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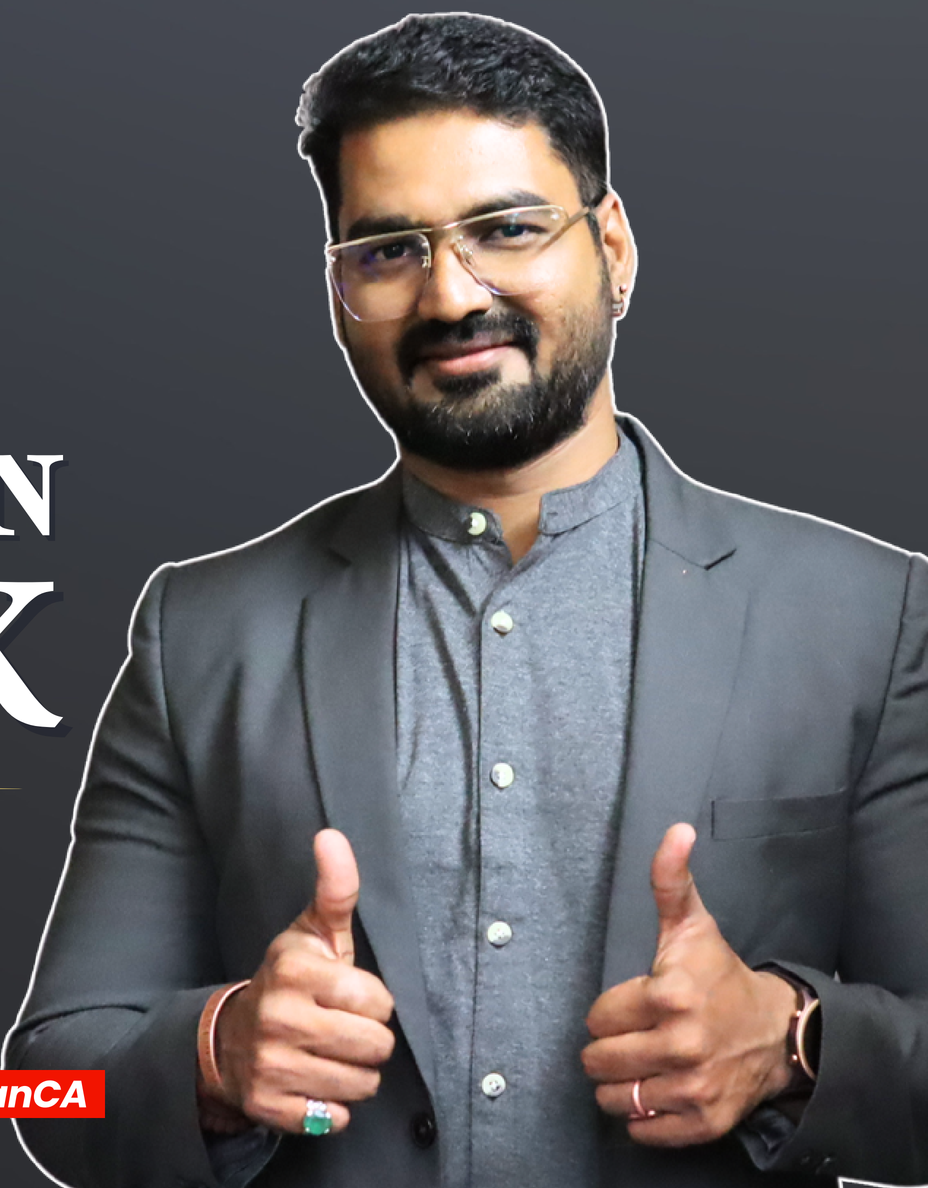
QUESTION BANK



Rohan Nimbalkar

(15+ Years Teaching Exp.)

Founder & Director of TapovanCA

CA- Intermediate Advanced Accounting
Fast-Track {New Syllabus}
Index

Question No. 1

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.20X1:

Particulars	(₹ in crores)	
Equity Share Capital (Shares of ₹ 10 each fully paid)	-	330
Reserves and Surplus		
General Reserve	240	-
Securities Premium Account	90	-
Profit & Loss Account	90	-
Infrastructure Development Reserve	180	600
Loan Funds		1,800

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.20X1 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 Development 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 09.12.20X1, show the accounting entries in the company's books in each situation.

Question No. 2

Extra Ltd. (a non-listed company) furnishes you with the following summarized Balance Sheet as on 31st March, 20X1:

Liabilities	Amount (₹ in lakhs)	Assets	Amount (₹ in lakhs)
Equity shares of ₹ 10 each fully paid	100	Fixed assets less depreciation	50
9% Redeemable preference shares of ₹ 100 each fully paid	20	Investments at cost	120
Capital reserves	8	Current assets	142
Revenue reserves	50		

Securities premium	60		
10% Debentures	4		
Current liabilities	70		
	312		**312**

(i) The company redeemed the preference shares at a premium of 10% on 1st April, 20X1.

(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, which appeared as a part of the current assets.

(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, 20X1.

(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 1.04.20X1 employees exercised their options for 50,000 shares.

(v) Pass the journal entries to record the above.

(vi) Prepare Balance Sheet as at 01.04.20X1.

Calculation of Purchase Consideration in Different Situations

Given below are the Balance Sheets of A Ltd. and B Ltd. as at 31st March 2017 at which date B Ltd. was taken over by A Ltd.

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
Equity shares of 10 each	5,00,000	10,00,000	Fixed Assets	22,00,000	11,00,000
Reserve	26,20,000	5,85,000	Current Assets	9,30,000	4,65,000
12% Debentures	2,20,000	1,10,000	Misc. Expenditure	3,70,000	1,85,000
Creditors	1,60,000	55,000			
	35,00,000	**17,50,000**		**35,00,000**	**17,50,000**

Market price of Share is ₹ 100/- each.

Situation 1
If A Ltd. agrees to take over only the assets and trade liabilities of B Ltd. and to discharge the purchase consideration by issuing equity shares of ₹ 10 each, ₹ 8 paid up at a premium of ₹ 47 per share, to the extent 60% and the balance in cash.

Situation 2
If A Ltd. absorbs B Ltd. on the basis of intrinsic value of shares of both the companies as per their respective Balance Sheets.

Situation 3
If A Ltd. absorbs B Ltd. and the holder of every 8 shares in B Ltd. is to receive 2 shares in A Ltd. plus as much cash as is necessary to adjust the rights of shareholders of both the companies in accordance with the intrinsic values of the shares as per their respective Balance Sheets.

Situation 4
If A Ltd. absorbs B Ltd. and agrees:
(a) To issue such an amount of fully paid 15% Debentures at 96 per cent as is sufficient to discharge 12% Debentures in B Ltd. at a premium of 10%.
(b) To issue 1 equity share of ₹ 10 each at a premium of ₹ 45 per share for 4 equity shares in B Ltd.
(c) To reimburse the expenses of liquidation to the extent of ₹ 10,000. Actual Expenses amounted to ₹ 15,000.

Questions No. 1

S. Ltd. is absorbed by P. Ltd. The draft balance sheet of S. Ltd. is as under:

Balance Sheet

	₹		₹
Share Capital:		Sundry Assets	13,00,000
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		
	13,00,000		**13,00,000**

P. Ltd. has agreed :

(i) To issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.

(ii) 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%;

(iii) 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

(iv) To assume the liability to trade payables.

You are required to calculate the purchase consideration.

Question No. 2

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarised balance sheet as at 31-03-2017

Liabilities	**P Ltd. ₹**	**Q Ltd. ₹**	**Assets**	**P Ltd. ₹**	**Q Ltd. ₹**
Equity & liabilities:			Assets:		
Shareholders Fund			Non-current Assets:		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	Current Assets		
Current Liabilities			a. inventories	3,60,000	6,60,000

Bank Overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	c. Cash at Bank	3,00,000	-
	18,60,000	25,20,000		18,60,000	25,20,000

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 ₹ 3,00,000; 2015-16 ₹ 5,25,000 and 2016-17 ₹ 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd. 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. and Q Ltd.

You are required to:

(i) Calculate the number of shares issued to P Ltd. and Q Ltd; and
(ii) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording its journal entries.

Question No. 3

Y Ltd. decides to absorbn X Ltd. The draft Balance Sheet of X Ltd. is as follows:

	₹		₹
3,000 Equity shares of		Net assets	2,90,000
₹ 100 each (fully paid)	3,00,000	Profit and Loss Account	70,000
Preference shares	60,000		
	3,60,000		**3,60,000**

Y Ltd. agrees to take over the net assets of X Ltd. An equity share in X Ltd., for purposes of absorption, is valued @ ₹ 70. Y Ltd. agrees to pay ₹ 60,000 in cash for payment to preference shareholders equity shares will be issued at value of ₹ 120 each. Calculate purchase consideration to be paid by Y Ltd. and how will it be discharged?

Question No. 4

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.20X1. Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.20X1:

Liabilities	**Neel**	**Gagan**	**Assets**	**Neel**	**Gagan**
	₹	**₹**		**₹**	**₹**
Capital	7,75,000	8,55,000	Plant & Machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	**14,12,600**		**13,98,500**	**14,12,600**

Following are the additional information:

(i) The authorised capital of the new company will be ₹ 25,00,000 divided into 1,00,000 equity shares of ₹ 25 each.

(ii) Liabilities of Neel Ltd. includes ₹ 50,000 due to Gagan Ltd. for the purchases made. Gagan Ltd. made a profit of 20% on sale to Neel Ltd.

(iii) Neel Ltd. had purchased goods costing ₹ 10,000 from Gagan Ltd. All these goods are included in the current asset of Neel Ltd. as at 31st March, 20X1.

(iv) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	**Gagan**
	₹	**₹**
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(v) 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
Total	**4,75,000**	**5,25,000**

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 31.3.20X1 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 No. 5

The following draft Balance Sheets are given as on 31st March, 20X1:

	(₹ in lakhs)			(₹ in lakhs)	
	Best Ltd. ₹	**Better Ltd. ₹**		**Best Ltd. ₹**	**Better Ltd. ₹**
Share Capital:			Fixed Assets	25	15
Shares of ₹ 100, each fully paid	20	10	Investments	5	-
Reserve and Surplus	10	8	Current Assets	20	5
Other Liabilities	20	2			
	50	**20**		**50**	**20**

The following further information is given —

a) Better Limited issued bonus shares on 1st April, 20X1, 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, the 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, 20X1 after the takeover.

Question No. 6

The following are the summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 20X1:

Liabilities	**P Ltd. ₹**	**Q Ltd. ₹**	**Assets**	**P Ltd. ₹**	**Q Ltd. ₹**
Share Capital			Fixed Assets	7,00,000	2,50,000
Equity Shares of ₹ 10 each	6,00,000	3,00,000	Investment	80,000	80,000
10% Pref. Shares of ₹ 100 each	2,00,000	1,00,000	Current Assets:		
Reserves and Surplus	3,00,000	2,00,000	Inventory	2,40,000	3,20,000
Secured Loans:			Trade receivables	4,20,000	2,10,000

12% Debentures	2,00,000	1,50,000	Cash at Bank	1,10,000	40,000
Current Liabilities:					
Trade payables	2,50,000	1,50,000			
	15,50,000	**9,00,000**		**15,50,000**	**9,00,000**

Details of Trade receivables and trade payables are as under:

Trade receivables	P Ltd. (₹)	Q Ltd. (₹)
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

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

After the above transactions are given effect to, 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% Debenture holders 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. includes ₹ 10,000 due to P Ltd.

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd.

Question 7

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2015:

Liabilities	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
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
Trade payables	1,200	463
Provisions	1,830	702
	33,400	2,500

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Land and Buildings	6,000	-
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	2,500

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 2015, 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.

Details of trade receivables and trade payables as under:

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Trade payables		
Bills Payable	120	-
Creditors	1,080	463
	1,200	463
Trade receivables		
Trade receivables	2,120	1,020
Bills Receivable	—	80
	2,120	1,100

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 8

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2015:

Liabilities	₹	Assets	₹
8,000 equity shares of ₹100 each	8,00,000	Building	3,40,000
10% debentures	4,00,000	Machinery	6,40,000
Loan from A	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Goodwill	1,30,000
		Share issue Expenses	34,000
Total	**17,60,000**	**Total**	**17,60,000**

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

(1) B Ltd. would take over all assets, except bank balance 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) B Ltd. is to take over trade payables at book value

(3) The purchase consideration is to be paid in cash to the extent of ₹6,00,000 and the balance in fully paid equity shares of ₹100 each at ₹125 per share.

The average profit is ₹1,24,400. The liquidation expenses amounted to ₹16,000. B Ltd. sold prior to 31st March, 2015 goods costing ₹1,20,000 to A Ltd. for ₹1,60,000. ₹1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2015. Trade payables of A Ltd. include ₹40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2015 after the takeover.

Question 9

Summarised Balance Sheets as on 31st March, 2015

Liabilities	Gee Ltd.	Pee Ltd	Assets	Gee Ltd.	Pee Ltd.
Equity share capital (₹10 per share)	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
14% Preference share capital (₹100 each)	11,00,000	8,50,000	Plant and machinery	16,25,000	8,50,000
General reserve	2,50,000	2,50,000	Furniture and fixtures	2,87,500	1,75,000
Export profit reserve	1,50,000	1,00,000	Investments	3,50,000	2,50,000
Investment allowance	-	50,000	Inventory	6,25,000	4,75,000
Profit and loss account	3,75,000	1,25,000	Trade receivables	4,50,000	5,15,000

15% Debentures (₹100 each)	2,50,000	1,75,000	Cash at bank	3,62,500	2,60,000
Trade payables	2,25,000	1,75,000			
Other current liabilities	1,00,000	75,000			
	49,50,000	**33,00,000**		**49,50,000**	**33,00,000**

All the bills receivables of Pee Ltd. were having Gee Ltd.'s acceptances.

Gee Ltd. takes over Pee Ltd. on 1st April, 2015. The purchase consideration is discharged as follows:

1) Issued 1,65,000 equity shares of ₹10 each at par to the equity shareholders of Pee Ltd.
2) Issued 15% preference shares of ₹100 each to discharge the preference shareholders of Pee Ltd. at 10% premium.
3) The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.
4) The statutory reserves of Pee Ltd. are to be maintained for two more years.
5) Expenses of amalgamation amounting to ₹10,000 will be borne by Gee Ltd.
6) Details of trade receivables and trade payables as under:

Particulars	Gee Ltd.	Pee Ltd.
Trade payables		
Trade payables	1,50,000	75,000
Bills payables	75,000	1,00,000
	2,25,000	**1,75,000**
Trade receivables		
Debtors	4,00,000	4,60,000
Bills receivables	50,000	55,000
	4,50,000	**5,15,000**

Show the opening Journal entries and the opening balance sheet of Gee Ltd. as at 1st April, 2015 after amalgamation, on the assumption that the amalgamation is in the nature of the merger.

Question No. 1

The draft Balance Sheet of Y Limited as on 31st March, 2013 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
5,00,000 Equity shares of ₹ 10 each fully paid	50,00,000	Goodwill	10,00,000
9% 20,000 Preference shares of ₹ 100 each fully paid	20,00,000	Patent	5,00,000
10% First debentures	6,00,000	Land and Building	30,00,000
10% Second debentures	10,00,000	Plant and Machinery	10,00,000
Debentures interest outstanding	1,60,000	Furniture and Fixtures	2,00,000
Trade payables	5,00,000	Computers	3,00,000
Directors' loan	1,00,000	Trade Investment	5,00,000
Bank Overdraft	1,00,000	Trade receivables	5,00,000
Outstanding liabilities	40,000	Inventory	10,00,000
Provision for tax	1,00,000	Discount on issue of debentures	1,00,000
		Profit and Loss Account (Loss)	15,00,000
	96,00,000		96,00,000

Note: Preference dividend is in arrears for last three years.

A holds 10% first debentures for ₹ 4,00,000 and 10% second debentures for ₹ 6,00,000. He is also trade payables for ₹ 1,00,000. B holds 10% first debentures for ₹ 2,00,000 and 10% second debentures for ₹ 4,00,000 and is also trade payables for ₹ 50,000.

The following scheme of reconstruction has been agreed upon and duly approved.

1. All the equity shares be converted into fully paid equity shares of ₹ 5 each.
2. 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.
3. Mr. 'A' is to cancel ₹ 6,00,000 of his total debt including interest on debentures and to pay ₹ 1 lakh to the company and to receive new 12% debentures for the Balance amount.
4. Mr. 'B' is to cancel ₹ 3,00,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.
5. Trade payables (other than A and B) agreed to forego 50% of their claim.
6. Directors to accept settlement of their loans as to 60% thereof by allotment of equity shares and balance being waived.
7. There were capital commitments totalling ₹ 3,00,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
8. The Directors refund ₹ 1,10,000 of the fees previously received by them.

9. Reconstruction expenses paid ₹ 10,000.
10. The taxation liability of the company is settled at ₹ 80,000 and the same is paid immediately.
11. The assets are revalued as under:

	₹
Land and Building	28,00,000
Plant and Machinery	4,00,000
Inventory	7,00,000
Trade receivables	3,00,000
Computers	1,80,000
Furniture and Fixtures	1,00,000
Trade Investment	4,00,000

Pass Journal entries for all the above mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit & Loss Account and Discount on issue of debentures. Prepare Bank Account and working of allocation of Interest on Debentures between A and B.

Question No. 2

The summarised Balance Sheet of X Limited as on 31st March 2013, was as follows:

Liabilities	(₹)	Assets	(₹)
Authorised and subscribed capital:		Fixed Assets:	
10,000 Equity shares of ₹ 100 each fully paid	10,00,000	Machineries	3,50,000
Unsecured loans:		Current Assets:	
15% Debentures	3,00,000	Inventory	2,53,000
Accrued interest	45,000	Trade receivables	2,30,000
Current Liabilities:		Bank	20,000
Trade payables	52,000	Profit & loss A/c	5,80,000
Provision for income tax	36,000		
	14,33,000		**14,33,000**

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

(i) Each share be sub-divided into 10 fully paid up equity share of ₹ 10 each.
(ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.

(iii) Out of shares surrendered 10,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.

(iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 1,00,000 which are converted out of shares surrendered.

(v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each of out of shares surrendered.

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

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

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

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QUESTION

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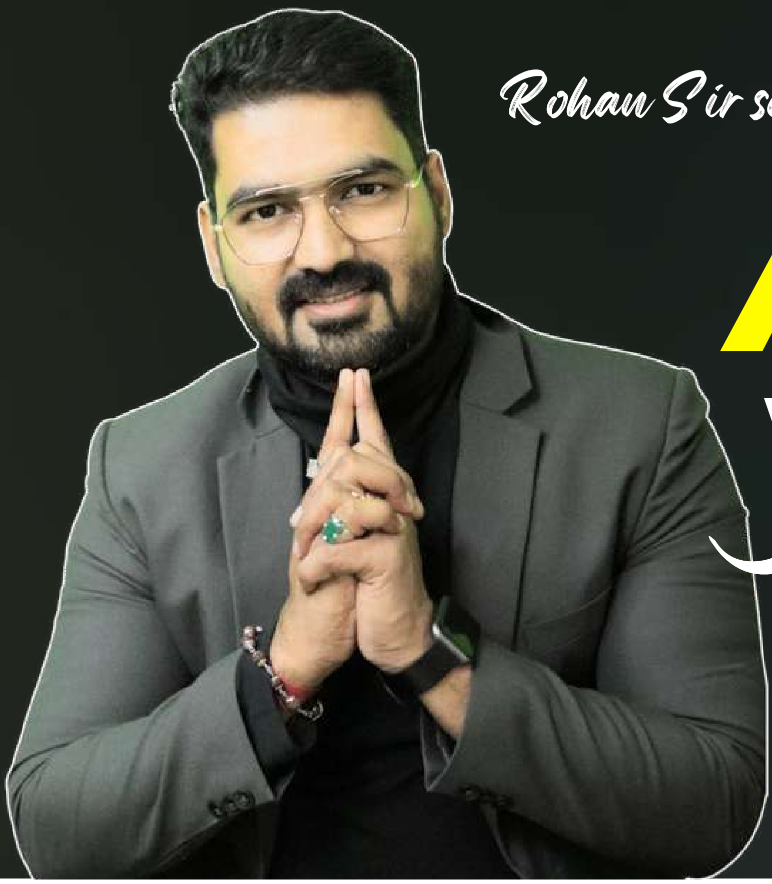

Rohan Sir se Padhoge toh ye Guarantee hai...

AS Sirf samjenge nahi

Yaad Hoo Jayenge !!

Rohan Nimbalkar

(15+ Years Teaching Exp.)

Founder & Director of TapovanCA

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Question no. 1

On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2017 (Using direct method):

(i) Total sales for the year were ₹ 398 crores out of which cash sales amounted to ₹ 262 crores.

(ii) Receipts from credit customers during the year, totalled ₹ 134 crores.

(iii) Purchases for the year amounted to ₹ 220 crores out of which credit purchase was 80%.

Balance in creditors as on

1.4.2016	₹ 84 crores
31.3.2017	₹ 92 crores

(iv) Suppliers of other consumables and services were paid ₹ 19 crores in cash.

(v) Employees of the enterprises were paid 20 crores in cash.

(vi) Fully paid preference shares of the face value of ₹ 32 crores were redeemed. Equity shares of the face value of ₹ 20 crores were allotted as fully paid up at premium of 20%.

(vii) Debentures of ₹ 20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.

(viii) ₹ 26 crores were paid by way of income tax.

(ix) A new machinery costing ₹ 25 crores was purchased in part exchange of an old machinery. The book value of the old machinery was ₹ 13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of ₹ 15 crores. The balance was paid in cash to the vendor.

(x) Investment costing ₹ 18 cores were sold at a loss of ₹ 2 crores.

(xi) Dividends totalling ₹ 15 crores (including dividend distribution tax of ₹ 2.7 crores) was also paid.

(xii) Debenture interest amounting ₹ 2 crore was paid.

(xiii) On 31st March 2016, Balance with Bank and Cash on hand totalled ₹ 2 crores.

Answer

Cash flow statement (using direct method) for the year ended 31st March, 2017

Cash flow from operating activities

	(₹ in crores)	**(₹ in crores)**
Cash sales	262	
Cash collected from credit customers	134	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(251)	
Cash from operations	145	
Less: Income tax paid	(26)	119
Net cash generated from operating activities		
Cash flow from investing activities		
Net Payment for purchase of Machine (25 - 15)	(10)	

Proceeds from sale of investments	16	
Net cash used in investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	(15)	
Net cash used in financing activities		(25)
Net increase in cash and cash equivalents		100
Add: Cash and cash equivalents as on 1.04.2016		2
Cash and cash equivalents as on 31.3.2017		102

Working Note:

Calculation of cash paid to suppliers of goods and services and to employees

	(in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176
Total	260
Less: Closing balance in Creditors Account	92
Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	44
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19
Add: Payment to employees (c)	20
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	251

Question No. 2

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2011 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2011

	₹ '000		₹ '000
To Balance on 1.4.2010	50	By Payment to Suppliers	2,000
To Issue of Equity Shares	300	By Purchase of Fixed Assets	200
To Receipts from Customers	2,800	By Overhead expense	200
		By Wages and Salaries	100
To Sale of Fixed Assets	100	By Taxation	250
		By Dividend	50
		By Repayment of Bank Loan	300
		By Balance on 31.3.2011	150
	3,250		3,250

Answer

Cash Flow Statement for the year ended 31st March, 2011 (Using the direct method)

	₹' 000s	₹' 000s
Cash flows from operating activities		
Cash receipts from customers	2,800	
Cash payment to suppliers & employees (refer W.N.)	(2,300)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash from operating activities		250
Cash flows from investing activities		
Payment for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at the beginning of the period		50
Cash at the end of the period		150

Working Note:

Cash paid to Suppliers & Employees

		₹'000s
a. Payment to suppliers	2,000	
b. Wages & salaries	100	
c. Overhead expenses	200	2,300

Question No. 3

Bell Co. Ltd. submits the following information pertaining to year 2012-2013. Using the given data, you are required to prepare Cash Flow Statement for the year ended 31st March, 2013 by indirect method.

	(₹ in millions)
Opening balance of cash and cash equivalents	1.55
Additional shares issued	6.50

Capital expenditure	9.90
Proceeds from assets sold	1.60
Dividend paid	0.50
Loss from disposal of assets	1.20
Net profit for the year	3.30
Increase in Accounts Receivable	1.50
Redemption of 4.5% debentures	2.50
Depreciation and Amortization	0.75

Answer

Cash Flow Statement for the year ended 31st March, 2013

	₹ in millions	***₹ in***
Cash flows from operating activities		
Net profit	3.30	
Add: Depreciation and amortization	0.75	
Loss from disposal of assets	1.20	
Operating profit before working capital changes	5.25	
Less: Increase in accounts receivables	(1.50)	
Net cash generated from operating activities		3.75
Cash flows from investing activities		
Capital expenditure	(9.90)	
Proceeds from sale of fixed assets	1.60	
Net cash used in investing activities		(8.30)
Cash flows from financing activities		
Proceeds from issue of additional shares	6.50	
Dividend paid	(0.50)	
Redemption of 4.5% debentures	(2.50)	
Net cash generated from financing activities		3.50
Net decrease in cash and cash equivalents		(1.05)
Cash and cash equivalents at beginning of the period		1.55
Cash and cash equivalents at end of the period (Balancing figure)		0.50

Question No. 4

The following are the changes in the account balances taken from the balance sheets of Leela Ltd. as at the beginning and end of the year

	Debit	**Credit**
	(₹)	**(₹)**

8% Debentures		1,50,000
Debenture Discount	3,000	
Plant and Machinery at cost	1,80,000	
Depreciation on Plant and Machinery		43,200
Trade receivables	1,50,000	
Inventory including Work-in-Progress	1,15,500	
Trade payables		35,400
Net Profit for the year		2,29,500
Dividend paid in respect of earlier year	90,000	
Provision for Doubtful Debts		9,900
Trade Investments at cost	1,41,000	
Bank		2,11,500
Total	6,79,500	6,79,500

You are informed that:

- During the year Plant costing ₹ 54,000 against which Depreciation Provision of ₹ 40,500 was lying was sold for ₹ 21,000.
- During the middle of the year, ₹ 1,50,000 Debentures were issued for cash at a discount of ₹ 3,000.
- The net Profit for the year was after crediting the profit on sale plant and charging Debenture Interest.

Prepare a Cash Flow Statement which will explain why Bank Borrowing has increased by ₹ 2,11,500 during the year end, ignore taxation.

Answer

Cash Flow Statement of Leela Ltd.

Cash flow from Operating Activities	₹	₹
Net profit before Taxation (given)		2,29,500
Adjustments for		
Depreciation (W.N.2)	83,700	
Debenture Interest (1,50,000 x 8% x 6/12)	6,000	
Provision for Doubtful Debts	9,900	
Profit/Gain on Sale of Plant(WN. 1)	(7,500)	92,100
Operating Profit before Working Capital Changes		3,21,600
Adjustments for		
Increase in Inventory	(1,15,500)	
Increase in Trade receivables	(1,50,000)	

Increase in Trade payables	35,400	(2,30,100)
Net Cash Flow from/(Used in) Operating Activities [A]		91,500
Cash flow from Investing Activities		
Purchase of Plant & Machinery (WN 3)	(2,34,000)	
Purchase of Trade Investments	(1,41,000)	
Sale of Machinery	21,000	
Net Cash Flow from/(used In) Investing Activities [B]		(3,54,000)
Cash flow from Financing Activities		
Proceeds from issue of 8% Debentures (1,50,000-3,000)	1,47,000	
Interest paid on 8% Debentures	(6,000)	
Dividends paid in respect of earlier year	(90,000)	
Net Cash Flow from/(used in) Financing Activities[C]		51,000
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)		(2,11,500)

Working Notes:

1. Profit on Sale of Plant = Net Book Value (i.e, Gross Block less Accumulated Depreciation) Less Sale Value
   = (54,000-40,500) less 21,000
   = ₹ 7,500 Gain/Profit
2. Depreciation for current year = Increase in Depreciation as given above + Accumulates Depreciation on Plant Sold

   = 43,200 + 40,500 = ₹ 83,700
3. Cash Outflow towards assets purchase = Increase in Plant and Machinery at Cost + Gross Block of Plant sold
   = 1,80,000 +54,000 = ₹ 2,34,000.

(Master Problem)

Question 1

Girish Ltd. has the Authorised Capital of ₹ 10,00,000 consisting of 4,000 6% Preferenceshares of ₹ 100 each and 60,000 equity Shares of ₹10 each. The following was the TrialBalance of the Company as on 31st March , 2016

Particulars	Dr.	Cr.
Investment in Shares at cost	1,00,000	
Purchases	9,81,000	
Selling Expenses	1,58,200	
Inventory as at the beginning of the year	2,90,400	
Salaries and Wages	1,04,000	
Cash on Hand	24,000	
Interim Preference dividend for the half year to 30th	12,000	
September	83,000	
Bills Receivable	19,600	
Interest on Bank overdraft	7,500	
Interest on Debentures upto 30th Sep (1st half year)	1,00,200	1,75,700
Trade receivables and trade payables	7,00,000	
Freehold property at cost	70,000	
Furniture at cost less depreciation of ₹ 30,000		4,00,000
6% Preference share capital		4,00,000
Equity share capital fully paid up		3,00,000
5% mortgage debentures secured on freehold properties	20,000	
Income tax paid in advance for the current year		8,500
Dividends		57,000
Profit and Loss A/c (opening balance)		13,40,700
Sales (Net)		3,00,000
Bank overdraft secured by hypothecation of stocks and receivables	3,00,000	
	12,000	
Technical knowhow fees at cost paid during the year	29,81,900	29,81,900

You are required to **prepare the Profit and Loss Statement** for the year ended 31st March,2016 and **the Balance Sheet** as on 31st March, 2016 as per Schedule III of the CompaniesAct, 2013 after taking into account the following -

1.Closing Stock was valued at ₹ 2,85,000.

2. Purchases include ₹ 10,000 worth of goods and articles distributed among valued customers.

3. Salaries and Wages include ₹ 4,000 being Wages incurred for installation of Electrical Fittings which were to be recorded under "Furniture".

4.Bills Receivable include ₹ 3,000 being dishonoured bills. 50% of which had been considered irrecoverable.

5.Bills Receivable of ₹ 4,000 maturing after 31st March were discounted.

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

7.Investment in shares is to be treated as non-current investments.

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

9. Provide Provision for taxation ₹ 8,000.

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

11. Salaries and Wages include ₹ 20,000 being Director's Remuneration.

12. Trade receivables include ₹ 12,000 due for more than six months.

Answer

Statement of Profit and Loss of Girish Ltd. for the year ended 31st March, 2016

	Particulars	***Note***	***This Year***
I	Revenue from Operations		13,40,700
II	Other income (Divided income)		8,500
III	Total Revenue (I &+ II)		13,49,200
IV	Expenses:		
	(a) Purchases of Inventory (9,81,000 – Advertisement Expenses 10,000)		9,71,000
	(b) Changes in Inventories of finished Goods / Work in progress & inventory (2,90,400 - 2,85,000)		5,400
	(c) Employee Benefits expense	9	80,000
	(d) Finance costs	10	34,600
	(e) Depreciation & Amortization Expenses [10% of (70,000 + 4,000)]		7,400
	(f)Other Expenses	11	2,31,700
	Total Expenses		13,30,100
V	Profit before exceptional, extraordinary items and tax (III-IV)		19,100
VI	Exceptional items		-
VII	Profit before extra ordinary items and tax (V-IV)		19,100
VIII	Extraordinary items		-
IX	Profit before tax (VII-VIII)		19,100
X	Tax expense:		
	Current Tax		8,000
XI	Profit/Loss for the period (after tax)		11,100

Balance sheet of Garish Ltd. as on 31st March, 2016

	Particulars as on 31st March	*Note*	₹
(1)	Shareholders' funds:		
	(a) Share capital	1	8,00,000
	(b) Reserves and surplus	2	44,100
(2)	Non-current liabilities:		
	Long term borrowings	3	3,00,000
(3)	Current liabilities:		
	(a) Short term borrowings	4	3,00,000
	(b) Trade payables		1,75,700
	(c) Other current liabilities	5	19,500
	Total		**16,39,300**
II	**ASSETS**		
(1)	(a) Non-current Assets		
	Fixed assets (i) Tangible assets	6	7,66,600
	(ii) Intangible assets	7	2,70,000
	(b) Non-current investments (Shares at cost)		1,00,000
	Current Assets:		
	(a) Inventories		2,85,000
	(b) Trade Receivables	8	1,81,700
	(c) Cash and Cash equivalents - Cash on hand		24,000
	(d) Short term loans and advances -Income tax (paid 20,000-Provision 8000)		12,000
	Total		**16,39,300**

Note: There is aContingent liability for Bills receivable discounted with Bank₹ 4000.

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Authorized,		
	60,000 Equity Shares of ₹ 10 each.	6,00,000	
	4,000 6% Preference shares of ₹ 100 each	4,00,000	
	Issued, subscribed & called up		
	40,000 Equity Shares of ₹ 10 each	4,00,000	
	4,000 6% Redeemable Preference Shares of 100 each	4,00,000	**8,00,000**
2.	**Reserves and Surplus**		
	Balance as on 1st April, 2015	57,000	

	Add: Surplus for current year	11,100	68,100
	Less: Preference Dividend		24,000
	Balance as on 31st March, 2016		**44,100**
3.	**Long Term Borrowings** 5% Mortgage Debentures (Secured against Freehold Properties)		**3,00,000**
4.	**Short Term Borrowings** Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)		**3,00,000**
5.	**Other Current liabilities** Interest Accrued and due on Borrowings (5% Debentures)	7,500	
	Unpaid Preference Dividends	12,000	**19,500**
6.	**Tangible Fixed assets**		
	Furniture		
	Furniture at Cost Less depreciation ₹ 30,000 (as given in Trial Bal^{n})	70,000	
	Add: Depreciation	30,000	
	Cost of Furniture	1,00,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages	4,000	
	Total Gross block of Furniture A/c	1,04,000	
	Accumulated Depreciation Account: OpeningBalance-given in Trial Balance 30,000		
	Depreciation for the year:		
	On Opening WDV at 10% i.e. (10% x 70,000) 7,000		
	On additional purchase during the year at 10% i.e. (10% x 4,000) 400		
	Less: Accumulated Depreciation	37,400	66,600
	Freehold property (at cost)		7,00,000
			7,66,600
7.	**Intangible Fixed Assets**		
	Technical knowhow	3,00,000	
	Less: Written off	30,000	**2,70,000**
8.	**Trade Receivables**		
	Sundry Debtors (a) Debt outstanding due more than six months	12,000	
	(b) Other Debts (refer Working Note)	89,700	
	Bills Receivable (83,000 -3,000)	80,000	**1,81,700**
9.	**Employee benefit expenses**		
	Amount as per Trial Balance	1,04,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised	4,000	
	Less: Directors' Remuneration shown separately	20,000	
	Balance amount		**80,000**

10.	**Finance Costs**		
	Interest on bank overdraft	19,600	
	Interest on debentures	15,000	**34,600**
11.	**Other Expenses**		
	Payment to the auditors	12,000	
	Director's remuneration	20,000	
	Selling expenses	1,58,200	
	Technical knowhow written of (3,00,000/10)	30,000	
	Advertisement (Goods and Articles Distributed)	10,000	
	Bad Debts (3,000 x50%)	1,500	**2,31,700**

Working Note

Calculation of Sundry Debtors-Other Debts

Sundry Debtors as given in Trial Balance	1,00,200
Add Back: Bills Receivables Dishonoured	3,000
	1,03,200
Less: Bad Debts written off - 50% ₹ 3,000	(1,500)
Adjusted Sundry Debtors	1,01,700
Less: Debts due for more than 6 months (as per information given)	(12,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	89,700

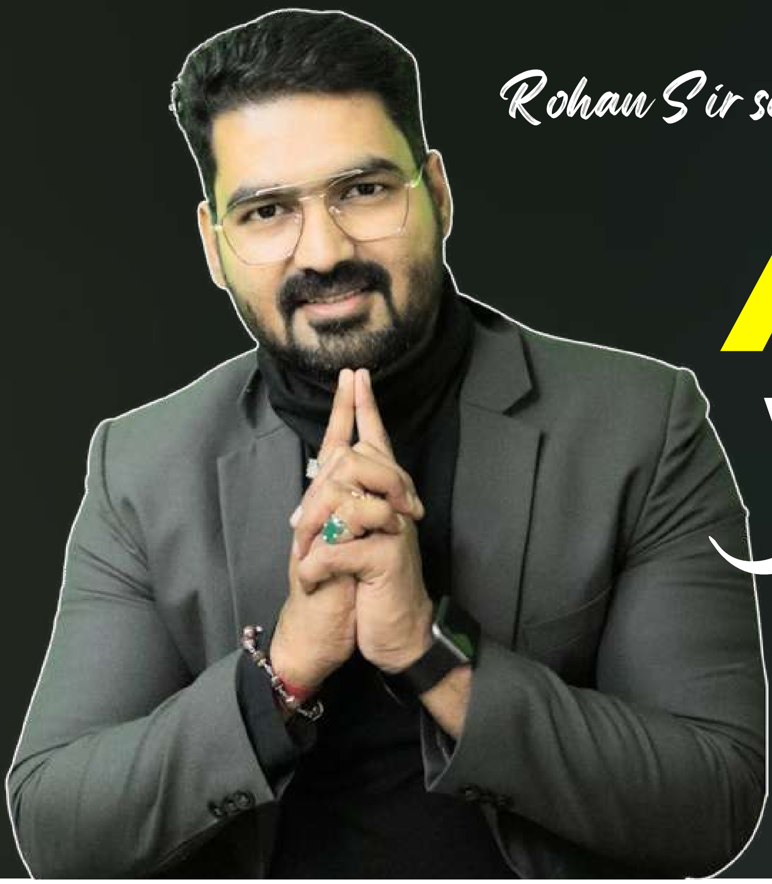
CA INTERMEDIATE

ADV.ACCOUNTING

QUESTION

BANK

TAPOVAN CA



Rohan Sir se Padhoge toh ye Guarantee hai...

AS Sirf samjenge nahi

Yaad Hoo Jayenge !!

Rohan Nimbalkar

(15+ Years Teaching Exp.)

Founder & Director of TapovanCA

Question No. 1

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:

(i) Opening stock at Pune Branch includes goods of ₹ 10,000 taken from Goa Branch,
(ii) Opening stock at Goa Branch includes goods of ₹ 17,000 taken from Pune Branch at cost to receiving branch,
(iii) The Pune Branch sales includes transfer of goods to Goa Branch at selling price ₹ 20,000
(iv) The sales of Goa Branch include transfer of goods to Pune Branch at selling price ₹ 15,000.
(v) Closing stock at Pune Branch includes goods received from Goa Branch ₹ 5,000.
(iv) Closing stock at Goa Branch includes goods of ₹ 4,000 received from Pune Branch.

Answer

Pune Branch Trading and Profit and Loss Account

Particulars	₹	Particulars	₹
To Opening Stock (including ₹10,000 from Goa Branch)	40,000	By Sales (including ₹20,000 to Goa Branch)	2,80,000
To Purchases	2,00,000	By Closing Stock (including ₹5,000 from Goa Branch)	30,000
To Chargeable Expenses	15,000		
To Gross Profit c/d (before making adjustment for unrealised profit)	55,000		
	3,10,000		3,10,000

To Stock Reserve (for unrealised profit in Closing Stock lying at Goa Branch). (₹4,000 x 25/100)	1,000	By Gross Profit b/d	55,000
To Office & Adm. Expenses	13,250	By Stock Reserve (for unrealised profit in Opening Stock lying at Goa Branch) (₹ 17,000 x 25/100)	4,250
To Selling & Distribution Expenses	15,000		
To Net Profit	30,000		
	59,250		59,250

Goa Branch Trading and Profit and Loss Account For the year ending on……………………..

Particulars	₹	Particulars	₹
To Opening Stock (including ₹17,000 from Pune Branch)	30,000	By Sales (including ₹15,000 to Pune Branch)	2,95,625
To Purchases	2,50,000	By Closing Stock (including ₹ 4,000 from Goa Branch)	43,500
To Chargeable Expenses	27,500		
To Gross Profit c/d (before making adjustment for unrealised profit)	31,625		
	3,39,125		3,39,125
		By Gross Profit b/d	31,625
To Stock Reserve (for unrealised profit on Closing Stock lying at Pune Branch). (₹5,000 x 20/100)	1,000	By Stock Reserve (for unrealised profit on Opening Stock at Pune Branch) (₹10,000 x 20/100)	2,000
To Office & Adm. Expenses	7,000		
To Selling & Distribution Expenses	10,000		
To Net Profit	15,625		
	33,625		33,625

Question No. 2

Foreign Branch

M/s Heera & Co. has head office at U.S.A. and branch in Patna(India). Patna branch is an integral foreign operation of Heera & Co.

Patna branch furnishes you with its trial balance as on 31st March, 2016 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	

Stock on 1st April, 2015		
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Plant	240	-
Bank Balance	420	-
New York Office A/c	-	1,620
	3,360	3,360

Information:

(a) Plant was acquired from a remittance of US $ 6,000 received from USA head office and paid to the suppliers. Depreciate Plant at 60% for the year.

(b) Unsold stock of Patna branch was worth ₹ 4,20,000 on 31st March, 2016.

(c) The rates of exchange may be taken as follows:

- On 01.04.2015 @ ₹ 55 per US $
- On 31.03.2016 @ ₹ 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, 2016 and the balance sheet as on that date of Patna branch as would appear in the books of USA head office of Heera& Co. You are informed that Patna branch account showed a debit balance of US $ 29845.35 on 31.3.2016 in USA books and there were no items pending reconciliation

Answer

M/s Heera & Co.

Patna Branch Trial Balance in (US $)as on 31st March, 2016

	Conversion rate per US $ (₹)	**Dr. US $**	**Cr. US $**

Stock on 1.4.15	55	5,454.55	-
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	-
Sundry charges	58	2,758.62	-
Plant	-	6,000.00	-
Bank balance	60	7,000.00	-
USA office A/c	-	-	29,845.35
		59,535.01	59,535.01

Trading and Profit & Loss Account for the year ended 31st March, 2016

	US $		**US $**
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock	7,000.00
To Wages and salaries	9,655.17	(₹ 4,20,000/60)	
		By Gross Loss c/d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on Plant (US $ 6,000 × 0.6)	3,600.00		
	13,778.68		13,778.68

Balance Sheet of Patna Branch as on 31st March, 2016

Liabilities		**US $**	**Assets**	**US $**	**US $**
USA Office A/c	29,845.35		Plant	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	Less: Depreciation	(3,600.00)	2,400.00
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry debtors		6,666.67
			Bills receivable		2,000.00
			Bank balance		7,000.00
		25,066.67			25,066.67

Question No. 3

Using the Stock and Debtors system, find out the profit or loss made at the Kolkata Branch in 2014.

	₹
Stock (1st January) invoice price	24,000

Branch 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	42,000
Cash	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.

Answer

Branch Stock Account

Particulars	₹	Particulars	₹
To Balance b/d	24,000	By Cash A/c (Cash sales)	40,000
To Goods sent to Branch A/c	70,000	By Branch Debtors (credit sales)	42,000
To Branch Debtors (Sales Returns)	1,200	By Goods sent to Branch A/c (Returns)	2,000
		By Shortage of goods	800
		By Balance c/d (Bal. fig.)	10,400
	95,200		95,200

Branch Debtors Account

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	12,400	By Branch stock A/c (Sales Returns)	1,200
To Branch Stock (Credit sales)	42,000	By Cash A/c	39,600
		By Discount A/c	600
		By Balance c/d (Bal. fig.)	13,000
	54,400		54,400

Branch Expenses Account

Particulars	**₹**	**Particulars**	**₹**
To Cash A/c	12,200	By Branch P&L A/c (Bal. fig.)	12,800
To Discount A/c	600		
	12,800		12,800

Goods Sent to Branch Account

Particulars	**₹**	**Particulars**	**₹**
To Branch Stock A/c (Returns)	2,000	By Branch Stock A/c	70,000
To Branch Adjustment A/c (Loading) (70,000× 30%)	21,000	By Branch Adj. A/c (Loading) (2,000 × 30%)	600
To Trading A/c (Bal. fig.)	47,600		

	70,600		70,600

Branch Adjustment Account

Particulars	₹	Particulars	₹
To Shortage of goods (Loading) (800 × 30%)	240	By Branch Stock Reserve (24,000 × 30%)	7,200
To Branch Stock Reserve A/c (10,400 × 30%)	3,120	By Goods sent to Branch (Net loading) (21,000 - 600)	20,400
To P&L A/c (Bal. fig.)	24,240		
	27,600		27,600

Branch Profit and Loss Account

Particulars	₹	Particulars	₹
To Branch Expenses A/c	12,800	By Branch Adjustment A/c	24,240
To Shortage of Goods (cost) (800 × 70%)	560		
To Net Profit	10,880		
	24,240		24,240

Question No. 4

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, 2012:

	As on 1.1.2012	As on 31.12.2012
	₹	₹
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, 2012:	₹
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

You are required to prepare Delhi Branch account (on cost basis) in the books of M/s X under Debtors System.

Answer

In the Books of M/s X
Delhi Branch Account

2012		₹	₹	2012		₹	₹
Jan. 1	To Balance b/d			Dec. 31	By Bank		
	Stock	64,000			Cash Sales	3,10,000	
	Debtors	24,000			Cash from Sundry Debtors (W.N.1)	3,58,000	6,68,000
	Petty cash	3,000	91,000				
Dec. 31	To Goods sent to Branch A/c		6,72,000		By Goods sent to Branch A/c - Returns to H.O.		24,000
	To Bank: Sundry Expenses		20,000		By Balance c/d		
	To Petty Expenses (W.N. 2)		10,000		Stock	80,000	
	To Balance being Profit carried to (H.O.) P&L A/c		6,000		Debtors	22,000	
					Petty Cash	5,000	1,07,000
			7,99,000				7,99,000
Jan. 1, 2013	To Balance b/d		1,07,000				

Working Notes:

1. **Cash Collected from debtors**

	₹
Debtors as on 1.1.12	24,000
Add: Credit sales	3,60,000
	3,84,000
Less :Bad debts and sales returns (2,000 + 2,000)	(4,000)
Closing balance of debtors	(22,000)
Cash collected during the year	3,58,000

2. **Petty expenses**

	₹
Petty cash as on 1.1.12	3,000
Add: Cash received from H.O	12,000
	15,000
Less: Petty cash as on 31.12.12	(5,000)
Expenses during the year	10,000

Question No. 5

Foreign Branch

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, 2013 and the additional information given thereafter:

	Dr.($)	Cr.($)
Stock on 1st April, 2012	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 1.4.2012 @ ₹ 40 per US $
- on 31.3.2013@ ₹ 42 per US $
- average exchange rate for the year @ ₹ 41 per US $.

New York branch account showed a debit balance of ₹ 22,190 on 31.3.2013 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.

Answer

In the books of ABC Ltd.

New York Branch Trial Balance in (₹) as on 31st March, 2013

	Conversion rate per US $	Dr. ₹	Cr. ₹
Stock on 1.4.12	40	6,000	-
Purchases and sales	41	16,400	30,750
Sundry debtors and creditors	42	8,400	6,300
Bills of exchange	42	2,520	5,040
Sundry expenses	41	22,140	-
Bank balance	42	8,820	-
Delhi head office A/c	-	-	22,190
		64,280	64,280

Question No. 6

Show adjustment Journal entry in the books of Head Office at the end of April, 2014 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch accounts in its books.

A. A.P. Branch:
   (1) Received goods from M.P. - ₹ 30,000 and ₹ 25,000 from U.P.
   (2) Sent goods to W.B. - ₹ 20,000, U.P. - ₹ 30,000.
   (3) Bill Receivable received - ₹ 10,000 from W.B.
   (4) Acceptances sent to M.P. - ₹ 10,000, U.P. - ₹ 20,000.

B. M.P. Branch (apart from the above):
   (5) Received goods from U.P. - ₹ 20,000, A.P - ₹ 10,000.
   (6) Cash sent to A.P - ₹ 20,000, U.P. - ₹ 10,000.

C. W.B. Branch (apart from the above):
   (7) Received goods from U.P. - ₹ 40,000.
   (8) Acceptances and Cash sent to U.P. - ₹ 10,000 and ₹ 15,000 respectively.

D. U.P. Branch (apart from the above):
   (9) Paid cash to W.B. - ₹ 20,000 and M.P. - ₹ 10,000

Answer

Journal entry in the books of Head Office

Date	Particulars	Dr.	Cr.
		₹	₹
30.4.2014	W.B. Branch Account	Dr. 45,000	
	To A.P. Branch Account		5,000
	To M.P. Branch Account		10,000
	To U.P. Branch Account		30,000
	(Being adjustment entry passed by head office in respect of inter-branch transactions for the month of April, 2014)		

Working Note:

Inter - Branch transactions

		A.P	M.P.	W.B.	U.P.
		₹	₹	₹	₹
A.	A.P Branch				
(1)	Received goods	55,000 (Dr.)	30,000 (Cr.)		25,000 (Cr.)
(2)	Sent goods	50,000 (Cr.)		20,000 (Dr.)	30,000 (Dr.)
(3)	Received Bills receivable	10,000 (Dr.)		10,000 (Cr.)	
(4)	Sent acceptance	30,000 (Cr.)	10,000 (Dr.)		20,000 (Dr.)
B.	M.P. Branch				
(5)	Received goods	10,000 (Cr.)	30,000 (Dr.)		20,000 (Cr.)
(6)	Sent cash	20,000 (Dr.)	30,000 (Cr.)	40,000 (Dr.)	10,000 (Dr.)
C.	W.B. Branch			25,000 (Cr.)	
(7)	Received goods	5,000 (Cr.)			40,000 (Cr.)
(8)	Sent cash and acceptances			20,000 (Dr.) 45,000 (Dr.)	25,000 (Dr.)
D.	U.P. Branch				
(9)	Sent cash		10,000(Dr.) 10,000 (Cr.)		30,000 (Cr.) 30,000 (Cr.)

Question No. 7

From the following particulars relating to Pune branch for the year ending December 31, 2013, prepare Branch Account in the books of Head office.

		₹
Stock at Branch on January 1, 2018		10,000
Branch Debtors on January 1, 2018		4,000

Branch Debtors on Dec. 31, 2018		4,900
Petty cash at branch on January 1, 2018		500
Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		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 from 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	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2019	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2018		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing ₹1,200 were destroyed due to fire and a sum of ₹1,000 was received from the Insurance Company.

Answer

Pune Branch Account

Particulars	₹	₹	Particulars	₹	₹
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	1,000	1,68,000
To Bank (expenses)			By Goods sent to branch (Return of goods by thebranch to H.O.)		1,000
Rent	2,000		By Closing Balances:		

Salaries	2,400		Stock		5,000
Petty Cash	1,000		Petty Cash		650
Insurance	600	6,000	Debtors		4,900
To Net Profit		78,950	Furniture (2,000 — 10% depreciation)		1,800
			Prepaid insurance (1/4 x ₹ 600)		150
		1,81,600			**1,81,600**

Working Note:

Calculation of petty cash balance at the end:	₹
Opening balance	500
Add: Cash received from the Head Office	1,000
Total Cash with branch	1,500
Less : Spent by the branch	850
Closing balance	650

Question No. 8

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, 2014:

	Head Office	**Kolkata Branch**
	(₹)	**(₹)**
Opening Stock (As on 01.04.2013)	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, 2014.

Answer

Trading and Profit and Loss A/c For the year ended 31st March 2014

	Head office ₹	Branch ₹		Head office ₹	Branch ₹
To Opening stock	1,25,000	-	By Sales	23,79,600	7,30,000
To Purchases	21,50,000	-	By Goods sent to branch	7,38,000	-
To Goods received from head office	-	7,38,000	By Closing stock (W.N.1 & 2)	5,43,000	81,000
To Gross profit c/d	13,85,600	73,000			
	36,60,600	8,11,000		36,60,600	8,11,000
To Office expenses	50,000	4,500	By Gross profit b/d	13,85,600	73,000
To Selling expenses	32,000	3,300			
To Staff salaries	45,000	8,000			
To Branch Stock Reserve (W.N.3)	36,000	-			
To Net Profit	12,22,600	57,200			
	13,85,600	73,000		13,85,600	73,000

Working Notes:

(1) Calculation of closing stock of head office:	₹
Opening Stock of head office	1,25,000
Goods purchased by head office	21,50,000
	22,75,000
Less: Cost of goods sold [31,17,600 (23,79,600+ 7,38,000) x 100/180]	(17,32,000)
	5,43,000

(2) Calculation of closing stock of branch:	₹
Goods received from head office [At invoice value]	7,38,000
Less: Invoice value of goods sold [7,30,000 x 180/200]	(6,57,000)
	81,000

(3) Calculation of unrealized profit in branch stock:	₹
Branch stock ₹ 81,000	
Profit included 80% of cost	
Hence, unrealized profit would be = ₹ 81,000 x 80/180 =	₹ 36,000

AS 1 Disclosure of Accounting Policies

Question No. 1 — RTP May 2017

Mini Ltd. was making provision for non-moving stocks based on no issues for the last 12 months up to 31.3.2016.

The company wants to provide during the year ending 31.3.2016 based on technical evaluation:

Total value of stock	₹ 100 lakhs
Provision required based on 12 months issue	₹ 3.5 lakhs
Provision required based on technical evaluation	₹ 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

Question No. 2 — RTP Nov 2017

A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full

price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March 2017, 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 treatment?

What accounting treatment should the buyer give in its financial statements?

Question No. 3 — RTP May 2018

J Ltd. had made a rights issue of shares in 2016. In the offer document to its members, it had projected a surplus of ₹ 40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director, decided on the following:

(i) Value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹ 30 crores).

(ii) Provide for permanent fall in the value of investments - this 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 2016-2017.

Question 1

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 2014-15, the Historical Cost and Net Realizable Value of the items of closing stock are determined as follows:

Items	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?

Question 2

X Co. Limited purchased goods at the cost of ₹ 40 lakhs in October, 2014. Till March, 2015, 75% of the stocks were sold. The company wants to disclose closing stock at ₹ 10 lakhs. The expected sale value is ₹ 11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct closing stock to be disclosed as at 31.3.2015.

Question 3

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?

Question4

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 excise duty	200
Excise duty (Cenvat credit is receivable on the excise duty 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 5

Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2015. His factory produces Product X using Raw material A.

1) 600 units of Raw material A (purchased @ ₹ 120). Replacement cost of raw material A as on31-3-2015 is ₹ 90 per unit.
2) 500 units of partly finished goods in the process of producing X and cost incurred till date₹ 260 per unit. These units can be finished next year by incurring additional cost of ₹ 60 per unit.
3) 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 31-3-2015. Also calculate the value of total inventory as on 31-3-2015.

Question 6

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?

Answer

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 closing 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	
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 7

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?

Answer

As per AS 2 "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 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 8

Suraj Stores is a departmental store, which sell goods on retail basis. It makes a gross profit of 20% on net sales. The following figures for the year-end are available:
Opening Inventory ₹ 50,000; Purchases ₹ 3,60,000; Purchase Returns ₹ 10,000; Freight Inwards ₹ 10,000; Gross Sales ₹ 4,50,000; Sales Returns ₹ 11,250; Carriage Outwards ₹ 5,000.
Compute the estimated cost of the inventory on the closing date.

Answer

Calculation of cost of closing inventory

Particulars	**₹**
Opening Inventory	50,000
Purchases less returns (₹3,60,000 -₹ 10,000)	3,50,000
Freight Inwards	10,000
	4,10,000
Less: Net Sales (₹ 4,50,000 -₹ 11,250)	(4,38,750)
	(28,750)
Add: Gross Profits (₹ 4,38,750 x 20%)	87,750
Closing Inventory	**59,000**

Question 9

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.

Answer

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 10

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,2020.

	₹Per unit
Raw Material X	
Cost price	400
Freight Inward	40
Replacement cost	320

Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

i. Total fixed overhead for the year was ₹4,00,000 on normal capacity of 25,000 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 Net realizable value of Chemical Y is ₹600 per unit.

Answer

Net Realizable Value of the Chemical Y (Finished Goods) is ₹600 per unit which is less than its cost ₹656 per unit. 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	320	3,20,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,60,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	₹
Cost Price Add: Freight Inward Cost	400 40 440
Chemical Y	₹
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/25,000 units)	16
Cost	656

Question 1

You are an accountant preparing accounts of A Ltd. as on 31.3.2011. After year end the following events have taken place in April, 2011:

(i) A fire broke out in the premises damaging, uninsured stock worth ₹ 10 lakhs (Salvage value ₹ 2 lakhs).

(ii) A suit against the company's advertisement was filed by a party claiming damage of ₹ 20 lakhs.

Describe, how above will be dealt with in the accounts of the company for the year ended on 31.3.2011.

Question 2

MEC Limited could not recover an amount of ₹ 8 lakhs from a debtor. The company is aware that the debtor is in great financial difficulty. The accounts of the company for the year ended 31-3-2011 were finalized by making a provision @ 25% of the amount due from that debtor. In May 2011, the debtor became bankrupt and nothing is recoverable from him. Do you advise the company to provide for the entire loss of ₹ 8 lakhs in books of account for the year ended 31-3-2011?

Question 3

A major fire has damaged the assets in a factory of a Limited Company on 5th April - five days after the year end and closure of accounts. The loss is estimated at ₹ 10 crores out of which ₹ 7 crores will be recoverable from the insure₹ Explain briefly how the loss should be treated in the final accounts for the previous year.

Question 4

A Company entered into an agreement to sell its immovable property to another company for ₹ 35 lakhs. The property was shown in the Balance Sheet at ₹ 7 lakhs. The agreement to sell was concluded on 15th February, 2011 and sale deed was registered on 30th April, 2011. You are required to state, with reasons, how this event would be dealt with in the financial statements for the year ended 31st March, 2011.

Question 5

In Raj Co. Ltd., theft of cash of ₹ 2 lakhs by the cashier in January, 2011 was detected in May, 2011. The accounts of the company were not yet approved by the Board of Directors of the company. Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2011. Decide.

Question 6

A Company follows April to March as its financial year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of financial statement by debiting 'Cheques in hand account' and crediting 'Debtors account'. The 'cheques in hand' is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?

Question 1

When can a company change its accounting policy?

Question 2

A limited company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2010-2011.

Subsequently on a review of the credit period allowed and financial capacity of the customers, the company decided to increase the provision to 8% on debtors as on 31.3.2011. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard can this revision be considered as an extraordinary item or prior period item?

Question 3

X Co. Ltd. signed an agreement with its employees union for revision of wages in June, 2012. The wage revision is with retrospective effect from 1.4.2008. The arrear wages Upto 31.3.2012 amounts to ₹ 80 lakhs. Arrear wages for the period from 1.4.2012 to 30.06.2012 (being the date of agreement) amounts to ₹ 7 lakhs.

Decide whether a separate disclosure of arrear wages is required.

Question 4

Goods of ₹ 5,00,000 were destroyed due to flood in September, 2009. A claim was lodged with insurance company, but no entry was passed in the books for insurance claim.

In March, 2012, the claim was passed and the company received a payment of ₹ 3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2012.

Question 5

S.T.B. Ltd. makes provision for expenses worth ₹ 7,00,000 for the year ending March 31, 2011, but the actual expenses during the year ending March 31, 2012 comes to ₹ 9,00,000 against provision made during the last year. State with reasons whether difference of ₹ 2,00,000 is to be treated as prior period item as per AS-5.

Question 6

A company created a provision of ₹ 75,000 for staff welfare while preparing the financial statements for the year 2010 - 11. On 31st March, in a meeting with staff welfare association, it was decided to increase the amount of provision for staff welfare to ₹ 1,00,000. The accounts were approved by Board of Directors on 15th April, 2011

Explain the treatment of such revision in financial statements for the year ended 31st March, 2011

Question No. 1

From the following data, show Profit and Loss A/c (Extract) as would appear in the books of a contractor following Accounting Standard-7

Particulars	**₹ In Lakhs**
Contract price (fixed)	480.00
Cost incurred to date	300.00
Estimated cost to complete	200.00

Question 2

A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

Particulars	**(Amount ₹ in lacs)**		
	Year 1	**Year 2**	**Year 3**
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

*Includes ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes ₹ 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7.

Question 1

Arjun Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is payment of consideration in 14 days and in the event of delay interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2015, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at Rs. 9 lakhs. Decide, whether the income by way of interest from dealers is eligible for recognition as per AS 9?

Question 2

The Board of Directors of X Ltd. decided on 31.3.2015 to increase sale price of certain items of goods sold retrospectively from 1st January, 2015. As a result of this decision the company has to receive Rs. 5 lakhs from its customers in respect of sales made from 1.1.2015 to 31.3.2015. But the Company's Accountant was reluctant to make-up his mind. You are asked to offer your suggestion.

Question 3

A Ltd. entered into a contract with B Ltd. to despatch goods valuing Rs. 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of Rs. 1,00,000 and A Ltd. started despatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to despatch goods until further notice though A Ltd. is holding the remaining goods worth Rs. 50,000 ready for despatch. A Ltd. accounted Rs. 50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9.

Question 4

Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received Rs. 2,40,000 on 10.3.2014 and Rs. 60,000 on 10.4.2014 for the March 2014 issue. Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014 ?

Question 5

Given the following information of M/s. Paper Products Ltd.

1) Goods of Rs. 60,000 were sold on 20-3-2015 but at the request of the buyer these were delivered on 10-4-2015.
2) On 15-1-2015 goods of Rs. 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2015.
3) Rs. 1,20,000 worth of goods were sold on approval basis on 1-12-2014. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2015 and no approval or disapproval received for the remaining goods till 31-3-2015.
4) Apart from the above, the company has made cash sales of Rs. 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of M/s. Paper Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-3-2015.

Question 1

PQR Ltd. constructed a fixed asset and incurred the following expenses on its construction:

Particulars	₹
Materials (including excise duty of ₹ 50,000, CENVAT credit is available for 50% of the duty paid)	16,00,000
Direct Expenses	3,00,000
Total Labour charges (200 out of the total of 600 men hours worked, on installation work)	6,00,000
Spare parts and tools consumed in installation	60,000
Total salary of supervisor (time spent for installation was 25 % of the total time worked.)	24,000
Test run and experimental production expenses	23,000
Consultancy changes to architect for plant set up	9,000
Total Office & Administrative Expenses (4 % is chargeable to the construction)	9,00,000
Depreciation on other assets used for the construction of this asset	15,000

The machine was ready for use on 15-1-2015 but was used from 1-2-2015. Due to this delay further expenses of ₹ 19,000 were incurred. Calculate the value at which the plant should be capitalized.

Question 2

During the current year 2014-15, X Limited made the following expenditure relating to its plant building:

Particulars	₹ in lakhs
Routine Repairs	.4
Major Overhaul expenses incurred once in 3 years	1
Partial replacement of roof tiles (useful life is 4 years)	2.5
Substantial improvements to the electrical wiring system which will increase efficiency	10

What amount should be capitalized?

Question 3

Indigo Airline purchase one aircraft for ₹ 600 Cr. Components are - Engine ₹ 400 Cr., Aircraft Body ₹ 200Cr. Life of Engine is 10 years And of body 20 years Show accounting treatment for recognition and Depreciation.

Question4

Amna Ltd. contracted with a supplier to purchase a specific machinery to be installed in Department A in two months time. Special foundations were required for the plant, which were to be prepared within this supply lead time. The cost of site preparation and laying foundations were ₹ 47,290. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 15,000 per month. The Technician's services were given to Department A by Department B, which billed the services at ₹ 16,500 per month after adding 10% profit margin.

The machine was purchased at ₹ 52,78,000. Sales Tax was charged at 4% on the invoice ₹ 18,590 transportation charges were incurred to bring the machine to the factory. An Architect was engaged at a fee of ₹ 10,000 to supervise machinery installation at the factory premises. Also, payment under the invoice was due in 3 months. However, the Company made the payment in 2nd month. The company operates on Bank Overdraft@ 11%.

Ascertain the amount at which the asset should be capitalized under AS 10.

Question 5

Hema Ltd. purchased a machinery on 1.04.2008 for ₹ 15,00,000. The company charged straight line depreciation based on 15 years working life estimate and residual value ₹3,00,000. At the beginning of the 4th year, the company by way of systematic evaluation revalued the machinery upward by 20% of net book value as on date and also re-estimated the useful life as 7 years and scrap value as nil. The increase in net book value was credited directly to revaluation reserves. Deprecation (on SLM basis) later on was charged to Profit & Loss Account. At the beginning of 8thyear the company decided to dispose off the machinery and estimated the realizable value to ₹ 2,00,000.

You are required to ascertain the amount to be charged to Profit & Loss Account at the beginning of 8th year with reference to AS-10.

Question6

A Company is in the process of setting up a production line for manufacturing a new product. Based on trial runs conducted by the company, it was noticed that the production lines output was not of the desired quality. However, company has taken a decision to manufacture and sell the sub-standard product over the next one year due to the huge investment involved.
In the background of the relevant accounting standard, advise the company on the cut-off date for capitalization of the project cost.

Answer

As per provisions of AS 10 'Property Plant and Equipment (PPE)', expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, is usually capitalized as an indirect element of the construction cost. However, the expenditure incurred after the plant has begun commercial production *i.e.*, production intended for sale or captive consumption, is
not capitalized and is treated as revenue expenditure even though the contract may stipulate that the plant will not be finally taken over until after the satisfactory completion of the guarantee period. In the present case, the company did not stop production even when the output was not of the desired quality, and continued the sub-standard production due to huge investment involved in the project. Capitalization should cease at the end of the trial run, since the cut-off date would be the date when the trial run was completed.

Question7

On March 01, 2014, X Ltd. purchased ₹ 5 lakhs worth of land for a factory site. Company demolished an old building on the property and sold the material for ₹10,000. Company incurred additional cost and realized salvaged proceeds during the March 2014 as follows:

Legal fees for purchase contract and recording ownership	₹ 25,000
Title guarantee insurance	₹ 10,000
Cost for demolition of building	₹50,000

Compute the balance to be shown in the land account in balance sheet on March 31, 2014.

Answer

Calculation of the cost for Purchase of Land	(₹ in lakhs)	(₹ in lakhs)
Cost of Land		5,00,000
Legal Fees		25,000
Title Insurance		10,000
Cost of Demolition	50,000	
Less: Salvage value of Material	(10,000)	40,000
Cost of the Asset		5,75,000

Question 8

Fire Ltd. purchased equipment for its power plant from Urja Ltd. during the year 2013-14 at a cost of ₹ 100 lacs. Fire Ltd. they paid only 90% and balance 10% was to be paid after one year on satisfactory performance of the equipment.
During the Financial year 2014-15, Urja Ltd. waived off the balance 10% amount which was credited to Profit and Loss account by Fire Ltd. as discount received. Is this accounting treatment correct? State in line with Accounting Standards.

Answer

According to AS 10 on 'Property Plant and Equipment (PPE)', the cost of an asset may undergo changes subsequent to its acquisition on account of exchange fluctuation, price adjustment, changes in duty or similar factors. Such changes in price/cost need to be adjusted with the cost of the asset.

In the give case, Fire Ltd., initially accounted for 100% amount i.e., ₹ 100 lacs as cost of fixed asset although they paid only ₹ 90 lacs and kept ₹ 10 lacs as payable to the credit of Urja Ltd. Now since the supplier has waived off the balance amount of ₹ 10 lacs, this should be treated as change in price and needs to be adjusted with the cost of asset as per AS 10. Therefore, the treatment given by Fire Ltd., in crediting ₹ 10 lacs as discount to Profit & Loss Account is completely wrong and needs to be corrected.

Question 9

Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for in store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodeling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers. Decide whether the remodeling cost will be capitalized or not.

Answer

The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodelling can be measured reliably, therefore, it should be capitalized in line with AS 10 PPE.

Question 10

Omega Ltd. contracted with a supplier to purchase machinery which is to be installed in its one department in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,40,000. These activities were supervised by a technician during the entire period, who is employed for this purpose at ₹ 45,000 per month.

The machine was purchased at ₹ 1,58,00,000 and ₹ 50,000 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of
₹ 30,000 to supervise machinery installation at the factory site.

You are required to ascertain the amount at which the Machinery should be capitalized under AS 10.

Answer

Calculation of Cost of Machinery

Particulars		₹
Purchase Price	Given	1,58,00,000
Add: Site Preparation Cost	Given	1,40,000
Technician's Salary	Specific/Attributable overheads for 3 months (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	50,000
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,61,55,000

Question 11

A property costing ₹10,00,000 is bought on 1.4.2020. Its estimated total physical life is 50 years.However,thecompanyconsidersitlikelythatitwillselltheproperty after25years.

The estimated residual value in 25 years' time, based on current year prices, is: Case (a) ₹10,00,000

Case (b) ₹9,00,000

You are required to compute the amount of depreciation charged for the year ended 31.3.2021.

Answer

1. **Case(a)**

   The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost.

   There is, therefore, no depreciable amount and depreciation is zero.

2. Case (b)

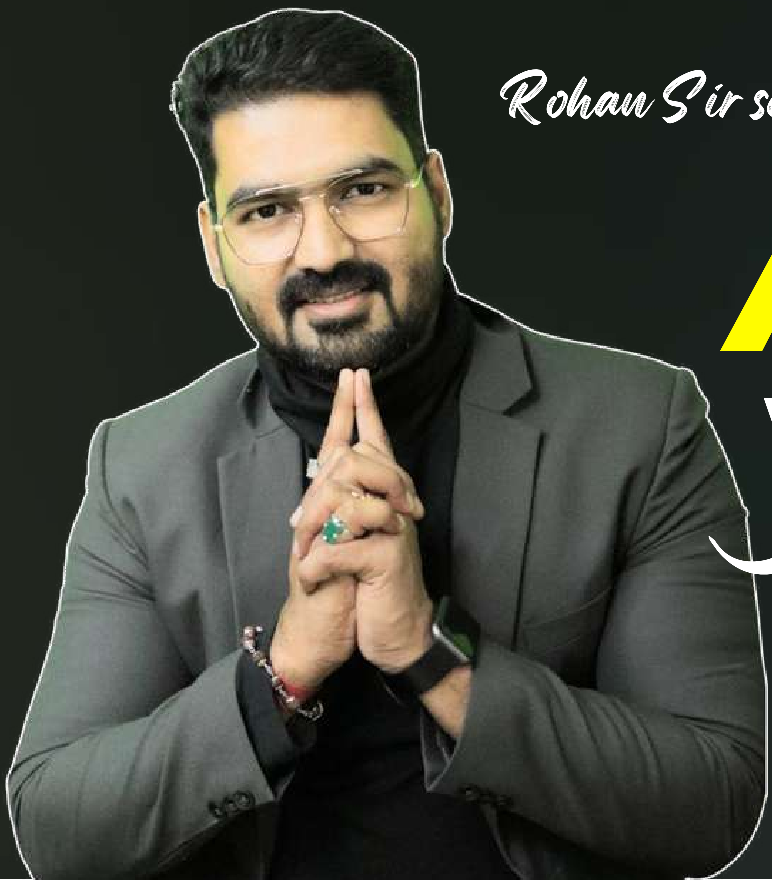
The company considers that the residual value, based on prices prevailing at the balance sheet date, will be ₹9,00,000 and the depreciable amount is, therefore, ₹1,00,000.

Annual depreciation (on a straight line basis) will be ₹ 4,000 [{10,00,000 – 9,00,000} ÷ 25].

CA INTERMEDIATE

ADV.ACCOUNTING QUESTION BANK

TAPOVAN CA



Rohan Sir se Padhoge toh ye Guarantee hai...

AS Sirf samjenge nahi

Yaad Hoo Jayenge !!

Rohan Nimbalkar

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Question No. 1 RTP May 2018

Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2016 payable after 6 months. The company entered into a forward contract for 6 months @₹ 64.25 per Dollar. On 31st October, 2016, the exchange rate was ₹ 61.50 per Dollar. You are required to calculate the amount of the profit or loss on forward contract
to be recognized in the books of the company for the year ended 31st March, 2017.

Question No. 2

Opportunity Ltd. purchased an equipment costing ₹ 24,00,000 on 1.4.2015 and the same was fully financed by foreign currency loan (US Dollars) payable in four annual equal installments. Exchange rates were 1 Dollar = ₹ 60.00 and ₹ 62.50 as on 1.4.2015 and 31.3.2016 respectively. First installment was paid on 31.3.2016. The entire difference in foreign exchange has been capitalised. You are required to state that how these transactions would be accounted for.

Question No. 3

Kalim Ltd. borrowed US$ 4,50,000 on 01/01/2016, which will be repaid as on 31/07/2016. X Ltd. prepares financial statement ending on 31/03/2016. Rate of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

01/01/2016	1 US$ = ₹ 48.00
31/03/2016	1 US$ = ₹ 49.00
31/07/2016	1 US$ = ₹ 49.50

Question No. 4

A Ltd. purchased fixed assets costing ₹ 3,000 lakhs on 1.1.2016 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ₹ 40.00 and ₹ 42.50 as on 1.1.2016 and 31.12.2016 respectively. First instalment was paid on 31.12.2016. The entire difference in foreign exchange has been capitalised.
You are required to state, how these transactions would be accounted for.

Question No. 5

Rau Ltd. purchased a plant for US$ 1,00,000 on 01st February 2016, payable after three months. Company entered into a forward contract for three months @ ₹ 49.15 per dollar. Exchange rate per dollar on 01st Feb. was ₹ 48.85. How will you recognise the profit or loss on forward contract in the books of Rau Ltd?

Question 1

Supriya Ltd. received a grant of ₹ 2,500 lakhs during the accounting year 2010-11 from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2011-12, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the current accounting treatment, with reference to the provisions of AS-12.

Question 2

A Ltd. purchased machinery for ₹ 40 lakhs. (Useful life 4 years and residual value₹ 8 lakhs) Government grant received is₹ 16 lakhs. Show the Journal Entry to be passed at the time of refund of grant in the third year and the value of the fixed assets, if:
(1) the grant is credited to Fixed Assets A/c.
(2) the grant is credited to Deferred Grant A/c.

Question No. 3

Yogya Ltd. received a specific grant of ₹ 300 lakhs for acquiring the plant of ₹ 1,500 lakhs during 2009-10 having useful life of 10 years. The grant received was credited to deferred income and shown in the balance sheet. During 2012-13, due to non-compliance of conditions laid down for the grant the company had to refund the grant to the Government. Balance in the deferred income on that date was ₹ 210 lakhs and written down value of plant was ₹ 1,050 lakhs.

(i) What should be the treatment for the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2012-13 in profit and loss account? Assume that depreciation is charged on assets as per straight line method.

(ii) What should be the treatment of the refund if grant was deducted from the costof the plant during 2009-10?

Answer

As per para 21 of AS 12, 'Accounting for Government Grants', amount refundable in respect of a grant related to revenue should be applied first against any unamortized deferred credit remaining in respect of the grant. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to the Statement of Profit and Loss.

(i) In this case, the grant refunded is ₹ 300 lakhs and balance in deferred income is ₹ 210 lakhs, therefore, ₹ 90 lakhs shall be charged to the Statement of Profit and Loss for the year 2012-13. There will be no effect on the cost of the fixed asset and depreciation charged will be same as charged in the earlier years.

(ii) As per para 21 of AS 12, the amount refundable in respect of grant which was related to specific fixed assets should be recorded by increasing the book value of the assets by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case the book value of the plant shall be increased by ₹ 300 lakhs. The increased cost of ₹ 300 lakhs of the plant should be amortised over 7 years (remaining useful life). Depreciation charged during the year 2012-13 shall be 1200/10 + 300/7 = 162.86 lakhs.

Question No. 4

S Ltd. received a grant of ₹ 5,000 lakhs during the last accounting year (2012-13) from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2013-14, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the correct accounting treatment, with reference to the provisions of AS 12.

Answer

As per AS 12 'Accounting for Government Grants', Government grants sometimes become refundable because certain conditions are not fulfilled. A government grant that becomes refundable is treated as an extraordinary item as per AS 5.
The amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement. In the present case, the amount of refund of government grant should be shown in
the profit and loss account of the company as an extraordinary item during the year 2013-14.

Question No. 5

On 1.4.2011, ABC Ltd. received Government grant of ₹ 300 lakhs for acquisition of machinery costing ₹ 1,500 lakhs. The grant was credited to the cost of the asset. The life of the machinery is 5 years. The machinery is depreciated at 20% on WDV basis. The Company had to refund the grant in May 2014 due to non-fulfilment of certain conditions.
How you would deal with the refund of grant in the books of ABC Ltd.?

Answer

According to para 21 of AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset should be recorded by increasing the book value of the asset or by reducing deferred income balance, as appropriate, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		₹ (in lakhs)
1st April, 2011	Acquisition cost of machinery (₹ 1,500 - ₹	1,200.00
31st March, 2012	300)	(240.00)
	Less: Depreciation @ 20%	960.00
31st March, 2013	Book value	(192.00)
	Less: Depreciation @ 20%	768.00
31st March, 2014	Book value	(153.60)
1st April, 2014	Less: Depreciation @ 20%	614.40
May, 2014	Book value	300.00
	Add: Refund of grant	914.40

Depreciation @ 20% on the revised book value amounting ₹ 914.40 lakhs is to be provided prospectively over the remaining useful life of the asset i.e. years ended 31st March, 2015 and 31st March, 2016.

Question No. 6

White Ltd. A fixed asset is purchased for ₹ 25 lakhs. Government grant received towards it is ₹ 10 lakhs. Residual Value is ₹ 5 lakhs and useful life is 5 years. Assume depreciation on the basis of Straight Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of ₹ 6 lakhs due to non compliance with certain conditions. Pass journal entries for first two years.

Journal Entries

Year	Particulars	₹ in lakhs (Dr.)	₹ in lakhs (Cr.)
1	Fixed Asset Account Dr.25 To Bank Account (Being fixed asset purchased)		25
	Bank Account Dr. 10 To Fixed Asset Account (Being grant received from the governmentreduced the cost of fixed asset)		10
	Depreciation Account (W.N.1) Dr. 2 To Fixed Asset Account (Being depreciation charged on Straight Linemethod (SLM))	2	
	Profit & Loss Account Dr. 2 To Depreciation Account (Being depreciation transferred to Profit andLoss Account at the end of year 1)	2	
2	Fixed Asset Account Dr. 6 To Bank Account (Being government grant on asset partly refunded which increased the cost of fixed asset)	6	
	Depreciation Account (W.N.2) Dr. 3.5 To Fixed Asset Account (Being depreciation charged on SLM onrevised value of fixed asset prospectively)	3.5	
	Profit & Loss Account Dr. 3.5 To Depreciation Account (Being depreciation transferred to Profit andLoss Account at the end of year 2)	3.5	

Working Notes:

Depreciation for Year 1

	₹ in lakhs
Cost of the Asset	25
Less: Government grant received	(10)
	15
Depreciation [15-5]/5	2

Depreciation for Year 2

	₹ in lakhs
Cost of the Asset	25
Less: Government grant received	(10)
	15
Less: Depreciation for the first year [15-5]/5	2
	13
Add: Government grant refundable	6
	19
Depreciation for the second year [19-5]/4	3.5

Question No. 7

Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested ₹ 80 crores in the eligible investments. The company is eligible for the subsidy and has received ₹ 20 crores from the government in February 2014. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.
Do you approve the action of the company in accordance with the Accounting Standard?

Answer

As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, ***i.e.,*** they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoters contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

Since the subsidy received is neither in relation to specific fixed assets nor in relation torevenue. Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

Question No. 8

A specific government grant of ₹ 15 lakhs was received by USB Ltd. for acquiring the Hi-Tech Diary plant of ₹ 95 lakhs during the year 2014-15. Plant has useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 10.50 lakhs and written down value of plant was ₹ 66.50 lakhs.

(i) What should be the treatment of the refund of the grant and the effect on cost of plant and the amount of depreciation to be charged during the year 2017-18 in profit and loss account?

(ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2014-15 assuming plant account showed the balance of ₹ 56 lakhs as on 1.4.2017?

You are required to explain in the line with provisions of AS 12.

Answer

As per para 21 of AS 12, 'Accounting for Government Grants', the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

(i) In this case the grant refunded is ₹ 15 lakhs and balance in deferred income is ₹ 10.50 lakhs, ₹ 4.50 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

(ii) If the grant was deducted from the cost of the plant in the year 2014-15 then, para 21 of AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by ₹ 15 lakhs. The increased cost of ₹ 15 lakhs of the plant should be amortized over 7 years (residual life).

Depreciation charged during the year 2017-18 shall be (56+15)/7 years = ₹ 10.14 lakhs presuming the depreciation is charged on SLM.

Question 9

ABC Ltd. received two acres of land received for set up of plant. It also received ₹ 2 lakhs received for purchase of machinery of ₹ 10 lakhs. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis. How should ABC Ltd. recognize these government grants in its books of accounts?

Answer

ABC Ltd. should recognize the grants in the following manner:

- As per AS 12, government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value. Accordingly, land should be recognised at nominal value in the balance sheet.

- The standard provides option to treat the grant either as a deduction from the gross value of the asset or to treat it as deferred income as per provisions of the standard. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Accordingly, the grant of ₹ 2 lakhs is deducted from the cost of the machinery. Machinery will be recognised in the books at ₹ 10 lakhs – ₹ 2 lakhs = ₹ 8 lakhs and depreciation will be charged on it as follows:

  ₹ 8 lakhs/ 5 years = ₹ 1.60 lakhs per year.

  Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged. ₹ 2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 40,000 [₹ 2 lakhs / 5 years] should be credited to profit and loss each year over the period of 5 years.

Question No. 1

Kumar invests and disinvests from time to time in 10% Non-convertible Debentures (NCD) of Apple Ltd. on FIFO basis. From the following transactions, prepare Investment account as it would appear in her books:

15.6.2011	Purchased	3,000 NCD, ex-interest @ Rs. 96 each
15.9.2011	Sold	3,000 NCD, ex-interest @ Rs. 100 each
15.12.2011	Purchased	2,000 NCD, cum interest @ Rs. 99 each
15.2.2012	Sold	2,000 NCD, cum interest @ Rs. 102 each

Opening balance of NCD of Rs. 100 each was Rs. 2,00,000 on 1.4.2011 and Cost of acquisition was Rs. 1,80,000. Interest payment dates on NCD are 30th June and 31st December. Kumar follows financial year as accounting year.

Answer

In the books of Kumar

10% Non-Convertible Debentures (NCD) Account

	Particulars	Face Value ₹	Interest ₹	Cost ₹		Particulars	Face Value ₹	Interest ₹	Cost ₹
April 1	To Balance b/d	2,00,000	5,000	1,80,000	June 30	By Bank		25,000	
June 15	To Bank	3,00,000	13,750	2,88,000	Sept. 15	By Bank	3,00,000	6,250	3,00,000
Sept. 15	To P&L A/c			24,000	Dec. 31	By Bank		20,000	
Dec. 15	To Bank	2,00,000	9,167	1,88,333	Feb. 15	By Bank	2,00,000	2,500	2,01,500
Feb. 15	To P&L A/c			9,500	Mar.31	By balance c/d	2,00,000	5,000	1,88,333
Mar.31	To P&L A/c (Bal. fig.)		30,833						
		7,00,000	58,750	6,89,833			7,00,000	58,750	6,89,833

Working Notes

(i) Profit/Loss on sale of NCD

	₹
Sold on 15.09.2011	
Selling price (3,000 x 100)	3,00,000
Less: Cost of purchases	
2000 x 90 (opening)	(1,80,000)
1000 x 96 (purchases)	(96,000)
Profit	24,000

Sold on 15.02.2012

Selling price (2,000 x 102)	2,04,000
Less: Interest included	(2,500)
	2,01,500
Less: Cost of purchases (2000 x 96)	(1,92,000)
Profit	9,500

(ii) As the disinvestment is done on FIFO basis, NCDs purchased on 15.12.2011 remained in stock on 31.03.2012 at a cost of ₹ 1,88,333

(iii) Interest calculation on various dates:

(a) On 1.4.11:

2,00,000 x 10% x 3/12 → (1.1.09 31.3.09) = 5,000

(b) On 15.6.11:

3,00,000 x 10% x 5.5/12 → (1.1.09 15.6.09) = 13,750

(c) On 30.6.11:

5,00,000 x 10% x 6/12 →(1.1.09–30.6.09) = 25,000

(d) On 15.9.11:

3,00,000 x 10% x 2.5/12 → (1.7.09–15.9.09) = 6,250

(e) On 15.12.11

2,00,000 x 10% x 5.5/12 (1.7.09–15.9.09) = 9,167

(f) On 31.12.11:

4,00,000 x 10% x 6/12 → (1.7.09 31.12.09) = 20,000

(g) On 15.2.2012:

2,00,000 x 10% x 1.5/12 → (1.1.10 15.2.10) = 2,500

(h) On 31.3.2012:

2,00,000 x 10% x 3/12 → (1.1.10 31.3.10) = 5,000

Question No. 2

The following transactions of Nidhi took place during the year ended 31st March 2012:

1st April	Purchased Rs. 12,00,000, 8% bonds at Rs. 80.50 cum-interest.
	Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of Rs. 10 each in X Ltd. for Rs. 40,00,000
1st May	Received half-year's interest on 8% bonds.
15th May	X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 bonus shares for Rs. 20 each.
1st October	Sold Rs. 3,00,000, 8% bonds at Rs. 81 ex-interest.
1st November	Received half-year's bond interest.
1st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment account in the books of Nidhi for the year ended 31st March, 2012.

Answer

In the books of Nidhi
8% Bonds Account
[Interest Payable: 1st November & 1st May]

Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.12	To Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	1.5.12	By Bank A/c	-	48,000	-
31.3.13	To Profit & Loss A/c (W.N 6)		84,000	11,500	1.10.12	By Bank A/c (W.N 2)	3,00,000	10,000	2,43,000
					1.11.12	By Bank A/c (W.N 3)	-	36,000	-
					31.3.13	By Balance c/d (W.N.4)	9,00,000	30,000	6,94,500
		12,00,000	1,24,000	9,37,500			12,00,000	1,24,000	9,37,500

Investment in Equity Shares of X Ltd. Account

Date	Particulars	No.	Dividend (₹)	Cost (₹)	Date	Particulars	No.	Dividend (₹)	Cost (₹)
12.4.12	To Bank A/c	1,00,000		40,00,000	15.5.12	By Bank A/c	1,25,000		25,00,000
15.5.12	To Bonus Issue	1,50,000			1.12.12	By Bank A/c		2,25,000	
31.3.13	To Profit & Loss A/c (W.N 5)		2,25,000	5,00,000	31.3.13	By Balance c/d	1,25,000		20,00,000
		2,50,000	2,25,000	45,00,000			2,50,000	2,25,000	45,00,000

Working Notes:

1. On 1st April, 2012, 12,000, 8% bonds were purchased @ ₹ 80.50 cum- interest. Total amount paid 12,000 bonds x ₹ 80.50 = 9,66,000 which includes accrued interest for 5 months. i.e. 1st November, 2011 to 31st March, 2012. Accrued interest will be ₹ 12,00,000 x 8/100 x 5/12 = ₹ 40,000. Therefore, cost of investment purchased = ₹ 9,66,000 - 40,000 = ₹ 9,26,000.

2. On 1st October, 2012, 3,000 bonds were sold @ ₹ 81 ex-interest. Total amount received = 3,000 x 81 + accrued interest for 5 months = ₹ 2,43,000 + ₹10,000 (3,00,000 x 8/100 x5/12)

3. On 1st November, 2012, interest will be received for 9,000 bonds @ 8% for 6 months, i.e., ₹ 9,00,000 x 8/100 x 1/2 = ₹ 36,000.

4. Cost of bonds on 31.3.2012 will be ₹ 9,26,000/12,000 x 9,000 = ₹ 6,94,500.
   Interest accrued on bonds on 31.3.2012 = 9,00,000 x 8% x 5/12 = ₹ 30,000

5. Profit on sale of bonus shares:

Cost per share after bonus = ₹ 40,00,000/2,50,000 = ₹ 16

Profit per share sold (₹ 20 - ₹ 16) = ₹ 4.

Therefore, total profit on sale of 1,25,000 shares = ₹ 4 x 1,25,000 = ₹ 5,00,000.

6. Profit on sale of bonds		₹
Sale value	=	2,43,000
Cost of ₹ 3,00,000 8% bonds = 9,26,000/12,00,000 x 3,00,000	=	2,31,500
Profit	=	11,500

Question No. 3

Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of Rs. 100 each of Pergot Ltd. on 1st May 2013 @ Rs. 105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2013 the company again purchased 2,500 of such debentures @ Rs. 102.50 each on cum interest basis. On October 1st, 2013 the company sold 2,000 Debentures @ Rs. 103 each. The market value of the debentures as at the close of the year was Rs. 106. Prepare the Debenture Investment Account in the books of Alpha Ltd. for the year ended 31st Dec. 2013 on Average Cost Basis.

Answer

Books of Alpha Ltd.

Investment in 13.5% Debentures in Pergot Ltd. Account

(Interest payable on 31st March & 30th September)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
		₹	₹	₹			₹	₹	₹
2013					2013				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Interest)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000					
Oct.1	To P&L A/c			2,167	Oct.1	By Bank	2,00,000		2,06,000
Dec.31	To P&L A/c		52,313		Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note : Cost being lower than Market Value the debentures are carried forward at Cost.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2013 for the month of April 2013, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625

2. Interest received on 30th Sept. 2013

   On ₹ 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ₹ 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ₹ 50,625

3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2013 for April 2013 to July 2013 as part of purchase price: 2,50,000 x 13.5% x 4/12 = ₹ 11,250

4. Loss on Sale of Debentures

Cost of acquisition		
(₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000	=	2,03,833
Less: Sale Price (2000 x 103)	=	2,06,000
Profit on sale	=	₹ 2,167

5. Cost of Balance Debentures

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 5,50,000/₹ 7,50,000 = ₹ 5,60,542

6. Interest on Closing Debentures for period Oct.-Dec. 2013 carried forward (accrued interest)

   ₹ 5,50,000 x 13.5% x 3/12 = ₹ 18,563

Question No. 4

Meera carried out the following transactions in the shares of Kumar Ltd.:

1. On 1st April, 2013 she purchased 40,000 equity shares of Rs. 1 each fully paid up for Rs. 60,000.
2. On 15th May 2013, Meera sold 8,000 shares for Rs. 15,200.
3. At a meeting on 15th June 2013, the company decided:
   - (i) To make a bonus issue of one fully paid up share for every four shares held on1st June 2013, and
   - (ii) To give its members the right to apply for one share for every five shares held on 1st June 2013 at a price of Rs. 1.50 per share of which 75 paise is payable on or before 15th July 2013 and the balance, 75 paise per share, on or before 15th September, 2013.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2013.

(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 2013.

(b) On 15th March 2014, he received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2013.

(c) On 30th March he received Rs. 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 2014 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

Answer

In the books of Meera

Investment Account (Shares in Kumar Limited)

Date	***Particulars***	***No. of Shares***	***Income***	***Amount***	***Date***	***Particulars***	***No. of Shares***	***Income***	***Amount***
2013			₹	₹	***2013***			₹	₹
April 1	To Bank (Purchases)	40,000	-	60,000	May 15	By Bank (Sale)	8,000	-	15,200
May 15	To Profit & Loss A/c (W.N.1)	-	-	3,200	Sept. 30	By Bank (Sale of Right of 2,400 shares @ 40 paise per share)	-	-	960
June 15	To Bonus Issue	8,000	-	Nil	2014 Mar. 15	By Bank (Dividend @ 15% on ₹ 32,000)		4,800	-
July 15	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
Sept. 15	To Bank (@ 75 p. Paid on 4,000 shares)	-	-	3,000	Mar. 31	By Balance c/d $\frac{24,000}{44,000} \times 53,040$	24,000	-	28,930
2014 March 31	To Profit & Loss A/c (W.N.2)			3,890					
	To Profit & Loss A/c	-	4,800						
		52,000	4,800	73,090			52,000	4,800	73,090

Working Notes:

(1)	Profit on Sale on 15-5-2013:		
	Cost of 8,000 shares @ ₹1.50	₹ 12,000	
	Less: Sales price	₹ 15,200	
	Profit		₹ 3,200
(2)	Cost of 20,000 shares sold:		
	Cost of 44,000 shares (48,000 + 6,000)	₹ 54,000	
	Less: Amount received from rights	₹ 960	
	Cost of 44,000 shares		₹ 53,040
	∴ Cost of 20,000 shares (₹53,040 / 44,000 shares × 20,000 shares)		₹ 24,110
	Profit on sale of 20,000 shares (₹ 28,000 - ₹ 24,110)		₹ 3,890

Question No. 5

The following information is presented by Mr. Akash relating to his holding in 9% Government Bonds:

Opening Balance as on 01-01-2014 (Face Value) ₹ 60,000, Cost ₹59,000 (Face value of each unit is ₹ 100)

01-03-2014 purchased 100 units, ex-interest at ₹ 100

01-07-2014 sold 250 units, ex-interest out of original holding at ₹ 100

01-10-2014 100 Purchased 75 units at ₹ 98 cum interest.

01-11-2014 sold 150 units ex-interest at ₹ 99 out of original holdings.

Interest due dates are 30th September and 31st March, Mr. Akash closes his books every year by 31st December.

Show the Investment A/c as it would appear in his books. Mr. Akash was following FIFO Method.

<u>Answer</u>

9% Central Government Bonds A/c in the books of Akash

Date	*Particulars*	*Face Value*	*Interest*	*Amount*	*Date*	*Particulars*	*Face Value*	*Interest*	*Amount*
2014					**2014**				
Jan 01	To Balance b/d	60,000	1,350	59,000	Mar-31	By Bank A/c	-	3,150	-
Mar-01	To Bank A/c	10,000	375	10,000	Jul-01	By Bank A/c	25,000	563	25,000
Jul-01	To **P & L** A/c		- -	417	Sep-30	By Bank A/c	-	2,025	-
Oct-01	To Bank A/c	7,500	-	7,350	Nov-01	By Bank A/c	15,000	112	14,850
Nov-01	To **P & L** A/c	-		100	Dec-31	By Balance c/d	37,500	844	37,017
Dec 31	To P & **L** A/c Transfer	-	4,969	-					
		77,500	6,694	76,867			77,500	6,694	76,867

Working Note:

<u>Calculation of closing balance</u>

Bonds in hand on 31.12.2014

From original holding	**Face Value**	**Cost**
(60,000 — 25,000 — 15,000)	20,000	19,667
(59,000/60,000 x 20,000)		
Purchased on 1st March	10,000	10,000
Purchased on 1st October	7,500	7,350
	37,500	**37,017**

Question No. 1

Entity XY is required to pay salary of ₹ 2 crore for the year 20X1-X2. It actually paid a salary of ₹ 1.90 crore up to 31 st March 20X2, and balance in April 20X2. Determine the actual costs to be recognized in the year 20X1-X2 and any amounts to be shown through balance sheet.

Question No. 2

Whether an entitlement to earned leave which can be carried forward to future periods is a short – term employee benefit or a long-term employee benefit.

Question No. 3

In case an enterprise allows un utilised employee benefits, e.g., medical care, leave travel, etc., to be carried forward, whether it is required to recognise a provision in respect of carried forward benefits.

Question No. 4

Omega Limited belongs to the engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employees is estimated to be 6 years. You are required to advise the company on the following items from the viewpoint of finalization of accounts, taking note of the mandatory accounting standards.

Question No. 5

As on 1 st April, 20X1 the fair value of plan assets was ₹ 1,00,000 in respect of a pension plan of Zeleous

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

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

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

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

Question No. 6

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

curtailment because the last pay earlier assumed is no longer valid. Rock Star Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at ₹ 18 (10% of ₹ 180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Rock Star Ltd. on the basis of given information:

(a) Immediately before the curtailment, gross obligation is estimated at ₹ 6,000 based on current actuarial assumption.

(b) The fair value of plan assets on the date is estimated at ₹ 5,100.

(c) The unamortized past service cost is ₹ 180.

(d) Curtailment reduces the obligation by ₹ 600, which is 10% of the gross obligation.

Question No. 7

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

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

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

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

Question No. 8

A company has a scheme for payment of settlement allowance to retiring employees. Under the scheme, retiring employees are entitled to reimbursement of certain travel expenses for class they are entitled to as per company rule and to a lump-sum payment to cover expenses on food and stay during the travel. Alternatively, employees can claim a lump sum amount equal to one month pay last drawn.

The company's contentions in this matter are:

(i) Settlement allowance does not depend upon the length of service of employee. It is restricted to employee's eligibility under the Travel rule of the company or where option for lump-sum payment is exercised, equal to the last pay drawn.

(ii) Since it is not related to the length of service of the employees, it is accounted for on claim basis.

State whether the contentions of the company are correct as per relevant Accounting Standard. Give reasons in support of your answer.

Question No. 9

The following data apply to 'X' Ltd. defined benefit pension plan for the year ended 31.03.20X2 calculate the actual return on plan assets:

-Benefits paid	2,00,000
-Employer contribution -Fair market value of plan as sets on 31.03.20X2 -Fair market value of plan assets as on 31.03.20X1	2,80,000 11,40,000 8,00,000

Question No. 10

The fair value of plan assets of Anupam Ltd. was ₹ 2,00,000 in respect of employee benefit pension plan as on 1st April, 20X1. On 30th September, 20X1 the plan paid out benefits of ₹ 25,000 and received inward contributions of ₹ 55,000. On 31st March, 20X2 the fair value of plan assets was ₹ 3,00,000. On 1st April, 20X1 the company made the following estimates, based on its market studies and prevailing prices.

	%
Interest and dividend income (after tax) payable by fund Realized gains on plan assets (after tax) Fund administrative costs Expected rate of return	10.25 3.00 (3.00) 10.25

Calculate the expected and actual returns on plan assets as on 31st March, 20X2, as per AS 15.

Question 1

GHI Limited obtained a loan for ₹ 70 lakhs on 15th April, 2010 from JKL Bank, to be utilized as under:

	₹ in lakhs
Construction of Factory shed	25
Purchase of Machinery	20
Working capital	15
Advance for purchase of Truck	10

In March 2011, construction of the factory shed was completed and machinery, which was ready for its intended use, was installed. Delivery of Truck was received in the next financial year. Total interest of ₹ 9,10,000 was charged by the bank for the financial year ending 31-03-2011.

Show the treatment of interest under AS 16 and also explain the nature of Assets.

Question 2

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

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

Show the treatment of interest by Amazing Construction Ltd.

Question. 3

Axe Limited began construction of a new plant on 1st April, 2011 and obtained a special loan of ₹ 4,00,000 to finance the construction of the plant. The rate of interest on loan was 10%.

The expenditure that were made on the project of plant were as follows:

₹

1st April, 2011	5,00,000
1st August, 2011	12,00,000
1st January, 2012	2,00,000

The company's other outstanding non-specific loan was ₹ 23,00,000 at an interest rate of 12%. The construction of the plant completed on 31st March, 2012. You are required to:

(a) Calculate the amount of interest to be capitalized as per the provisions of AS 16 "Borrowing Cost".

(b) Pass a journal entry for capitalizing the cost and the borrowing cost in respect of the plant.

Question 4

M/s. Ayush Ltd. began construction of a new building on 1st January, 2014. It obtained ₹ 3 lakh special loan to finance the construction of the building on 1st January, 2014 at an interest rate of 12% p.a. The company's other outstanding two non-specific loans were:

Amount	Rate of Interest
₹ 6,00,000	11% p.a.
₹ 11,00,000	13% p.a.

The expenditure that were made on the building project were as follows:

	Amount (₹)
January, 2014	3,00,000
April, 2014	3,50,000
July, 2014	5,50,000
December, 2014	1,50,000

Building was completed on 31st December, 2014. Following the principles prescribed in AS 16 'Borrowing Cost', calculate the amount of interest to be capitalized and pass one Journal entry for capitalizing the cost and borrowing in respect of the building.

Question 5

Shan Builders Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2014-15 for its residential project at LIBOR + 3 %. The interest is payable at the end of the Financial Year. At the time of availment, exchange rate was ₹ 56 per US $ and the rate as on 31st March, 2015 ₹ 62 per US $. If Shan Builders Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%. Compute Borrowing Cost and exchange difference for the year ending 31st March, 2015 as per applicable Accounting Standards. (Applicable LIBOR is 1%).

Question 6

In May, 2011, Speed Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2012 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2012 amounted to ₹ 25 lakhs. Can ₹ 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan wasspecifically taken for the construction of factory building?

Answer

AS 16 "Borrowing Costs", clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building upto the date of completion (January,2012) i.e. ₹ 18 lakhs alone can be capitalized. It cannot be extended to ₹ 25 lakhs.

Question 7

In May, 2013, Victory Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2014 and the building was put to use immediately thereafter. Interest on actual amount used for construction of the building till its completion was ₹ 36 lakhs whereas the total interest paid to the bank on the loan for the period till 31st March, 2014 amounted to ₹ 50 lakhs.
What amount of interest should be capitalized as per Accounting Standard 16?

Answer

According to para 19 of AS 16 'Borrowing Costs', capitalisation of borrowing costs should cease when substantially all the activities to prepare the qualifying asset for its intended use or sale are completed.

In the given case, since the qualifying asset was ready to use in January, 2014, therefore, interest till that date can only be capitalized. Hence, interest of ₹ 36 lakhs will only be capitalized. The balance of ₹ 14 lakhs (i.e. 50-36) will be debited to Profit and Loss Account.

Question 8

Rainbow Limited borrowed an amount of ₹ 150 crores on 1.4.2016 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Rainbow Ltd. capitalized ₹ 19.50 crores for the accounting period ending on 31.3.2017. Due to surplus fund out of ₹ 150 crores, income of ₹ 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

Answer

Para 10 of AS 16 'Borrowing Costs' states "To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings." The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Rainbow Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2016-2017 should be calculated as follows:

	₹ in crores
Actual interest for 2016-2017 (11% of ₹ 150 crores)	16.50
*Less:*Income on temporary investment from specific borrowings	(3.50)
Borrowing costs to be capitalized during year 2016-2017	13.00

Question 9

Govind Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.04.2018, to be utilized as under:

Particulars	Amount (₹ in lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2019, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2019 was ₹ 12,00,000. During the year 2018-19, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of ₹ 3,00,000.
You are required to show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

Answer

According to AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

It also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.
Thus, eligible borrowing cost
= ₹ 12,00,000 – ₹ 3,00,000
= ₹ 9,00,000

Sr. No.	Particulars	Nature of assets	Interest to be capitalized (₹)	Interest to be charged to Profit & Loss Account (₹)
i	Construction offactory building	Qualifying Asset	9,00,000x40/100 = ₹ 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = ₹ 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = ₹ 2,25,000
	Total		₹ 3,60,000	₹ 5,40,000

Question 10

Vital Limited borrowed an amount of ₹150 crores on 1.4.2019 for construction of boiler plant @ 10% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Vital Ltd. capitalized
₹ 19.50 crores for the accounting period ending on 31.3.2020. Due to surplus fund out of ₹150 crores, an income of ₹ 1.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

Answer

Para 10 of AS 16 'Borrowing Costs' states that to the extent the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings. The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Vital Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2019-20 should be calculated as follows:

Actual interest for 2019-20 (10% of 150 crores)	₹15.00 crores
Less : Income on temporary investment from specific borrowings	(₹ 1.50 crores)
Borrowing costs to be capitalized during year 2019-2020	₹ 13.50 crores

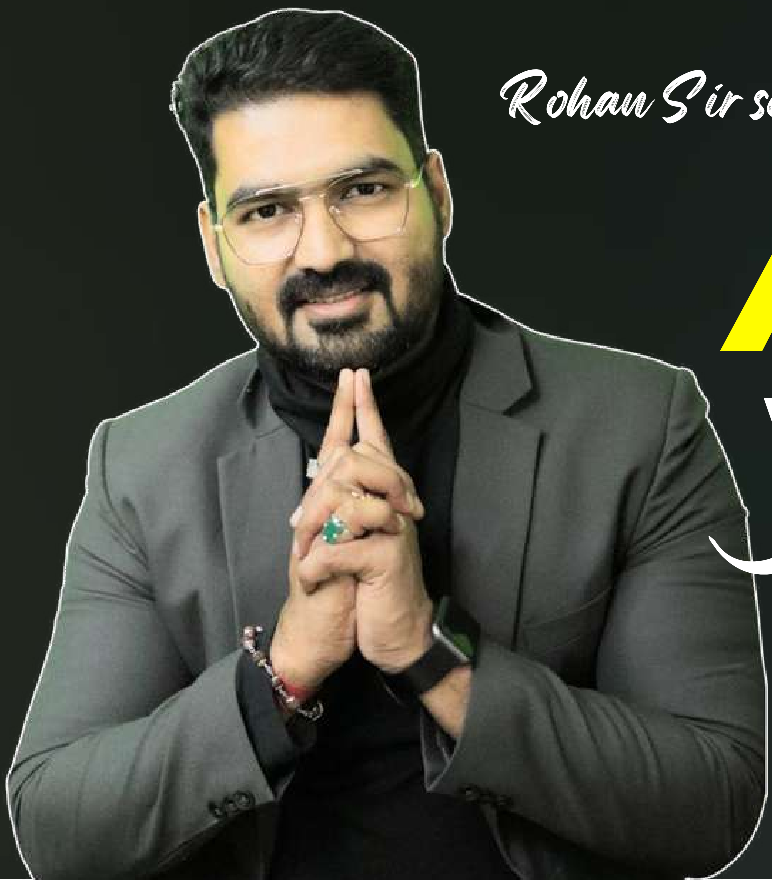
CA INTERMEDIATE

ADV.ACCOUNTING

QUESTION

BANK

TAPOVAN CA



Rohan Sir se Padhoge toh ye Guarantee hai...

AS Sirf samjenge nahi

Yaad Hoo Jayenge !!

Rohan Nimbalkar

(15+ Years Teaching Exp.)

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Question No. 1

The Chief Accountant of Sports Ltd. gives the following data regarding its six segments:

₹ in lakhs

Particulars	**M**	**N**	**O**	**P**	**Q**	**R**	**Total**
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	(190)	10	10	(10)	30	(100)
Segment Revenue	300	620	80	60	80	60	1,200

The Chief accountant is of the opinion that segments "M" and "N" alone should be reported. Is he justified in his view? Discuss.

Question No. 2

A Company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 25% above cost. Is the policy adopted by the company correct?

Question No. 3

M/s XYZ Ltd. has three segments namely X, Y, Z. The total Assets of the Company are ₹ 10.00 crores. Segment X has ₹2.00 crores, segment Y has ₹ 3.00 crores and segment Z has ₹ 5.00 crores. Deferred tax assets included in the assets of each segments are X- ₹ 0.50 crores, Y— ₹ 0.40 crores and Z— ₹ 0.30 crores. The accountant contends that all the three segments are reportable segments. Comment.

Question No. 1 **(SM)**

Narmada Ltd. sold goods for ₹ 90 lakhs to Ganga Ltd. during financial year ended 31-3-2017. The Managing Director of Narmada Ltd. own 100% of Ganga Ltd. The sales were made to Ganga Ltd. at normal selling prices followed by Narmada Ltd. The Chief accountant of Narmada Ltd contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per the accounting standard. Is the Chief Accountant correct?

Question No. 2

A firm of father and son is receiving ₹ 2 lakh towards job work done for XYZ Ltd. during the year ended 31-3-2014. The total job work charges paid by XYZ Ltd during the year are over ₹ 50 lakh. The father is a Managing director of XYZ Ltd. having substantial holding. The MD told the auditor that since he is not involved in the activities of the firm and since the amount paid to it is insignificant; there is no need to disclose the transaction. He further contended that such a payment made in the last year was not disclosed. Is MD correct in his approach?

Question No. 3 (CA Final- RTP)

Bhanu Ltd is a 100% subsidiary of Agni Ltd. which of the following are considered as Related Party Transactions for the purpose of Consolidated Financial Statements?

(a) Salary paid to Employees of Bhanu Ltd.
(b) Loans given to Employees of Agni Ltd.
(c) Inter-company Sales between Agni Ltd and Bhanu Ltd.
(d) Loan given by Bhanu Ltd to Managing Director of Agni Ltd.
(e) Transfer of asset by Agni Ltd to Bhanu Ltd.

Question No. 1 **(PM) (Nov. 2012, 4 Marks)**

Annual lease rent = ₹ 40,000 at the end of each year
Lease period = 5 years
Guaranteed residual value = ₹ 14,000
Fair value at the inception (beginning) of lease = ₹ 1,50,000
Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7, 0.622, 0.552 at the end of first, second, third, fourth and fifth year respectively.
Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

Question No. 2 **(PM) (May 2010, 4 Marks)**

B & P Ltd. availed a lease from N & L Ltd. The conditions of the lease terms are as under:
(i) Lease period is 3 years, in the beginning of the year 2010, for equipment costing ₹ 10,00,000 and has an expected useful life of 5 years.
(ii) The Fair market value is also ₹ 10,00,000.
(iii) The property reverts back to the lessor on termination of the lease.
(iv) The unguaranteed residual value is estimated at ₹ 1,00,000 at the end of the year 2012
(v) 3 equal annual payments are made at the end of each year.
Consider IRR = 10%.
The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is ₹ 0.7513.
The present value of annuity of ₹ 1 due at the end of 3rd year at 10% IRR is ₹ 2.4868.
State whether the lease constitute finance lease and also calculate unearned finance income.

Question No. 3

What do you understand by the term "Interest rate implicit on lease"?

Calculate the interest rate implicit on lease from the following details:

Annual Lease Rent	80,000 at the end of each year
Lease Period	5 Years
Guaranteed Residual Value	40,000
Unguaranteed Residual Value	24,000
Fair Value at the inception of the lease	3,20,000

Discounted rates for the first 5 years are as below:

At 10%	0.909	0.826	0.751	0.683	0621
At 14%	0.877	0.769	0.675	0.592	0.519

Basic Earnings per Share

Question No. 1

Compute **Basic Earnings per** share from the following information:

Date	Particulars	No. of shares
1st April 2008	Balance at the beginning of the year	1,500
1st August 2008	Issue of shares for cash	600
31st March 2009	Buy back of shares	500

Net profit for the year ended 31st March, 2009 was ₹ 2,75,000.

Question No. 2

Ram Ltd. had 12,00,000 equity shares on April 1, 2009. The company earned a profit of ₹ 30,00,000 during the year 2009-10. The average fair value per share during 2009-10 was ₹ 25. The company has given share option to its employees of 2,00,000 equity shares at option price of ₹ 15. **Calculate basic E.P.S. and diluted E.P.S.**

Question No. 3

The following information is available for Raja Ltd. for the accounting year 2009-10 and 2010-11:

Net profit for	₹
Year 2009-10	25,00,000
Year 2010-11	40,00,000

No. of shares outstanding prior to right issue 12,00,000 shares.

Right issue : One new share for each three outstanding i.e. 4,00,000 shares

: Right issue price ₹ 22

: Last date to exercise rights 30-6-2010

Fair value of one equity share immediately prior to exercise of rights on 30-6-2010 = ₹ 28.

You are required to compute the **basic earnings per share** for the years 2009-10 and 2010-11.

Diluted Earnings per Share

Question No. 4

"While calculating **diluted** earnings per share, effect is given to all dilutive potential equity shares that were outstanding during that period." Explain. Also calculate the **diluted** earnings per share from the following information:

Net profit for the current year	₹ 85,50,000
No. of equity shares outstanding	20,00,000
No. of 8% convertible debentures of ₹ 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expenses for the current year	₹ 6,00,000
Tax relating to interest expenses	30%

Minority interest & Dividend Received from Subsidiary Companies

Question No. 1

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2010 at cost of ₹ 10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 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 2014-15, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 2015-16 and 2016-17, 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 No. 2

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:

	Subsidiary Company	% shares owned	Cost	Date of acquisition		Consolidation Date	
				1.1.2016		31.12.2016	
Case				Share Capital	P & L Account	Share Capital	Profit & Loss Account
			₹	₹	₹	₹	₹
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

Balance Sheet

Question No. 3

A Ltd. acquired 1,600 ordinary shares of ₹ 100 each of B Ltd. on 1st July, 2016. On 31st December, 2016 the summarized balance sheets of the two companies were as given below:

Liabilities	A Ltd. (₹)	B Ltd. (₹)	Assets	A Ltd. (₹)	B Ltd. (₹)
Capital (Shares of ` 100 each fully paid)	5,00,000	2,00,000	Land & Buildings	1,50,000	1,80,000
Reserves	2,40,000	1,00,000	Plant & Machinery	2,40,000	1,35,000

Profit & Loss A/c	57,200	82,000	Investment in B Ltd. at cost	3,40,000	—
Bank Overdraft	80,000	—	Inventory	1,20,000	36,400
Trade Payable	47,100	17400	Trade Receivable	59,800	40,000
			Cash	14,500	8,000
	9,24,300	**3,99,400**		**9,24,300**	**3,99,400**

The Profit & Loss Account of B Ltd. showed a credit balance of ₹ 30,000 on 1st January, 2016 out of which a dividend of 10% was paid on 1st August, 2016; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st January, 2016 was considered as worth ₹ 1,80,000 on 1st July, 2016; 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 on 31st December, 2016.

Preparation of Consolidated Profit And Loss Account

Question No. 4

Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2017:

	H Ltd. (₹ in lacs)	**S Ltd. (₹ in lacs)**
Incomes:		
Sales and other income	5,000	1,000
Increase in Inventory	1,000	200
	6,000	1,200
Expenses:		
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
	2,400	**700**
Profit before tax	3,600	500
Provision for tax	1,200	200
Profit after tax	2,400	300
Dividend paid	1,200	150
Balance of Profit	1,200	150

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 2015-2016. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2015-2016.

Prepare a consolidated profit and loss account.

Uniform accounting policies

Question No. 5

Consider the following summarized balance sheets of subsidiary B Ltd.:

	2015 ₹	**2016** ₹		**2015** ₹	**2016** ₹
Share-Capital			Fixed Assets		
Issued & subscribed			Cost	3,20,000	3,20,000
5,000 equity shares			Less: Accumulated depreciation	(48,000)	(96,000)
of ₹100 each	5,00,000	5,00,000		2,72,000	2,24,000
Reserves & Surplus			Investments at cost		
Revenue reserves	2,86,000	7,14,000	Current Assets:	—	4,00,000
Current Liabilities & Provisions:			Inventory	5,97,000	7,42,000
Trade Payables	4,90,000	4,94,000	Trade Receivables	5,94,000	8,91,000
Bank overdraft	—	1,70,000	Prepaid Expenses	72,000	48,000
Provision for taxation	3,10,000	4,30,000	Cash at Bank	51,000	3,000
	15,86,000	**23,08,000**		**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 the accounting year.

(b) A Ltd. values inventory on LIFO 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 2015 and ₹ 34,000 at the end of 2016.

(c)Both the companies use straight-line method of depreciation. However, A Ltd. charges depreciation @ 10%.

(d) B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.

(e) Prepaid expenses in B Ltd. include advertising expenditure carried forward of ₹ 60,000 in 2015 and₹ 30,000 in 2016, being part of initial advertising expenditure of ₹ 90,000 in 2015 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 2015.

Restate the balance sheet of B Ltd. as on 31st December, 2016 after considering the above information, for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by A Ltd. and B Ltd. uniform.

Question No. 1

Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	2,00,000
Depreciation as per income tax records	5,00,000
Unamortised preliminary expenses as per tax record	30,000

There is adequate evidence of future profit sufficiency. How much deferred tax asset/ liability should be recognised as transition adjustment? Tax rate 50%.

Question No. 1

A Ltd. acquire 45% of B Ltd. shares on April 01, 20X1, the price paid was ₹ 15,00,000. Following are the extracts of balance sheet of B Ltd. as of 1 April 20X1:

Paid up Equity Share Capital	₹ 10,00,000
Securities Premium	₹ 1,00,000
Reserve & Surplus	₹ 5,00,000

B Ltd. has reported net profits of ₹ 3,00,000 and paid dividends of ₹ 1,00,000 for the year ended 31 March 20X2. Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 20X2.

Question No. 2

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

Question No. 3

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

Calculate the carrying amount of investment in:

(i) Separate financial statements of Bright Ltd. as on 31-03-20X2;

(ii) Consolidated financial statements of Bright Ltd.; as on 31-03-20X2;

(iii) What will be the carrying amount as on 30-06-20X2 in consolidated financial statements?

Question No. 4

A Ltd. acquired 25% of shares in B Ltd. as on 31.3.20X1 for ₹ 3 lakhs. TheBalance Sheet of B Ltd. as on 31.3.20X1 is given below:

	₹
Share Capital	5,00,000
Reserves and Surplus	5,00,000
	10,00,000
I. Fixed Assets	5,00,000
Investments	2,00,000
II. Current Assets	3,00,000
	10,00,000

During the year ended 31.3.20X2 the following are the additional informationavailable:

1) A Ltd. received dividend from B Ltd., for the year ended 31.3.20X1 at 40% from the Reserves.
2) B Ltd., made a profit after tax of ₹ 7 lakhs for the year ended 31.3.20X2.
3) B Ltd., declared a dividend @ 50% for the year ended 31.3.20X2 on 30.4.20X2.

A Ltd. is preparing Consolidated Financial Statements in accordance with AS21 for its various subsidiaries. Calculate:

(i) Goodwill if any on acquisition of B Ltd.'s shares.

(ii) How A Ltd., will reflect the value of investment in B Ltd., in theConsolidated Financial Statements?

(iii) How the dividend received from B Ltd. will be shown in the ConsolidatedFinancial Statements?

Question No 1

A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year.

You required to advise the company whether it should be treated as discontinuing operation or not as per AS 24?

Question No 2

Qu Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner.

(i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.
(ii) If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24 ?
(iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

Question No. 1

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

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

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

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

While preparing interim financial report for first quarter Sincere Corporation wants to defer

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

Question No. 2

The accounting year of X Ltd. ends on 30th September, 20X1 and it makes its reports quarterly. However for the purpose of tax, year ends on 31st March every year. For the Accounting year from 1-10-20X0 to 30-9-20X1, the quarterly income is as under:

1st quarter ending on 31st December, 20X0	₹ 200 crores
2nd quarter ending on 31st March, 20X1	₹ 200 crores
3rd quarter ending on 30th June, 20X1	₹ 200 crores
4th quarter ending on 30th September, 20X1	₹ 200 crores
Total	₹ 800 crores

Average actual tax rate for the financial year ending on 31st March, 20X1 is 20% and for financial year ending 31st March, 20X2 is 30%. Calculate tax expense for each quarter.

Question No. 3

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

(i) Bad debts of ₹ 40,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.

(ii) Extra ordinary loss of ₹ 35,000 incurred during the quarter has been fully recognized in this quarter.

(iii) Additional depreciation of ₹ 45,000 resulting from the change in the method of charge of depreciation assuming that ₹ 45,000 is the charge for the 3rd quarter only.

Ascertain the correct quarterly income.

Question No. 4

Intelligent Corporation (I- Corp.) is dealing in seasonal products. The quarterly sales pattern of the product is given below:

Quarter I	II	III	IV
Ending 30th June 15%	30th September 15%	31st December 50%	31st March 25%

For the First quarter ending 30th June, 20X1, I - Corp. gives you the following information:

	₹ crores
Sales	50
Salary and other expenses	30
Advertisement expenses (routine)	02
Administrative and selling expenses	08

₹ 21 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore, third quarter should be debited by higher expenditure, considering the seasonal nature of business and that the expenditures are uniform throughout all quarters.

Calculate the result of first quarter as per AS 25 and comment on the company’s view.

Question No. 5

In view of the provisions of Accounting Standard 25 on Interim Financial Reporting, on what basis will you calculate, for an interim period, the provision in respect of defined benefit schemes like pension, gratuity etc. for the employees?

Question No. 6

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

Question No. 7

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

Calculate the tax expense to be recognized in each quarter.

Question No. 8

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

(i) Dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.

(ii) 80% of sales promotion expenses ₹ 15 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in the last quarter is high.

(iii) In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹ 12 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 3 lakhs.

(iv) ₹ 2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.

(v) Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of ₹ 3 lakhs. Out of this loss ₹ 1 lakh relates to previous quarters.

(vi) Sale of investment in the first quarter resulted in a gain of ₹ 20 lakhs. The company had apportioned this equally to the four quarters.

Prepare the adjusted profit before tax for the third quarter.

CA INTERMEDIATE

ADV.ACCOUNTING

QUESTION

BANK

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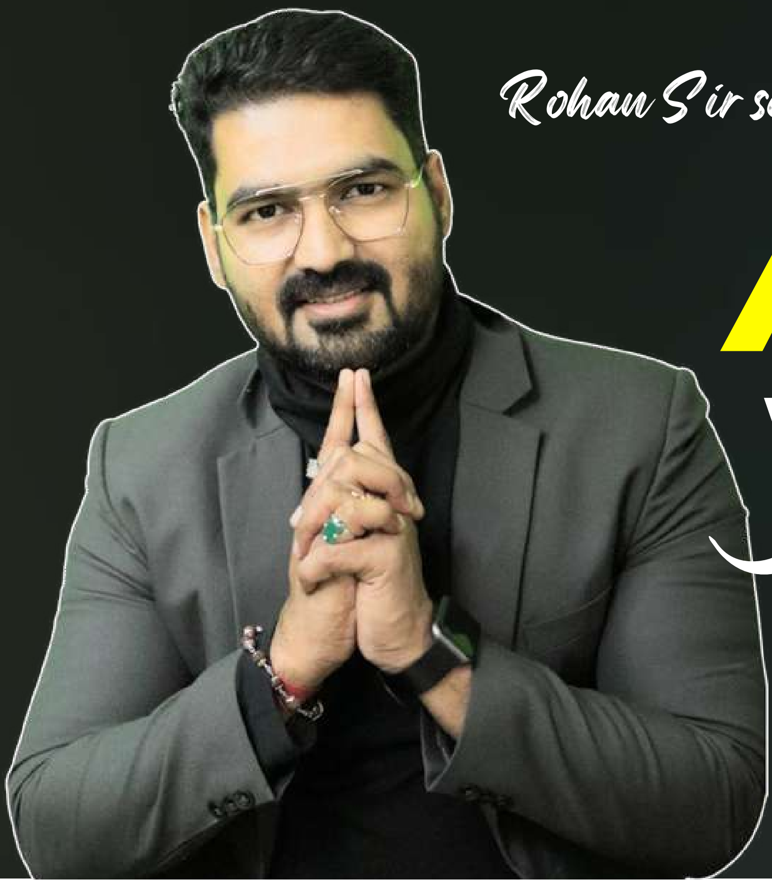

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Question No. 1

A company with a turnover of ₹ 250 crores and an annual advertising budget of ₹ 2 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹ 25 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of ₹ 2 crore incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the company correct?

Question No. 2

A Company had deferred research and development cost of ₹ 150 lakhs. Sales expected in the subsequent years are as under:

Years

Sales	(₹ in lakhs)
I	400
II	300
III	200
IV	100

You are asked to suggest how should Research and Development cost be charged to Profit and Loss account. If at the end of the III year, it is felt that no further benefit will accrue in the IV year, how the unamortised expenditure would be dealt with in the accounts of the Company?

Question No. 3

Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred ₹ 10 lakh on research during first 5 months of the financial year 2012-13. The development of the process began on 1st September, 2012 and upto 31st March, 2013, a sum of ₹ 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria.

From 1st April, 2013, the Company has implemented the new process design and it is likely that this will result in after tax saving of ₹ 2 lakh per annum for next five years. The cost of capital is 10%. The present value of annuity factor of ₹ 1 for 5 years @ 10% is 3.7908.

Decide the treatment of Research and Development Cost of the project as per AS 26.

Question No. 4

Hera Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

Year	Production in bottles (in thousands)	Net operating cash flow (₹ in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200
8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method.

Question No. 1

Mr. A, Mr. B and Mr. C entered into a joint venture to purchase a land, construct and sell flats. Mr. A purchased a land for ₹ 60,00,000 on 01.01.20X1 and for the purpose he took loan from a bank for ₹ 50,00,000 @ 8% interest p.a. He also paid registering fees ₹ 60,000 on the same day.

Mr. B supplied the materials for ₹ 4,50,000 from his godown and further he purchased the materials for ₹ 5,00,000 for the joint venture. Mr. C met all other expenses of advertising, labour and other incidental expenses which turnout to be ₹ 9,00,000.

On 30.06.20X1 each of the venturer agreed to take away one flat each to be valued at ₹ 10,00,000 each flat and rest were sold by them as follow: Mr. A for ₹ 40,00,000; Mr. B for ₹ 20,00,000 and Mr. C for ₹ 10,00,000. Loan was repaid on the same day by Mr. A along with the interest and net proceeds were shared by the partners equally.

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

Question No. 2

A Ltd., B Ltd. and C Ltd. decided to jointly construct a pipeline to transport the gas from one place to another that was manufactured by them. For the purpose following expenditure was incurred by them: Buildings ₹ 12,00,000 to be depreciated @ 5% p.a., Pipeline for ₹ 60,00,000 to be depreciated @ 15% p.a., computers and other electronics for ₹ 3,00,000 to be depreciated @ 40% p.a. and various vehicles of ₹ 9,00,000 to be depreciated @ 20% p.a.

They also decided to equally bear the total expenditure incurred on the maintenance of the pipeline that comes to ₹ 6,00,000 each year.

You are required to show the consolidated balance sheet and the extract of Statement of Profit & Loss and Balance Sheet for each venturer.

Question No. 3

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

Particulars	**Dr. (₹)**	**Cr. (₹)**
Purchases	9,00,000	
Other Expenses	3,06,000	
Sales		13,05,000
Property, Plant and Equipment	6,00,000	
Current Assets	2,00,000	

Unsecured Loans		2,00,000
Current Liabilities		1,00,000
Capital		4,01,000

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

You are required to prepare the Consolidated Financial Statement.

Question No. 4

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

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

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

Question No. 5

JVR Limited has made investments of ₹ 97.84 crores in equity shares of QSR Limited in pursuance of Joint Venture agreement till 20X1-X2 (i.e., more than 12 months). The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to reassess the carrying amount of its investment in QSR Limited and wish to provide for diminution in value of investments. However, QSR Limited has a futuristic and profitable business plans and projection for the coming years. Discuss whether the contention of JVR Limited to bring down the carrying amount of investment in QSR Limited is in accordance with the Accounting Standard

Question No. 6

Describe the cases when AS 27 does not allow the use of Proportionate consolidation method of accounting?

Question No. 7

When is a venturer required to discontinue the use of the proportionate consolidation method?

Question No. 1

A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognized as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognized as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title.

Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment. What is the cash-generating unit for an individual magazine title?

Question No. 2

An asset does not meet the requirements of environment laws which have been recently enacted. The asset has to be destroyed as per the law. The asset is carried in the Balance Sheet at the year end at ₹ 6,00,000. The estimated cost of destroying the asset is ₹ 70,000. How is the asset to be accounted for?

Question No. 3

Venus Ltd. has a fixed asset, which is carried in the Balance Sheet on 31.3.20X1 at ₹ 500 lakhs. As at that date the value in use is ₹ 400 lakhs and the net selling price is ₹ 375 lakhs.

From the above data:

(i) Calculate impairment loss.

(ii) Prepare journal entries for adjustment of impairment loss.

(iii) Show, how impairment loss will be shown in the Balance Sheet.

Question No. 4

Good Drugs and Pharmaceuticals Ltd. acquired a sachet filling machine on 1st April, 20X1 for ₹ 60 lakhs. The machine was expected to have a productive life of 6 years. At the end of financial year 20X1-20X2 the carrying amount was ₹ 41 lakhs. A short circuit occurred in this financial year but luckily the machine did not get badly damaged and was still in working order at the close of the financial year. The machine was expected to fetch ₹ 36 lakhs, if sold in the market.

The machine by itself is not capable of generating cash flows. However, the smallest group of assets comprising of this machine also, is capable of generating cash flows of ₹ 54 crore per annum and has a carrying amount of ₹ 3.46 crore. All such machines put together could fetch a sum of ₹ 4.44 crore if disposed. Discuss the applicability of Impairment loss.

Question No. 5

From the following details of an asset

(i) Find out impairment loss

(ii) Treatment of impairment loss

(iii) Current year depreciation

Particulars of asset:

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

Question No. 6

A plant was acquired 15 years ago at a cost of ₹ 5 crores. Its accumulated depreciation as at 31st March, 20X1 was ₹ 4.15 crores. Depreciation estimated for the financial year 20X1-20X2 is ₹ 25 lakhs. Estimated Net Selling Price as on 31st March, 20X1 was ₹ 30 lakhs, which is expected to decline by 20 per cent by the end of the next financial year.

Its value in use has been computed at ₹ 35 lakhs as on 1st April, 20X1, which is expected to decrease by 30 per cent by the end of the financial year.

(i) Assuming that other conditions for applicability of the impairment Accounting Standard are satisfied, what should be the carrying amount of this plant as at 31st March, 20X2?

(ii) How much will be the amount of write off for the financial year ended 31st March, 20X2?

(iii) If the plant had been revalued ten years ago and the current revaluation reserves against this plant were to be ₹ 12 lakhs, how would you answer to questions (i) and (ii) above?

(iv) If the value in use was zero and the enterprise were required to incur a cost of ₹ 2 lakhs to dispose of the plant, what would be your response to questions (i) and (ii) above?

Question No. 1

An airline is required by law to overhaul its aircraft once in every five years. The pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29.

Question No. 2

X Ltd. has its financial year ended 31.3.2011, fifteen law suits outstanding, none of which has been settled by the time the accounts are approved by the directors. The directors have estimated that the probable outcomes as below:

Result	**Probability**	**Amount of Loss ₹**
For first ten cases:		
Win	0.6	----
Loss-low damages	0.3	90,000
Loss-high damages	0.1	2,00,000
For remaining five cases:		
Win	0.5	----
Loss-low damages	0.3	60,000
Loss-high damages	0.2	1,00,000

The directors believe that the outcome of each case is independent of the outcome of all the others. Estimate the amount of contingent loss and state the accounting treatment of such contingent loss.

Question No. 3

An engineering goods company provides after sales warranty for 2 years to its customers. Based on past experience, the company has been following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year : 2% provision More than 1 year : 3% provision

The company has raised invoices as under:

Invoice Date	**Amount (₹)**
19th January, 2011	40,000
29th January, 2012	25,000
15th October, 2012	90,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2012 and 31st March, 2013. Also compute amount to be debited to Profit and Loss Account for the year ended 31st March, 2013.

Question No. 4

M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of ₹ 200 lacs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS29? Explain in brief giving reasons for your answer.

About the Author

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CMA CS Rohan Nimbalkar (15+ Years Teaching Exp.)

- **Rohan Sir is among few CS in India who have completed CS just at the age of 21.**
- **Rohan Sir is known for Introducing India's First Accounts Marathon back in 2017 & also India's First Coloured Notes with Graphics for Accounts.**
- **Rohan Sir is one of the most Experienced Faculty with a immense teaching experience of 15+ years to CA students. In his entire career he has taught more than 25000+ CA & CMA Students till date.**
- **Easily understandable language, Bulleted Points, Picture Graphics, Charts, Images for Conceptual Clarity, of his notes makes the student's task easy. His notes are designed as per ICAI Guidelines with Exam Oriented Approach.**
- **During the course Rohan Sir also guides students regarding Meditation & Spirituality which helps students to Focus on their studies, Avoids distraction, Lowers Stress etc.**
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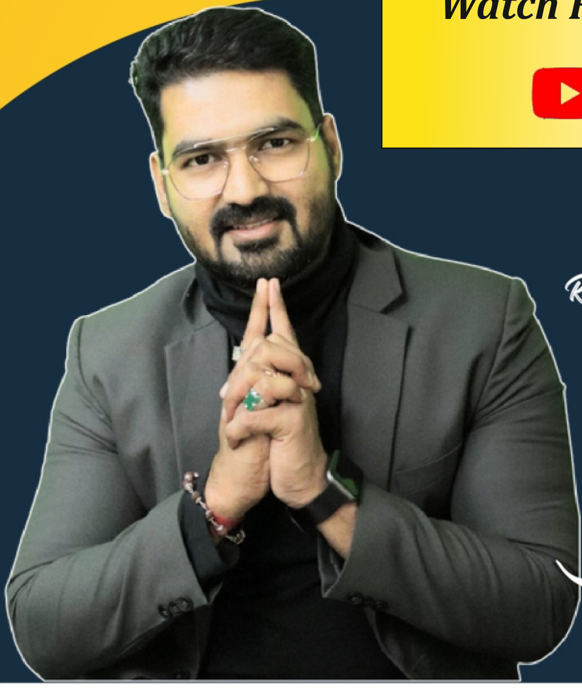

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