– Not a change in accounting policy. 2 – Change in accounting policy.
(c) 1 – Not a change in accounting policy. 2 – Not a change in accounting policy.
(d) 1– Change in accounting policy. 2 – Not a change in accounting policy.

(4) Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd. using the below mentioned options as to which one should be correct.
(a) ADI Ltd. would using equity method of accounting for 23% in ASOC Ltd. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically equity account 23% and separately account for the balance 9% as per AS 13.
(b) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically account 23% and separately account for the balance 9%.

(c) ADI Ltd. would account for 23% share in ASOC Ltd using equity method of accounting. SEAS Ltd. would consolidate ADI Ltd. and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd. using equity method of accounting in consolidated financial statements.

(d) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and using equity method of accounting 23% in ASOC Ltd. and separately account for the balance 9% as per AS 13.

3. On 1st April, 2022, Shubham Limited purchased some land for ₹ 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of ₹ 2 lakhs incurred for the purpose of acquisition of this land. Construction work could start on 1st May, 2022 and Shubham Limited provides you the details of the following costs incurred in relation to its construction:

	₹
Preparation and levelling of the land	80,000
Employment costs of the construction workers (per month)	29,000
Purchase of materials for the construction	21,24,000
Cost of relocating employees to new factory for work	60,000
Costs of inauguration ceremony on 1st January, 2023	80,000
Overhead costs incurred directly on the construction of the factory (per month)	25,000
General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 15,000 only) and raised objection for the balance amount.	

The construction of the factory was completed on 31st December, 2022 and production could begin on 1st February, 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

The construction of the factory was partly financed by a loan of ₹ 28 lakhs borrowed on 1st April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of ₹ 25,000 on the temporary investment of the proceeds. You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land) and interest cost to be capitalized based on nine months' period.

Based on the information given in the above scenario, answer the following multiple-choice questions:

(MTP I - MAY 24)

(1) Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?
(a) ₹ 2,00,000 incurred as legal cost
(b) ₹ 60,000 – costs of relocating employees
(c) ₹ 80,000 costs of inauguration ceremony
(d) ₹ 24,000 – allocated general overhead cost

(2) What amount of employment cost of construction workers will be capitalized to the cost of factory building?
(a) ₹ 2,90,000
(b) ₹ 3,48,000
(c) ₹ 2,32,000
(d) ₹ 29,000

(3) What is the amount of net borrowing cost capitalized to the cost of the factory?
(a) ₹ 1,89,000
(b) ₹ 1,68,000
(c) ₹ 1,44,000
(d) ₹ 1,64,000

(4) What will be the carrying amount (i.e. value after charging depreciation) of the factory in the Balance Sheet of Shubham Limited as at 31st March, 2023?
   (a) ₹ 30,00,000
   (b) ₹ 57,78,125
   (c) ₹ 27,78,125
   (d) ₹ 58,00,000

4. Kesar Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.
Here is a snapshot of Kesar Ltd.'s Balance Sheet as of 31 st March, 2023:
A. Share Capital: Equity share capital (fully paid-up shares of ₹ 10 each) - ₹ 12,50,000
B. Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;
C. Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000
D. Land and building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.
(MTP I - MAY 24)

(1) By using the Shares Outstanding Test, the number of shares that can be bought back
   (a) 1,25,000
   (b) 31,250
   (c) 25,000
   (d) 30,000

(2) By using the Resources Test determine the number of shares that can be bought back:
   (a) 25,000
   (b) 31,250
   (c) 28,750
   (d) 39,062

(3) By using the Debt Equity Ratio Test determine the number of shares that can be bought back:
   (a) 25,000
   (b) 31,250
   (c) 28,750
   (d) 39,062

(4) On the basis of all three tests determine Maximum number of shares that can be bought back:
   (a) 25,000
   (b) 31,250
   (c) 28,750
   (d) 39,062

5. Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:
- It has acquired land for installing Plant for ₹ 50,00,000
- It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.
- The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.
- The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.

- On November 1, 2023, the construction activities of the plant were interrupted as the local people alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.
- With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.
- The rate of depreciation on Plant is 10%.

Based on the above information, answer the following questions. **(MTP II - MAY 24)**

(1) Which of the following expenses cannot be included in the cost of plant:
 (a) Cost of Land
 (b) Construction material and labour cost
 (c) Head office expenses
 (d) Borrowing cost

(2) How much amount of borrowing cost can be capitalised with the plant:
 (a) ₹ 300,000
 (b) ₹ 2,00,000
 (c) ₹ 7,00,000
 (d) ₹ 6,00,000

(3) The total cost of plant as on march 31, 2024 will be:
 (a) ₹ 85,00,000
 (b) ₹ 98,00,000
 (c) ₹ 93,00,000
 (d) ₹ 95,00,000

(4) The amount of depreciation to be charged for the year end March 31,2024
 (a) ₹ 4,30,000
 (b) ₹ 9,30,000
 (c) ₹ 9,80,000
 (d) Nil

6. Beloved Finance Ltd. is a financial enterprise which is in the business of lending loan to small businesses and earn interest on loans.

- During the year the Company has lend 50 crores and earned ₹ 1.5 crore as interest on loans.
- The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of ₹ 20 lacs.
- The Company also acquired a gold loan unit for ₹ 10 crore during the year and the Company provided interest free loan of ₹ 15 crore to its wholly-owned subsidiary.
- The Company paid a total income tax of ₹ 75 lacs for the year.

Based on the above information, answer the following questions. **(MTP II - MAY 24)**

(1) In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore earned on earned on loans given by the Company will be disclosed as:
 (a) Cash Flow from Operating Activities
 (b) Cash Flow from Investing Activities
 (c) Cash Flow from Financing Activities
 (d) Non-cash Items

(2) In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as:
 (a) Cash Flow from Operating Activities
 (b) Cash Flow from Investing Activities
 (c) Cash Flow from Financing Activities
 (d) Non-cash Items

(3) In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as:
(a) Cash Flow from Operating Activities
(b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities
(d) Non-cash Items

(4) In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year will be disclosed as:
(a) Cash Flow from Operating Activities
(b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities
(d) Non-cash Items

(5) Is any specific disclosures required to made in relation to the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard:
(a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements.
(b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures
(c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments
(d) No specific disclosures are required.

7. Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

- Equity Share Capital: The company has a total of ₹ 30,00,000 invested in equity shares, each valued at ₹ 10 and fully paid.
- Reserves & Surplus: Kumar Ltd. has accumulated reserves and surplus totaling ₹49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹ 6,20,000).
- Loan Funds: The company has acquired loan funds amounting to ₹ 42,00,000 to support its operational and growth initiatives.

Buy-Back Decision:
Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of ₹30 per share.
In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations.
Based on the above information, answer the following questions. **(MTP II - MAY 24)**

(1) What is the minimum equity Kumar Ltd. needs to maintain after buy- back, according to the Debt Equity Ratio Test?
(a) ₹ 12,95,000
(b) ₹ 21,00,000
(c) ₹ 32,50,000
(d) ₹ 6,00,000

(2) What is the maximum permitted buy-back of equity for Kumar Ltd.?
(a) ₹ 38,85,000
(b) ₹ 42,00,000
(c) ₹ 12,95,000
(d) ₹ 59,85,000

(3) How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?
(a) 43,000
(b) 1,29,500
(c) 2,00,000
(d) 78,000

8. XY Ltd. agrees to construct a building on behalf of its client GH Ltd. on 1st April 20X1. The expected completion time is 3 years. XY Ltd. incurred a cost of Rs 30 lakh up to 31st March 20X2. It is expected that additional costs of Rs. 90 lakh. Total contract value is Rs 112 lakh. As at 31st March 20X2, XY Ltd. has billed GH Ltd. For Rs. 42 lakh as per the agreement. Assume that the work is completed to the extent of 75% by the end of Year 2 **(MTP II - MAY 24)**

(1) Revenue to be recognized by XY Ltd. for the year ended 31st March 20X2 is
(a) 28
(b) 42
(c) 30
(d) 32

(2) Total expense to be recognised in Year 1 is
(a) 30
(b) 120
(c) 38
(d) 36

(3) Revenue to be recognised for year 2 is
(a) 84
(b) 42
(c) 56
(d) 28

9. Om Ltd. has authorized capital of Rs. 50 lakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following ledger balances as on 31st March, 2021:

	₹		₹
Inventory 1.4.2020	6,65,000	Bank Current Account (Dr. balance)	20,000
Discounts & Rebates allowed	30,000	Cash in hand	11,000
Carriage Inwards	57,500	Calls in Arrear @ Rs. 2 per share	10,000
Purchases	12,32,500	Equity share capital	20,00,000
Rate, Taxes and Insurance	55,000	(2,00,000 shares of Rs. 10 each)	
Furniture & Fixtures	1,50,000	Trade Payables	2,40,500
Business Expenses	56,000	Sales	36,17,000
Wages	14,79,000	Rent (Cr.)	30,000
Freehold Land	7,30,000	Transfer fees received	6,500
Plant & Machinery	7,50,000	Profit & Loss A/c (Cr.)	67,000
Engineering Tools	1,50,000	Repairs to Building	56,500
Trade Receivables	4,00,500	Bad debts	25,500
Advertisement Expenses	15,000		
Commission & Brokerage Expenses	67,500		

The inventory (valued at cost or market value, which is lower) as on 31st March, 2021 was Rs. 7,05,000. Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 36,500. It was decided to transfer Rs. 10,000 to reserves.
Charge depreciation on written down values of Plant & Machinery @ 5%, Engineering Tools @ 20% and Furniture & Fixtures @10%. Provide Rs. 25,000 as doubtful debts for trade receivables. Provide for income tax @ 30%. It was decided to transfer Rs. 10,000 to reserves.

(1) What is the total value of Equity Share Capital in Om Ltd.'s balance sheet as of March 31, 2021?
(a) Rs. 19,50,000
(b) Rs. 19,90,000
(c) Rs. 20,00,000
(d) Rs. 20,40,000

(2) What is the total value of Short-term Provisions in Om Ltd.'s balance sheet as of March 31, 2021?
(a) Rs. 1,35,000
(b) Rs. 1,60,000
(c) Rs. 1,85,000
(d) Rs. 2,00,000

(3) What is the value of Profit for the period reported in Om Ltd.'s Statement of Profit and Loss for the year ended March 31, 2021?
(a) Rs. 2,82,000
(b) Rs. 3,15,000
(c) Rs. 3,72,000
(d) Rs. 4,50,000

(4) What is the total value of Other Income reported in Om Ltd.'s Statement of Profit and Loss for the year ended March 31, 2021?
(a) Rs. 30,000
(b) Rs. 36,500
(c) Rs. 40,000
(d) Rs. 67,500

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

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

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

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

(iii) Goodwill is to be valued at : Galaxy Ltd. Rs. 4,48,000 Glory Ltd. Rs. 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 Rs. 1,10,000 from debtors and paid Rs. 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.

(1) What is the total value of Share Capital (in Rs.) in Glorious Ltd.'s balance sheet as of April 1, 2020?
(a) Rs. 23,80,000
(b) Rs. 26,80,000
(c) Rs. 29,80,000
(d) Rs. 33,00,000

(2) What is the total value of Intangible Assets (Goodwill) in Glorious Ltd.'s balance sheet as of April 1, 2020?
(a) Rs. 4,48,000
(b) Rs. 5,16,000
(c) Rs. 6,16,000
(d) Rs. 8,64,000

(3) What is the total value of Current Liabilities in Glorious Ltd.'s balance sheet as of April 1, 2020?
(a) Rs. 4,20,000
(b) Rs. 4,62,000
(c) Rs. 7,74,000
(d) Rs. 13,16,000

(4) What is the total value of Long-term Borrowings in Glorious Ltd.'s balance sheet as of April 1, 2020?
(a) Rs. 30,000
(b) Rs. 3,00,000
(c) Rs. 3,30,000
(d) Rs. 3,40,000

11. Smart Investments made the following investments in the year 2013-2014:
12% State Government Bonds having face value Rs. 100

Date	Particulars
01.04.2013	Opening Balance (1200 bonds) book value of Rs. 1,26,000.
02.05.2013	Purchased 2,000 bonds @ Rs. 100 cum-interest.
30.09.2013	Sold 1,500 bonds at Rs. 105 ex-interest.

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

Equity Shares of X Ltd.	
15.04.2013	Purchased 5,000 equity @ Rs. 200 on cum right basis. Brokerage of 1% was paid in addition (Face Value of shares Rs. 10)
03.06.2013	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2013	The company made a right issue of one share for every 7 shares held @ Rs. 250 per share. The entire money was payable by 31.08.2013
22.08.2013	Rights to the extent of 20% were sold @ Rs. 60. The remaining rights were subscribed.
02.09.2013	Dividend @ 15% for the year ended 31.03.2013 was received on 16.09.2013
15.12.2013	Sold 3,000 shares @ Rs.300. Brokerage of 1% was incurred extra.
15.01.2014	Received interim dividend @ 10% for the year 2013-14
31.03.2014	The shares were quoted in the stock exchange @ Rs.220.

Assume that the average cost method is applied and no dividend is received on bonus shares as bonus shares are declared on 3.6.20X1 and dividend pertains to the year ended 31.03.20X1.

(1) What was the total dividend received by Smart Investments from its equity shares of X Ltd. during the year?
(a) Rs. 7,500
(b) Rs. 4,800
(c) Rs. 15,000
(d) Rs. 16,000

(2) How many right shares of X Ltd. were subscribed by Smart Investments?
(a) 800 shares
(b) 1,000 shares
(c) 1,200 shares
(d) 1,400 shares

(3) What was the total profit on the sale of equity shares of X Ltd. made by Smart Investments during the year?
(a) Rs. 4,62,500
(b) Rs. 4,28,500
(c) Rs. 8,91,000
(d) Rs. 10,56,000

(4) What was the total interest income transferred into Statement of P&L on the State Government Bonds held by Smart Investments during the year?
(a) Rs. 27,400
(b) Rs. 17,200
(c) Rs. 21,600
(d) Rs. 25,500

12. Mr. Z has made following transactions during the financial year 2020-21:
Investment 1: 8% Corporate Bonds having face value ₹ 100.

Date	Particulars
01-06-2020	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.
16-09-2020	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, the shares were quoted in the stock exchange @ ₹ 180.

(1) What was the total interest income earned by Mr. Z from the 8% Corporate Bonds during the financial year 2020-21?
(a) ₹ 2,16,000
(b) ₹ 2,64,000
(c) ₹ 3,12,000
(d) ₹ 3,48,000

(2) What was the total profit on the sale of Equity Shares of G Ltd. made by Mr. Z during the financial year 2020-21?
(a) ₹ 7,14,800
(b) ₹ 7,60,800
(c) ₹ 7,88,000
(d) ₹ 8,10,000

(3) What was the total dividend income earned by Mr. Z from the Equity Shares of G Ltd. during the financial year 2020-21?
(a) ₹ 42,000
(b) ₹ 48,300
(c) ₹ 96,300
(d) ₹ 1,44,300

(4) What was the average cost per share for the Equity Shares of G Ltd. as of 31st March 2021?
(a) ₹ 155.29
(b) ₹ 180
(c) ₹ 260
(d) ₹ 260.29

(5) How much profit was transferred to the Profit & Loss Account from the Investment in 8% Corporate Bonds Account for the year 2020-21?
(a) ₹ 1,76,000
(b) ₹ 2,16,000
(c) ₹ 2,64,000
(d) ₹ 3,12,000

13. From the following balance sheets of H Ltd. and its subsidiary S Ltd. drawn up at 31st March, 2010, prepare a consolidated balance sheet as at that date, having regard to the following :
(i) Reserves and Profit and Loss Account of S Ltd. stood at Rs. 25,000 and Rs. 15,000 respectively on the date of acquisition of its 80% shares by H Ltd. on 1st April, 2009.
(ii) Machinery (Book-value Rs. 1,00,000) and Furniture (Book value Rs. 20,000) of S Ltd. were revalued at Rs. 1,50,000 and Rs. 15,000 respectively on 1.4.2009 for the purpose of fixing the price of its shares. [Rates of depreciation: Machinery 10%, Furniture 15%.]

Balance Sheet of H Ltd. as on 31st March, 2010

Liabilities	**H Ltd.** (₹)	**S. Ltd.** (₹)	Assets	**H Ltd.** (₹)	**S Ltd.** (₹)
Share Capital			Machinery	3,00,000	90,000
Shares of			Furniture	1,50,000	17,000
Rs. 100 each	6,00,000	1,00,000	Other assets	4,40,000	1,50,000
Reserves	2,00,000	75,000	Shares in		
Profit and Loss			S Ltd.:		
Account	1,00,000	Rs. 25,000	800 shares at		
Creditors	1,50,000	57,000	Rs. 200 each	1,60,000	—
	10,50,000	2,57,000		10,50,000	2,57,000

(1) What was the total pre-acquisition profit and reserves of S Ltd. as of 31st March 2010?
(a) ₹ 15,000
(b) ₹ 25,000
(c) ₹ 32,000
(d) ₹ 40,000

(2) What was the total minority interest in S Ltd. as of 31st March 2010?
(a) ₹ 8,000
(b) ₹ 32,000
(c) ₹ 40,000
(d) ₹ 48,150

(3) What was the cost of control or goodwill acquired by H Ltd. in acquiring 80% shares of S Ltd.?
(a) ₹ 8,000
(b) ₹ 12,000
(c) ₹ 32,000
(d) ₹ 40,000

(4) What was the net profit on revaluation of assets in S Ltd.?
(a) ₹ 50,000
(b) ₹ 45,000
(c) ₹ 36,000
(d) ₹ 5,000

14. From the following details relating to the Accounts of Grow More Ltd. Prepare Cash Flow Statement:

	31.3.2002(Rs.)	**31.3.2001(Rs.)**
Liabilities:		
Share Capital	10,00,000	8,00,000
General Reserve	2,00,000	1,50,000
Profit and Loss Account	1,00,000	60,000
Debentures	2,00,000	---
Provision for taxation	1,00,000	70,000
Dividend Payable	-	1,00,000
Sundry Creditors	7,00,000	8,20,000
	23,00,000	**20,00,000**
Assets:		
Plant and Machinery	7,00,000	5,00,000
Land/Building	6,00,000	4,00,000
Investments	1,00,000	---
Sundry Debtors	5,00,000	7,00,000
Stock	4,00,000	2,00,000
Cash on hand/bank	-	2,00,000
	23,00,000	**20,00,000**

Other Information:
1. Depreciation @ 25% was charged on the opening value of Plant and Machinery.
2. During the year one old machine costing 50,000 (WDV 20,000) was sold for Rs. 35,000.
3. Rs. 50,000 was paid towards Income tax during the year.
4. Construction of the building got completed on 31.03.2002 and hence no depreciation may be charged on the same.

(1) What was the net cash generated from financing activities for Grow More Ltd. during the year ended 31st March, 20X1?
(a) ₹ 2,00,000
(b) ₹ 3,00,000
(c) ₹ 1,00,000
(d) ₹ Nil

(2) How much cash was paid towards income tax by Grow More Ltd. during the year ended 31st March, 20X1?
(a) ₹ 70,000
(b) ₹ 80,000
(c) ₹ 50,000
(d) ₹ 1,00,000

(3) What was the net decrease in cash and cash equivalents for Grow More Ltd. during the year ended 31st March, 20X1?
(a) ₹ 2,00,000
(b) ₹ 50,000
(c) ₹ 3,00,000
(d) Nil

(4) What was the net cash generated from operating activities for Grow More Ltd. during the year ended 31st March, 20X1?
(a) ₹ 1,60,000
(b) ₹ 1,10,000
(c) ₹ 2,80,000
(d) ₹ 50,000

(5) What was the net cash used in investing activities for Grow More Ltd. during the year ended 31st March, 20X1?
(a) ₹ 6,10,000
(b) ₹ 3,45,000
(c) ₹ 2,00,000
(d) ₹ 35,000

15. X Ltd. has constructed a Building as on 1st April 2014. The total cost of the building Rs. ₹ 152,000 which has been following components, details of which are given below.

Component	Original cost(₹)	Estimated Scrap Value (₹)	Estimated useful life
Building (Other than roof)	100,000	4,000	30
Roof	40,000	5,000	14
Furniture and Fixtures	12,000	Nil	10

Method of depreciation: Straight-line method
Till 31st March 2021 no further capital expenditure had been incurred on the building.
Due to the unavoidable reason as on 1st April 2021, the furniture and fixtures abolished and the company decide to replace the whole of the furniture and fixtures at a cost of ₹ 20,000. The useful life of the new furniture and fixtures is 9 years with ₹ 2,000 Scrap Value.
At the same time X Ltd. incurred a cost of ₹ 8,000 on repairing of Building.

(1) What is the amount of depreciation charged for the year ended 2018-2019?
(a) ₹ 7,390 (b) ₹ 6,900 (c) ₹ 5,500 (d) ₹ 8,200

(2) What is the carrying amount of the PPE at 31st March 2020?
(a) ₹ 117,500 (b) ₹ 103,700 (c) ₹ 110,600 (d) ₹ 96,800

(3) What is the charge to profit or loss (other than depreciation) for the year ended 21-22?
(a) ₹ 7,700 (b) ₹ 11,300 (c) ₹ 3,600 (d) 11,600

(4) What is the amount of depreciation charged for the year ended 2021-2022?
(a) ₹ 7,700 (b) ₹ 6,900 (c) ₹ 8,900 (d) ₹ 5,700

(5) What is the carrying amount of the total Building at 31st March 2023?
(a) ₹ 112,400 (b) ₹ 104,700 (c) ₹ 97,000 (d) ₹103,900

ANSWER KEYS

1.

(1) (b)

(2) (d)

(3) (d)

2.

(1) (a)

(2) (d)

(3) (c)

(4) (c)

3.

(1) (a)

(2) (c)

(3) (d)

(4) (b)

4.

(1) (b)

(2) (d)

(3) (c)

(4) (c)

5.

(1) (c)

(2) (b)

(3) (c)

(4) (d)

6.

(1) (a)

(2) (a)

(3) (b)

(4) (a)

(5) (b)

7.

(1) (b)

(2) (a)

(3) (b)

8.

(1) (a)

(2) (d)

(3) (c)

9.

(1) (b)

Explanation: The Equity Share Capital is calculated as the total number of issued and subscribed shares multiplied by their face value. It equals Rs. 19,90,000.

(2) (a)

Explanation: Short-term Provisions include the provision for tax, which is Rs. 1,35,000.

(3) (b)

Explanation: Profit for the period is calculated as the difference between Total Income and Total Expenses, which equals Rs. 3,15,000.

(4) (b)

Explanation: Other Income includes Miscellaneous Income (Transfer fees) and Rental Income, which total Rs. 36,500.

10.

(1) (b)

Explanation: Share Capital includes the value of equity shares issued for consideration other than cash. It equals the total number of shares issued multiplied by their face value, which is Rs. 10 each, totaling Rs. 2,68,000.

(2) (c)

Explanation: Intangible Assets include the value of Goodwill transferred from Galaxy Ltd. and Glory Ltd., totaling Rs. 6,16,000.

(3) (a)

Explanation: Current Liabilities include Trade Payables, which equals Rs. 4,20,000.

(4) (b)

Explanation: Long-term Borrowings include the value of 8% Debentures issued by Glorious Ltd., which equals Rs. 3,00,000.

11.

(1) (b)

(2) (a)

(3) (b)

(4) (a)

Solution:

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

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

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

Date	Particulars	Nos.	Dividend	Amount	Date	Particulars	Nos.	Dividend	Amount
15.4.X1	To Bank A/c (W.N.3)	5,000		10,10,000					
3.6.X1	To Bonus Issue	2,000	-	-	16.9.X1	By Bank (Dividend) (5,000 x 10 x 15%) (refer note 1 and 2)	-	-	7,500
31.8.X1	To Bank A/c (W.N.11)	800		2,00,000	15.12.X1	By Bank (Sale) (W.N.4)	3,000	-	8,91,000
15.12.X1	To P & L A/c (W.N.5)			4,28,500	15.1.X2	By Bank (interim dividend) (W.N.12)		4,800	
31.3.X2	To P & L A/c		4,800		31.3.X2	By Bal. c/d (W.N.6)	4,800		7,40,000
		7800	4,800	16,38,500			7800	4,800	16,38,500

Working Notes:

1. **Profit on sale of bonds on 30.9.X1**
   = Sales proceeds – Average cost
   Sales proceeds = Rs.1,57,500 (i.e., 1,500 x 105)
   Average cost = Rs. [(1,26,000+1,92,000) X 1,500/3,200] = 1,49,062.50
   Profit = 1,57,500– Rs.1,49,062.50=Rs.8,437.50

2. **Valuation of bonds on 31st March, 20X2**
   Cost = Rs.3,18,000/3,200 x1,700 = 1,68,937.50

3. **Cost of equity shares purchased on 15/4/20X1**
   = Cost + Brokerage
   = (5,000 X Rs. 200) + 1% of (5,000 X Rs.200) =Rs. 10,10,000

4. **Sale proceeds of equity shares on 15/12/20X1**
   = Sale price – Brokerage
   = (3,000 X Rs.300) – 1% of (3,000 X Rs.300) =Rs. 8,91,000.

5. **Profit on sale of shares on 15/12/20X1 = Sales proceeds – Average cost**

   Sales proceeds = Rs.8,91,000
   Average cost
   = Rs.[(10,10,000+2,00,000-7,500) X 3,000/7,800]
   = Rs.[12,02,500 X 3,000/7,800] = Rs. 4,62,500
   Profit = Rs.8,91,000 – Rs.4,62,500 =Rs.4,28,500.

6. **Valuation of equity shares on 31st March, 20X2**
   Cost = Rs.[12,02,500 X 4,800/7,800] = Rs.7,40,000
   Market Value = 4,800 shares × Rs.220 = Rs.10,56,000
   Closing stock of equity shares has been valued at Rs. 7,40,000 i.e. cost being lower than the market value.

7. **Interest accrued on opening balance of bonds** = 1,200 x 100 x 12% x 3/12 = Rs.3,600

8. **Interest element in bonds purchased on 02.05.20X1** = 2,000 x 100 x 12% x 4/12 = Rs.8,000
   Cost of investment (amount in investment column) = (2,000 x 100) – 8,000 = Rs.1,92,000

9. **Interest element in bonds sold on 30.09.20X1** = 1,500 x 100 x 12% x 3/12 = Rs.4,500

10. **Interest accrued on closing balance of bonds** = 1,700 x 100 x 12% x 3/12 = Rs.5,100

11. **Right shares**
    No. of right shares issued = (5,000 + 2,000) x 1/7 = 1,000 shares
    No. of right shares sold = 1,000 x 20% = 200 shares
    Proceeds from sale of right shares = 200 x 60 = Rs.12,000
    to be credited to statement of profit and loss
    No. of right shares subscribed = 1,000 – 200 = 800 shares
    Amount of right shares subscribed = 800 x 250 = Rs.2,00,000

12. **Amount of interim dividend** = (5,000 + 2,000 + 800 – 3,000) x 10 x 10% = Rs. 4,800

12.

(1) (a)

(2) (a)

(3) (c)

(4) (a)

(5) (a)

Solution:

In the books of Mr. Z
Investment in 8% Corporate Bonds Account
For the period 01 April 2020 to 31 March 2021

Date	Particulars	Nos	Interest (₹)	Amount (₹)	Date	Particulars	Nos	Interest (₹)	Amount (₹)
1/6/20	To Bank A/c (WN1)	36,000	48,000	30,48,000	30/9/20	By Bank A/c (Interest 36,000 x 100 x 8% x 6/12)		1,44,000	
15/2/21	To Profit & Loss A/c (WN 3)			1,76,000	15/2/21	By Bank A/c (WN2)	24,000	72,000	22,08,000
31/3/21	To Profit & Loss A/c		2,16,000		31/3/21	By Bank A/c (Interest 12,000 x 100 x 8% x 6/12)		48,000	

						By Balance c/d (WN 4)	12,000		10,16,000
	Total	36,000	2,64,000	32,24,000		Total	36,000	2,64,000	32,24,000

Note: For computing the interest on the bonds sold on 15 Feb 2021, if number of days (138 days) is taken instead of months, the interest received on 15.02.2021 should be ₹72,592 and the total interest transferred to Profit & Loss Account should be ₹ 2,16,592.

Investment in Equity Shares of G Ltd
For the period 1st April 2020 to 31 March 2021

Date	Particulars	Nos	Dividend (₹)	Amount (₹)	Date	Particulars	Nos	Dividend (₹)	Amount (₹)
01/4/20	To Balance b/d	8,000		15,20,000	16/9/20	By Bank A/c (WN 7)		48,000	42,000
01/5/20	To Bank A/c (WN 5)	7,000		16,26,100	1/12/20	By Bank A/c (WN 8)	7000		18,01,800
15/6/20	To Bonus Shares	6,000			25/1/21	By Bank A/c (WN 10)		48,300	
25/8/20	To Bank A/c (Right Shares) (WN 6)	2,100		4,83,000	31/3/21	By Balance c/d (WN 11)	16,100		25,00,100
01/12/20	To Profit & Loss A/c (Sale of shares) (WN 9)			7,14,800					
31/3/21	To Profit & Loss A/c		96,300						
	Total	23,100	96,300	43,43,900		Total	23,100	96,300	43,43,900

Working Notes:

(1) Computation of the Interest element in the bonds purchased on 01 June 2020

No of Bonds purchased		36,000
Face value per bond		₹ 100
Face value of the bonds purchased		₹ 36,00,000
Interest Rate		8%
Interest Amount	(36,00,000 x 8% x 2/12)	₹ 48,000
Cum-interest per bond		₹ 86
Value of bond excluding interest	[(36,000 x ₹ 86) – ₹48,000]	₹ 30,48,000

(2) Computation of the Interest element in the bonds sold on 15 Feb 2021

No of Bonds sold		24,000
Face value per bond		₹ 100
Face value of the bonds sold		₹ 24,00,000
Interest Rate		8%
Interest Amount	(₹ 24,00,000 x 8% x 4.5/12)	= ₹ 72,000

(3) Computation of Profit on Sale of Bonds on 15 Feb 2021

No of Bonds sold		24,000
Face value per bond		₹ 100
Ex- interest Rate per bond		₹ 92
Sales proceeds		₹ 22,08,000
Average Cost of Bonds	(30,48,000/36,000) x 24,000	₹ 20,32,000
Profit on sale of bonds		
Sale Proceeds – Average Cost = (₹ 22,08,000 – ₹ 20,32,000)		₹ 1,76,000

(4) Valuation of Bonds as on 31 March 2021

No of Bonds held as on 31 Mar 2021		12,000
Average Cost of Bonds	(₹ 30,48,000/36,000) x 12,000	₹ 10,16,000

(5) Computation of the cost of the equity shares purchased on 01 May 2020

No of shares purchased	7,000
Cum right price per share	₹ 230
Cost of purchase	₹ 16,10,000
Brokerage @1%	₹ 16,100
Cost including brokerage	₹ 16,26,100

(6) Right Shares

No of Right Shares Issued	(8,000+7,000+6,000)/7	=	3,000 shares
No of right shares sold	3,000 shares x 30%	=	900 shares
Proceeds from sale of right shares to be credited to statement of profit & loss	900 shares x ₹ 75	=	₹ 67,500
No of right shares subscribed	3,000-900	=	2,100 shares
Amount of right shares subscribed	2,100 x 230	=	₹ 4,83,000

(7) Computation of Dividend Received on 16 Sept 2020

No of shares held during the period of dividend	8,000 shares
Dividend per share	₹ 6
Dividend Amount 8,000 x 6 =	₹ 48,000
No of shares received after the period of dividend (excluding bonus & right shares)	7,000 shares
Dividend per share	₹ 6
Dividend Amount 7,000 x ₹ 6 =	₹ 42,000

The amount of dividend for the period for which the shares were not held by the investor has been treated as capital receipt. Thus ₹ 42,000 shall be treated as capital receipt.

(8) Sale Proceeds for the shares sold on 1st Dec. 2020

No of shares sold	7,000 Shares
Sale price per share	₹ 260
Proceeds from sale of share 7,000 x 260 =	₹ 18,20,000
Less: Brokerage @ 1%	₹ 18,200
Net Sale Proceeds	₹ 18,01,800

(9) Profit on sale of shares on 1st Dec. 2020

Sales Proceeds	₹ 18,01,800
Average Cost (15,20,000+16,26,100+4,83,000-42,000)/23,100x7,000 =	₹ 10,87,000
Profit on sale of shares Sales Proceeds – Average Cost = ₹ 18,01,800 - ₹ 10,87,000 =	₹ 7,14,800

(10) Computation of Amount of Interim Dividend

No of shares held	(8,000+7,000+6,000+2,100-7,000)	=	16,100
Dividend per share			₹ 3 per share
Dividend Received	16,100 shares x ₹ 3 per share	=	₹ 48,300

(11) Valuation of Shares as on 31 March 2021

Cost of Shares

(15,20,000 + 16,26,100 + 4,83,000 – 42,000) / 23,100 X 16,100 = ₹ 25,00,100

Market Value of Shares ₹ 260 x 16,100 = ₹ 41,86,000

Closing stock of equity shares has been value at ₹ 25,00,100 i.e. cost being lower than its market value.

(i)

Profit & Loss Account (Extract)
For the period 01 April 2020 to 31 March 2021

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	12,70,600	By Investment in 8% Corporate Bonds Account (Profit on sale of bonds)	1,76,000
		By Investment in 8% CorporateBonds Account (Interest on bonds)	2,16,000
		By Sale of Right Shares	67,500

		By Investment in Equity Shares of GLtd (Profit on sale of shares)	7,14,800
		By Investment in Equity Shares of GLtd (Dividend Income)	96,300

(ii) As per AS 13, when investments are classified from Current Investments to Long term Investments, transfer is made at Cost and Fair value, whichever is less (as on the date of transfer). So, in the given case valuation shall be done as follows:

Date of reclassification/transfer = 15 May 2021

Per Unit Cost of 16,100 shares held = ₹ 25,00,100/16,100 shares = ₹ 155.29

Market Price/Fair Value per share = ₹ 180

As the cost per unit is lower than its fair value, the shares are to be transferred at its cost i.e., at ₹ 155.29 per share on 15 May 2021

Note: The entire amount of sale proceeds from rights has been credited to Profit and Loss account in the above solution. However, the sale proceeds of rights in respect of 7,000 shares (purchased cum right on 1.5.20) can be applied to reduce the carrying amount of such investments (without crediting it to profit and loss account) considering that the value of these shares has reduced after becoming their ex-right. In that case, ₹ 22,500 (67,500X 7/21) will be applied to reduce the carrying amount of investment and ₹ 45,000 will be credited to profit and loss account.

13.

(1) (d)

Explanation: The total pre-acquisition profit and reserves of S Ltd. as of 31st March 2010 were ₹ 40,000, comprising reserves of ₹ 25,000 and profit of ₹ 15,000.

(2) (d)

Explanation: The total minority interest in S Ltd. as of 31st March 2010 was ₹ 48,150, comprising the paid-up value of shares held by outsiders and their share of pre-acquisition profits, reserves, profit on revaluation, post-acquisition reserves, and post-acquisition profit.

(3) (b)

Explanation: The cost of control or goodwill acquired by H Ltd. in acquiring 80% shares of S Ltd. was ₹ 12,000, calculated as the price paid by H Ltd. for 800 shares minus the intrinsic value of the shares on the date of acquisition.

(4) (b)

Explanation: The net profit on revaluation of assets in S Ltd. was ₹ 45,000, calculated by considering the difference between the revalued amounts of machinery and furniture and their respective book values.

Solution: Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2010

Particulars	**Note No.**	**(₹)**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,00,000
(b) Reserves and Surplus	2	3,44,600
(2) Minority Interest	3	48,150

(3)	**Current Liabilities**		
(a)	Trade Payables		2,07,000
	Total		**11,99,750**
II.	**Assets**		
(1)	**Non-current assets**		
(a)	Property, Plant and Equipment	4	5,97,750
(b)	Intangible assets	5	12,000
(c)	Other non-current investments	6	5,90,000
	Total		**11,99,750**

Notes to Accounts

				₹
1.	**Share capital**			
	6,000 equity shares of ₹ 100 each, fully paid up			6,00,000
	Total			6,00,000
2.	**Reserves and Surplus**			
	Reserves		2,00,000	
	Add: 4/5th share of S Ltd.'s post-acquisition reserves (W.N.3)		40,000	2,40,000
	Profit and Loss Account		1,00,000	
	Add: 4/5th share of S Ltd.'s post-acquisition profits (W.N.4)		4,600	1,04,600
	Total			3,44,600
3.	**Minority interest in S Ltd.** (WN 5)			48,150
4.	**Property, plant and equipment**			
	Machinery			
	H. Ltd.		3,00,000	
	S Ltd.	1,00,000		
	Add: Appreciation	50,000		
		1,50,000		
	Less: Depreciation (1,50,000 X 10%)*	(15,000)	1,35,000	
	Furniture			
	H. Ltd.		1,50,000	
	S Ltd.	20,000		
	Less: Decrease in value	(5,000)		
		15,000		
	Less: Depreciation (15,000 X 15%)*	(2,250)	12,750	5,97,750

5.	**Intangible assets**			
	Goodwill [WN 6]			12,000
6.	Other non-current investments			
	H Ltd.		4,40,000	
	S Ltd.		1,50,000	
	Total			5,90,000

* As an alternative manner of presentation, the solution contains only the 'additional depreciation'.

Working Notes:

1. Pre-acquisition profits and reserves of S Ltd.	₹
Reserves	25,000
Profit and Loss Account	15,000
	40,000
H Ltd.'s = 4/5 (or 80%) × 40,000	32,000
Minority Interest= 1/5 (or 20%) × 40,000	8,000
2. Profit on revaluation of assets of S Ltd.	
Profit on Machinery ₹ (1,50,000 – 1,00,000)	50,000
Less: Loss on Furniture ₹ (20,000 – 15,000)	5,000
Net Profit on revaluation	45,000
H Ltd.'s share 4/5 × 45,000	36,000
Minority Interest 1/5 × 45,000	9,000
3. Post-acquisition reserves of S Ltd.	
Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 75,000 – 25,000)	50,000
H Ltd.'s share 4/5 × 50,000	40,000
Minority interest 1/5 × 50,000	10,000
4. Post -acquisition profits of S Ltd.	
Post-acquisition profits (Profit & loss account balance lesspre-acquisition profits = ₹ 25,000 – 15,000)	10,000
Add: Excess depreciation charged on furniture @ 15% on ₹ 5,000 i.e. (20,000 – 15,000)	750
	10,750
Less: Under depreciation on machinery @ 10% on ₹ 50,000 i.e. (1,50,000 – 1,00,000)	(5,000)
Adjusted post-acquisition profits	5,750
H Ltd.'s share 4/5 × 5,750	4,600
Minority Interest 1/5 × 5,750	1,150
5. Minority Interest	
Paid-up value of (1,000 – 800) = 200 shares	
held by outsiders i.e. 200 × ₹ 100 (or 1,00,000 X 20%)	20,000
Add: 1/5th share of pre-acquisition profits and reserves	8,000

1/5th share of profit on revaluation	9,000
1/5th share of post-acquisition reserves	10,000
1/5th share of post-acquisition profit	1,150
	48,150
6. Cost of Control or Goodwill	
Price paid by H Ltd. for 800 shares(A)	1,60,000
Intrinsic value of the shares-	
Paid-up value of 800 shares held by H Ltd. i.e. 800 × ₹ 100	80,000
(or 1,00,000 X 80%)	
Add: 4/5th share of pre-acquisition profits and reserves	32,000
4/5th share of profit on the revaluation	36,000
Intrinsic value of shares on the date of acquisition (B)	1,48,000
Cost of control or Goodwill (A – B)	12,000

14.

(1) (b)

(2) (c)

(3) (a)

(4) (b)

(5) (a)

Solution: Cash Flow Statement of Grow More Ltd. for the year ended 31st March, 20X1

Cash Flow from Operating Activities	
	₹
Increase in balance of Profit and Loss Account (1,00,000 – 60,000)	40,000
Provision for taxation (W.N.1)	80,000
Transfer to General Reserve (2,00,000 – 1,50,000)	50,000
Depreciation (W.N.2)	1,25,000
Profit on sale of Plant and Machinery	(15,000)
Operating Profit before Working Capital changes	2,80,000
Increase in Inventories	(2,00,000)
Decrease in Trade receivables	2,00,000
Decrease in Trade payables	(1,20,000)
Cash generated from operations	1,60,000
Income tax paid	(50,000)
Net Cash generated from operating activities	**1,10,000**
Cash Flow from Investing Activities	
Purchase of fixed assets	(3,45,000)
Expenses on building (6,00,000 – 4,00,000)	(2,00,000)
Increase in investments	(1,00,000)
Sale of old machine	35,000
Net Cash used in investing activities	(6,10,000)

Cash Flow from Financing activities	
Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000
Proceeds from issue of debentures	2,00,000
Dividend paid	(1,00,000)
Net cash generated from financing activities	3,00,000
Net decrease in cash and cash equivalents	**(2,00,000)**
Cash and Cash equivalents at the beginning of the year	**2,00,000**
Cash and Cash equivalents at the end of the year	**Nil**

Working Notes:

1. Provision for taxation account

	₹		₹
To Cash (Paid)	50,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By Profit and Loss A/c (Balancingfigure)	80,000
	1,50,000		1,50,000

2. Plant and Machinery account

	₹		₹
To Balance b/d	5,00,000	By Depreciation	1,25,000
To Profit and Loss A/c (profit on sale of machine)	15000		
To Cash (Balancing figure)	3,45,000	By Cash (sale of machine)	35,000
		By Balance c/d	7,00,000
	8,60,000		8,60,000

15.

(1) (b)

(2) (c)

(3) (d)

(4) (a)

(5) (b)