

Question 1 - (Inter Nov 2022) (20 Marks)

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

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

Following information is provided:

1. The Authorized Share Capital of the Company is 2,00,000 Equity Shares of ₹ 10 each. The Company has issued 1,00,000 Equity Shares of ₹ 10 each.

2. Rent of ₹ 20,000 and Wages of ₹ 1,56,500 are outstanding as on 31st March, 2022.

3. Provide Depreciation @ 10% per annum on Plant and Machinery, 10% on Furniture and Fittings and 5% on Factory Building on written down value basis.

4. Closing Stock as on 31st March, 2022 is ₹ 11,37,500.

5. Make a provision for Doubtful Debt @ 5% on Debtors.

6. Make a provision of 25% for Corporate Income Tax.

7. Transfer ₹ 1,00,000 to General Reserve.

8. Term Loan from Public Sector Bank is secured against Hypothecation of Plant and Machinery. Installment of Term Loan falling due within one year is ₹ 17,00,000.

9. Trade Receivables of ₹ 85,600 are outstanding for more than six months.

10. The Board declared a dividend @10% on Paid up Share Capital on 5th April, 2022.

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

Note: For Dividend

Question 2

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

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

Additional Information:

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

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

Question 3 *(ICAI Study Material) (Similar)*

A Ltd. purchased machinery for ₹ 40 lakhs. (Useful life 4 years and residual value ₹ 8 lakhs)
Government grant received is ₹ 16 lakhs. Grant becomes refundable in the third year.

Pass necessary journal entries for ~~3 years~~ if: *3rd year only.*

- (1) the grant is credited to Fixed Assets A/c.
- (2) the grant is credited to Deferred Grant A/c.

Question 4 *(Inter Dec 2021) (5 Marks)**Apr to Mar*

Calculate the basic and diluted earnings per share for the year 2020-21 from the following information:

Net profit after tax for the year	64,12,500
No. of equity shares outstanding	15,00,000
No. of 9% convertible debentures of ₹ 100 each issued on <u>1st July, 2020</u>	75,000
Each debenture is convertible into 8 equity shares	
Tax relating to interest expense	35%

Question 5: Case Study 1

Axis limited is a manufacturing company. It purchased a machinery costing ₹ 10 Lakhs in April'23. It paid ₹ 4 lakhs upfront and paid remaining ₹ 6,00,000 as deferred payment by paying instalment of ₹ 1,05,000 for next 6 months. During the year, the Company sold a land which was classified as its property, plant and equipment' for ₹ 25,00,000 and paid ₹ 1,00,000 as income tax as long term capital gain on such sale. During the year, the Company also received income tax refund along with interest.

Based on above case study answer the following multiple-choice questions

1. As per the requirements of AS 3, 'Cash Flow Statements', how the amount for purchase of machinery should be presented:
 - a) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 will simply be booked in profit and loss with no presentation if Cash Flow Statement.
 - b) ₹ 10.30 lakhs as Cash flows from Investing Activities' as entire amount is spend on purchase of machinery.
 - c) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.
 - d) ₹ 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.

2. At what amount, the machinery should be recognised in the financial statements:
 - a) ₹ 4,00,000
 - b) ₹ 10,30,000
 - c) ₹ 6,00,000
 - d) ₹ 10,00,000

3. How should the income tax paid on sale of land should be disclosed in Cash flows statement:
 - a) Cash flows from Operating Activities
 - b) Cash flows from Investing Activities
 - c) Cash flows from Financing Activities
 - d) No disclosure in Cash Flow Statement

Question 6: Case Study 2

Venus Limited received a parcel of land at no cost from the government for the purpose of developing a factory in an outlying area. The land is valued at ₹ 75 lakhs, while the nominal value is ₹ 10 lakhs. Additionally, the company received a government grant of ₹ 30 lakhs, which represents 25% of the total investment needed for the factory development. Furthermore, the company received ₹ 15 lakhs with the stipulation that it be used to purchase machinery. There is no expectation from the government for the repayment of these grants.

Based on above case study answer the following multiple-choice questions

- The land received from Government, free of cost should be presented at:
 - ₹ 75 Lakhs
 - ₹ 30 Lakhs
 - ₹ 10 Lakhs
 - ₹ 45 Lakhs

*↓
Nominal value*

→ Promoter Cont.
- As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:
 - It should be recognised in the profit and loss statement as per the related cost.
 - It will be treated as capital reserve.
 - It will be treated as deferred income.
 - It will not be recognised in the financial statements.
- As per AS 12, how the Government Grant of ₹ 15 Lakhs with a condition to purchase machinery may be presented as:
 - Capital Reserve
 - Shareholders Fund
 - Deferred Income
 - Income in statement of profit and loss as received.
- Which of the above grants are required to be recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset:
 - Land received as Grant
 - Government Grant of ₹ 30 Lakhs
 - Government Grant of ₹ 15 Lakhs with a condition to purchase machinery
 - None of the above

Question 7 *(Inter Jan 2021) (12 Marks)*

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

- (1) Net profit before taking into account income tax and after talking into account the following items was ₹ 30 lakhs;
 - (i) Depreciation on Property, Plant & Equipment ₹ 7,00,000
 - (ii) Discount on issue of debentures written off ₹ 45,000.
 - (iii) Interest on debentures paid ₹ 4,35,000
 - (iv) Investment of Book value ₹3,50,000 sold for ₹3,75,000.
 - (v) Interest received on Investments ₹70,000
- (2) Income tax paid during the year ₹ 12,80,000
- (3) Company issued 60,000 Equity Shares of ₹ 10 each at premium of 20% on 10th April, 2021.
- (4) 20,000,9% Preference Shares of ₹ 100 each were redeemed on 31st March, 2022 at a premium of 5%
- (5) Dividend paid during the year amounted to ₹ 11 Lakhs
- (6) A new Plant costing ₹ 7 Lakhs was purchased in part exchange of an old plant on 1st January,2022. The book value of the old plant was ₹ 8 Lakhs but the vendor took over the old plant at a value of ₹ 6 Lakhs only. The balance amount was paid to vendor through cheque on 30th March, 2022.
- (7) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.03.2022 was ₹ 14,76,000. The inventory on 31.03.2021 was correctly valued at ₹ 13,50,000.
- (8) Current Assets & Current Liabilities in the beginning & at the end of year 21-22 were as:

	As on 01.04.2021	As on 31.03.2022
Inventory	13,50,000	14,76,000
Trade receivables	3,27,000	3,13,200
Cash & Bank	2,40,700	3,70,500
Trade payables	2,84,700	2,87,300
Outstanding expenses	97,000	1,01,400

You are required to prepare a Cash Flow Statement for the year ended 31st March, 2022 as per AS 3 using the indirect method.

Solution

S Ltd.

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

	Amount	Amount
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		30,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	7,00,000	
Discount on issue of debentures	45,000	
Interest on debentures paid	4,35,000	
Interest on investments received	(70,000)	
Profit on sale of investments	(25,000)	
Stock adjustment {14,76,000 less 16,40,000(14,76,000/90X100)}	<u>1,64,000</u>	<u>12,49,000</u>
Operating profit before working capital changes		42,49,000
Adjustments for:		
Increase in inventory {16,40,000(14,76,000/90X100) less 13,50,000}	(2,90,000)	
Decrease in trade receivable	13,800	
Increase in trade payables	2,600	
Increase in outstanding expenses	<u>4,400</u>	<u>(2,69,200)</u>
Cash generated from operations		39,79,800
Income tax paid		<u>(12,80,000)</u>
Net cash flow from operating activities		26,99,800
Cash flow from Investing Activities;		
Sale proceeds of investments	3,75,000	
Interest received on investments	70,000	
Purchase of Fixed Assets (7,00,000 less 6,00,000)	<u>(1,00,000)</u>	
Net cash flow from investing activities		3,45,000
Cash flow from Financing Activities		
Proceeds of issue of equity shares	7,20,000	
Redemption of preference shares	(21,00,000)	
Dividend paid	(11,00,000)	
Interest on debentures paid	<u>(4,35,000)</u>	
Net cash used in financing activities		<u>(29,15,000)</u>
Net increase in cash and cash equivalents during the year		1,29,800
Add: Cash and cash equivalents as on 31.3.2021		<u>2,40,700</u>
Cash and cash equivalents as on 31.3.2022		<u>3,70,500</u>

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

Solution

Name of company: Anmol Ltd.
Statement of Profit & Loss for year ending 31/3/2022

	Note No.	Amount
Revenue from operations (Sales)		12587000
Other Income	1	72500
Total Income		12659500
<u>Expenses</u>		
Cost of material consumed	-	8295000
Purchase of stock in Trade		
Change in Inventories	2	(212500)
Employee Benefit Expense	3	1428500
Finance Costs	4	805000
Depreciation & Amortisation Exp.	5	780300
Other Expenses	6	1095250
Total Expenses		12191550

Profit before Tax
 - Tax Expense (Prov. for Tax)
 (467950 x 25%)
 Profit after Tax

467950
 (116988)

 350962

Balance sheet as at 31/3/22

Equity & Liabilities

- 1) Shareholder funds
 - a) Share capital
 - b) Reserves & surplus
- 2) Non current liabilities
 - a) Long Term Borrowings
- 3) Current liabilities
 - a) Short Term Borrowings

Note No.

Amount

7

10,00,000

8

24,76,462

9

8,50,000

10

1,70,000

- b) Trade Payables
- c) Other current liabilities
- d) Short Term Provisions

TOTAL

11	5633875
12	176500
13	116988

19603825

Assets

- 1) Non current Assets
 - a) PPE & Intangible Assets
 - i) PPE

14	11170700
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- 2) Current Assets

- a) Inventories
- b) Trade Receivables
- c) Cash & Cash Equivalents
- d) Short Term Loans & Advances

1137500

15	6151250
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16	1106875
----	---------

17	37500
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19603825

TOTAL

7) Share Capital

Authorized Capital

200000 equity shares of 10 each

2000000

Issued & subscribed Capital

100000 equity shares of 10 each

1000000

8) Reserve & surplus

a) P/L/surplus

Opening 875500
+ current year 350962
- Transfer to General Res. (100000)

1126462

b) General Reserve

Opening 1000000
+ Transfer 100000

1100000

c) Securities Premium

250000

2476462

9) Long Term Borrowings

Term loan from Public sector Bank

10200000

(Secured against hypothecation of Plant & Machinery)

- Installments payable within 1 year

(1700000)

8500000

10) Short Term Borrowings

Current maturities of Long Term Borrowings

1700000

11) Trade Payables

Trade Payables

5508875

Bill Payable

125000

5633875

12) Other current liabilities

o/s Rent

20000

o/s wages & salaries

156500

176500

13) Short Term Provision

Provision for Tax

116988

14) PPE

a) Land

240000

b) Plant & Machinery

Cost

625000

- Acc. Dep.

(146875)

478125

(93750 + 53125)

c) Factory Building

Cost

368000

- Acc. Dep.

(35880)

332120

(18400 + 17480)

d) Furniture & Fittings

Cost

82500

- Acc. Dep.

(15675)

66825

(8250 + 7425)

1117070

15) Trade Receivables

O/s for more than 6 months	85600
Other debtors	6389400
	<hr/>
	6475000
- Prov. for Doubtful debts	(323750)
	<hr/>
	6151250
	<hr/>

16) Cash & Cash Equivalents

Bank	975000
Cash	131875
	<hr/>
	1106875
	<hr/>

17) Short Term Loan & Advances

Advance Tax	37500
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Notes to Accounts

1) Other Income
Commission 72500

2) Change in Inventories
Opening stock 925000
- closing stock (1137500)
(212500)

3) Employee Benefit Expenses
Wages & Salaries 1272000
+ O/S wages & sal. 156500
1428500

4) Finance costs
Interest on Term Loan 825000

5) Depreciation & Amortisation Exp.

Dep-on

a) Plant & Mach. 531250

$(625000 - 937500) \times 10\%$

b) Furniture & Fittings 74250

$(825000 - 82500) \times 10\%$

c) Factory Building 174800

$(368000 - 184000) \times 5\%$

782300

6) Other Expenses

Rent	2,20,000	
+ o/s	<u>20,000</u>	240,000
Rates & taxes		50,000
Selling & Dist. Exp.		436,000
Director fees		32,000
Bad debts		
Actual	38,500	
+ closing provision	323,750	
(647,500 x 5%)		
- opening provision	<u>(25,000)</u>	337,250
		<u>1095250</u>

Sol.

Cash flow statement

A) Cash flow from Operating Activities

Net Income in P/L A/c	30000
+ Transfer to General Reserve	50000
+ Dividend declared	125000
+ Provision for Tax	55000

Profit before Tax & extraordinary items	260000
+ Depreciation on Land & Building	20000
+ Dep. on Plant & Machinery	55000

Operating Profit before working capital changes	335000
Decrease in Inventory	20000
Incr. in Trade Receivables	(20000)
Dec. in Trade Payables	(100000)

Cash generated from operations

- Income tax paid

235000

(45000)

Cash generated from operating activities

190000

B) Cash flow from Investing Activities

Purchase of Machinery

Sale of Investments

(125000)

60000

Net cash used in Investing Activities

(65000)

C) Cash flow from Financing Activities

Issue of Equity share (250000 - 100000)

Repayment of Long Term Loan

Dividend Paid

150000

(100000)

(100000)

Net cash used in Financing Activities

(50000)

Net Increase in cash & cash Equivalents

+ Opening cash & cash Eq. (200000 + 300000)

closing cash & cash Eq. (165000 + 410000)

75000

500000

575000

Working Notes:

Provision for Tax A/c

To Bank (B.f.)	45000	By Bal b/d	50000
To Bal c/d	60000	By P/L A/c	55000
	<u> </u>		<u> </u>

Dividend Payable A/c

To Bank	100000	By Bal b/d	100000
To Bal c/d	125000	By P/L A/c (B.f.)	125000
	<u> </u>		<u> </u>

Investments A/c

To Bal b/d	100000	By Bank (B.f.)	60000
To Capital Reserve (Profit)	10000	By Bal c/d	50000
	<u> </u>		<u> </u>

Machinery A/c

To Bal b/d	750000	By Depreciation (B.P.)	55000
To Bank	125000		
To Equity share cap.	100000		
	<u>975000</u>	By Bal b/d	<u>920000</u>

Solution

Case 1: Grant is credited to Fixed Assets

		(Lakhs)
1)	Machinery A/c -Dr	16
	To Bank A/c	16
2)	Depreciation A/c -Dr	12
	To Machinery A/c	12
3)	P&L A/c -Dr	12
	To Depreciation A/c	12

Working Note

$$\begin{array}{r} \text{Original cost of Machinery} \\ - \text{Grant} \end{array} = \begin{array}{r} 40 \\ (16) \\ \hline 24 \end{array}$$

$$- \text{Dep. for year 1}$$

$$- \text{Dep. for year 2}$$

$$(4)$$

$$(4)$$

$$16$$

$$16$$

$$32$$

$$\left[\frac{24 - 8}{4} \right]$$

$$+ \text{Refund of Grant}$$

$$\text{Revised carrying Amt.}$$

$$\text{Dep.} = \frac{32 - 8}{2} = 12 \text{ Lakhs}$$

Short cut
 $40 + \frac{16}{2}$

Con 2: Treated as Deferred Income

(Lakhs)

1)	Deferred Govt. Grant A/c - Dr	8	
	P&L A/c - Cr (B-f.)	8	
	To Bank A/c		16
2)	Depreciation A/c - Dr	8	
	To Machinery A/c		8
3)	P&L A/c - Dr	8	
	To Depreciation A/c		8

Working Note

1) Balance in Dep. Cont. Account

$$\text{Grant Received} = 16L$$

$$\text{Period} = 4 \text{ years}$$

$$\text{Amount Recognised p.a.} = 16L/4 = 4L$$

$$\text{Balance} = 16L - 4L - 4L = 8L$$

$$2) \text{ Dep.} = \frac{40L - 8L}{4} = 8L$$

Solution

$$\text{Basic EPS} = \frac{\text{Net Profit attributable to Equity Shareholders}}{\text{Weighted Average of Equity Shares}}$$

$$= \frac{6412500}{1500000} = 4.275$$

$$\text{Diluted EPS} = \frac{\text{Net Profit attributable to ESH} + \text{Effect of Potential Eq. Shares on Earnings}}{\text{Weighted Avg. Eq. Shares} + \text{Effect of PES on Eq. Shares}}$$

$$= \frac{6412500 + 329062.50}{1500000 + 450000} = 3.457$$

Potential Eq. shares: Convertible Debentures

Effect on Earnings

$$\text{Interest} = (75000 \times 100) \times 9\% \times \frac{9}{12} = 506250$$

Tax @ 35%

$$(177187.50)$$

$$329062.50$$

Effect on shares

$$(75000 \times 8) \times \frac{9}{12} = 450000$$

Machinery Cost = 1000000

- Paid = (400000)

600000

Inst. = 105000 x 6

= 630000

Interest = 30000

Prinipal = 600000

Inr.	← Machinery A/c → Dr	1000000
Financing	← Interest A/c → Dr	30000
	To Bank	1030000