

## PAPER – 1 : ADVANCED ACCOUNTING

Question No. 1 is compulsory.

Answer any **four** questions from the remaining **five** questions.

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.

Working Notes should form part of the answer.

### Question 1

- (a) On 1<sup>st</sup> April, 2023, Green Limited started the construction of an Office Building (qualified asset). The land under the building is regarded as a separate asset and is not a part of qualifying asset.

For the purpose of construction of building, the company raised a specific loan of ₹ 14 lakhs from a Bank at an interest rate of 12% per annum. An interest income of ₹ 15,000 was earned on this loan while it was held in anticipation of payments.

The company's other outstanding loans on 1<sup>st</sup> April, 2023 were as follows:

Amount of Loan	Rate of Interest per annum
₹ 20,00,000	15%
₹ 30,00,000	8%

The construction of building started on 1<sup>st</sup> April, 2023 and was completed on 31<sup>st</sup> January, 2024 when it was ready for its intended use. Up to the date of completion of the building, the following payments were made to the contractor:

Payment date	Amount in ₹
1 <sup>st</sup> April, 2023	4,00,000
1 <sup>st</sup> August, 2023	10,00,000
1 <sup>st</sup> December, 2023	25,00,000
31 <sup>st</sup> January, 2024	5,00,000

The life of building is estimated to be 20 years and depreciation is calculated on straight line method.

**You are required to:**

- (i) Calculate the amount of borrowing cost to be capitalized.
  - (ii) Pass initial journal entry to recognise the cost of building.
  - (iii) Depreciation on building for the year ending 31<sup>st</sup> March, 2024.
  - (iv) Carrying value of building as on 31<sup>st</sup> March, 2024.
- (b) Well Wear Limited is a Textile Manufacturing Company and engaged in the production of Polyester (P) and Nylon (N). While manufacturing the main products, a by-product Fiber (F) is also produced. Details of the cost of production are as under:

Purchase of Raw Material for manufacturing process of

30,000 units	₹ 3,50,000
Wages paid	₹ 1,60,000
Fixed overheads	₹ 1,20,000
Variable overheads	₹ 60,000
<b>Output:</b>	
Polyester (P)	12,500 Units
Nylon (N)	10,000 Units
Fiber (F)	3,200 Units
<b>Closing Inventory:</b>	
Polyester (P)	1,600 Units
Nylon(N)	400 Units

Average market price of Polyester and Nylon is ₹ 100 and ₹ 60 per unit respectively, by-product Fiber is sold@ ₹ 40 per unit. There is a profit of ₹ 8,000 on sale of by-product after incurring separate processing expenses of ₹ 10,000 and packing charges of ₹ 9,000. ₹ 5,000 was realized from sale of scrap.

On the basis of the above information, you are required to compute the value of closing inventory of Polyester and Nylon. **(7 + 7 = 14 Marks)**

**Answer**

- (a) (i) **Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses**

Date of incurrence of expenditure	Amount spent	Financed through	Calculation	₹
1 <sup>st</sup> April 2023	4,00,000	Specific borrowing	4,00,000 x 12% x 10/12	40,000
1 <sup>st</sup> August 2023	10,00,000	Specific borrowing	10,00,000 x 12% x 10/12	1,00,000
1 <sup>st</sup> December 2023	25,00,000	General borrowing	25,00,000 x 10.8% x 2/12	45,000
31 <sup>st</sup> January 2024	5,00,000	General borrowing	5,00,000 x 10.8% x 0/12	Nil
				1,85,000
Less: interest income on borrowing				(15,000)
Total amount borrowing cost to be capitalized				1,70,000

**(ii) Journal Entry**

Date	Particulars	₹	₹
31.1.2024	Building account Dr.	45,70,000	
	To Bank account		44,00,000
	To Interest payable (borrowing cost)		1,70,000
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)		

**Note:** In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2024.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars	₹	₹
31.1.2024	Building account Dr.	45,70,000	
	To Bank account		45,70,000
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)		

**(iii) Depreciation on building for the year ending 31.3.2024**

Cost of building	45,70,000
Life of building	= 20 years
Depreciation	= $(45,70,000/20) \times 2/12 = 38,083.33$

**(iv) Carrying Value of Building on 31st March 2024:**

Carrying Value = Cost of Building - Accumulated Depreciation
= 45,70,000 - 38,083.33
= 45,31,917

**Working Notes:**

**1. Calculation of capitalization rate on borrowings other than specific borrowings**

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
20,00,000	15%	=	3,00,000
<u>30,00,000</u>	8%	=	<u>2,40,000</u>
<u>50,00,000</u>			<b><u>5,40,000</u></b>
Weighted average rate of interest $\left(\frac{5,40,000}{50,00,000} \times 100\right)$		=	<b>10.8%*</b>

**2. Total expenses to be capitalized for building**

	₹
Cost of building ₹ (4,00,000 + 10,00,000 + 25,00,000 + 5,00,000)	44,00,000
Add: Amount of interest to be capitalized	<u>1,70,000</u>
	<u>45,70,000</u>

- (b) As per AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials by their nature, are immaterial. They are often measured at net realizable value and this value is deducted from the cost of the main product.

Determination of value of closing inventory of Polyester and Nylon

	Polyester	Nylon
Closing inventory in units	1,600 units	400 units
Cost per unit	₹ 31.14	₹ 18.68
Value of closing inventory	₹ 49,824	₹ 7,472

**Working Notes****1. Calculation of net realizable value of by-product, Fiber**

		₹
Selling price of by-product Fiber	(3,200 units x ₹ 40 per unit)	1,28,000
Less: Separate processing charges of by-product Fiber		(10,000)
Packing charges		<u>(9,000)</u>
Net realizable value of by-product Fiber		<u>1,09,000</u>

**2. Calculation of cost of conversion for allocation between joint products Polyester and Nylon**

	₹	₹
Raw material		3,50,000

Wages		1,60,000
Fixed overhead		1,20,000
Variable overhead		<u>60,000</u>
		6,90,000
Less: NRV of by-product Fiber (W.N. 1)	(1,09,000)	
Sale value of scrap	<u>(5,000)</u>	<u>(1,14,000)</u>
Joint cost to be allocated between Polyester and Nylon		<u>5,76,000</u>

**Determination of "basis for allocation" and allocation of joint cost to Polyester and Nylon**

	Polyester	Nylon
Output in units (a)	12,500 units	10,000 units
Sales price per unit (b)	₹ 100	₹ 60
Sales value (a x b)	₹ 12,50,000	₹ 6,00,000
Total value (12,50,000 + 6,00,000) = 18,50,000		
Joint cost of ₹ 5,76,000 allocated in the ratio of 12,50,000 : 6,00,000	₹ 3,89,189	₹ 1,86,811
Cost per unit [c/a]	₹ 31.14	₹ 18.68

**Question 2**

Following is the summarized Balance Sheets of Z Limited as on 31<sup>st</sup> March, 2024:

Particulars	(₹)
<b>EQUITY AND LIABILITIES:</b>	
Share Capital	
Equity shares of ₹ 100 each	60,00,000
8% Preference shares of ₹ 100 each	21,00,000
10% Debentures of ₹ 100 each	18,00,000
Trade Payables	16,80,000
<b>Total</b>	<b>1,15,80,000</b>
<b>ASSETS:</b>	
Goodwill	81,000

Property, Plant and Equipment	72,00,000
Trade Receivables	13,75,000
Inventories	9,80,000
Cash at Bank	1,33,000
Own Debentures (Nominal value of ₹6 lakhs)	5,76,000
Profit and Loss A/c	12,35,000
<b>Total</b>	<b>1,15,80,000</b>

On 1<sup>st</sup> April, 2024, court approved the following reconstruction scheme for Z Limited:

- (i) Each equity share shall be sub-divided into 10 equity shares of ₹10 each fully paid up. After sub-division, equity share capital will be reduced by 40%.
- (ii) Preference share dividends are in arrear for last 4 years. Preference shareholders agreed to waive 75% of their dividend claim and accept payment for the balance.
- (iii) Own debentures of ₹2,40,000 (nominal value) were sold at 98 cum interest and remaining own debentures were cancelled.
- (iv) Debenture holders of ₹6,00,000 agreed to accept one machinery of book value of ₹9,00,000 in full settlement.
- (v) Remaining Property, Plant and Equipment were valued at ₹60,00,000.
- (vi) Trade Payables, Trade Receivables and Inventories were valued at ₹15,00,000, ₹13,00,000 and ₹9,44,000 respectively. Goodwill and Profit and Loss Account (Debit balance) are to be written off.
- (vii) Company paid ₹60,000 as penalty to avoid capital commitments of ₹12 lakhs.
- (viii) Interest on 10% Debentures is paid every year on 31<sup>st</sup> March.

**You are required to:**

- (1) Pass necessary journal entries in the books of Z Limited to implement the above schemes.
- (2) Prepare Capital Reduction Account.
- (3) Prepare Bank Account

**(14 Marks)**

## Answer

## 1. Journal entries

In the Books of Z Ltd. as on 1<sup>st</sup> April 2024

	Particulars		Dr. Amount (₹)	Cr. Amount (₹)
<b>01.04.2024</b>				
1.	Equity share capital A/c (₹ 100) To Equity share capital A/c (₹ 10) (Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)	Dr.	60,00,000	60,00,000
2.	Equity share capital A/c (₹ 10) To Capital reduction A/c (Being reduction of Equity capital by 40%)	Dr.	24,00,000	24,00,000
3.	Capital reduction A/c To Bank A/c (Being payment in cash of 25% of arrear of preference dividend) [21,00,000x8%] x 4 years	Dr.	1,68,000	1,68,000
4.	Bank A/c To Own debentures A/c (5,76,000/6,00,000) x 2,40,000 To Capital reduction A/c (Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c)	Dr.	2,35,200	2,30,400 4,800
5.	10% Debentures A/c (6,00,000 -2,40,000) To Own debentures A/c To Capital reduction A/c (Being profit on cancellation of own debentures transferred to capital reduction A/c)	Dr.	3,60,000	3,45,600 14,400



6.	10% Debentures A/c Capital reduction A/c To Machinery or PPE A/c (Being machinery taken up by debenture holders for ₹ 6,00,000)	Dr. Dr.	6,00,000 3,00,000		9,00,000
7.	Capital reduction A/c (balancing figure) To PPE A/c (72,00,000 - 9,00,000 - 60,00,000) (Being PPE revalued)	Dr.	3,00,000		3,00,000
8.	Trade payables A/c (16,80,000 - 15,00,000) To Trade receivables A/c (13,75,000 - 13,00,000) To Inventory A/c (9,80,000 - 9,44,000) To Capital Reduction A/c (Being assets and liabilities revalued)	Dr.	1,80,000		75,000 36,000 69,000
9.	Capital reduction A/c To Goodwill A/c To Profit and Loss A/c (Being the above assets written off)	Dr.	13,16,000		81,000 12,35,000
10.	Capital reduction A/c To Bank A/c (Being penalty paid for avoidance of capital commitments)	Dr.	60,000		60,000
11.	Capital reduction A/c To Capital reserve A/c (Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)	Dr.	3,44,200		3,44,200

2. **Capital Reduction Account**

	(₹)		(₹)
To Bank	1,68,000	By Equity Share Capital	24,00,000
To Property, Plant & Equipment	3,00,000	By Trade Payable	1,80,000
To Property, Plant & Equipment	3,00,000	By Bank A/c (Profit on Sale)	4,800
To Trade Receivables	75,000	By 10% debentures A/c (Profit on cancellation)	14,400
To Inventory	36,000		
To Goodwill	81,000		
To Profit and Loss A/c	12,35,000		
To Cash/Bank A/c	60,000		
To Capital Reserve	<u>3,44,200</u>		
	<u>25,99,200</u>		<u>25,99,200</u>

3. **Bank Account**

	₹		₹
To To balance b/d	1,33,000	By Capital Reduction	1,68,000
To Own Debenture	2,35,200	By Capital Reduction A/c	60,000
(2,30,400 +4,800)	_____	By balance c/d	<u>1,40,200</u>
	<u>3,68,200</u>		<u>3,68,200</u>

**Question 3**

- (a) *Constructions Limited is engaged in the business of constructing Flyovers and Railway over bridges. It obtained a contract from Railway Authorities to construct a railway over bridge for ₹ 400 crores. The construction of the railway over bridge is expected to be completed in 4 years.*

*At the outset of the contract, it was estimated that the total costs to be incurred will be ₹ 370 crores but by the end of year 1, this estimate stands revised to ₹ 375 crores.*

During year 3, the Construction Limited has requested for a variation in the contract which is approved by Railway Authorities and accordingly the total contract value will increase by ₹ 10 crores and costs will increase by ₹ 7 crores.

The Constructions Limited decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs. Contract costs incurred at the end of each year is:

Year 1 ₹ 98.8 crores

Year 2 ₹ 202.4 crores

Year 3 ₹ 310 crores (including unused material of 3 crores)

Year 4 ₹ 382 crores

**You are required to:**

(1) Calculate stage of completion of contract for each year

(2) Profit to be recognised for each year.

(b) The following information is provided for Aarambh Limited:

Particulars	31 <sup>st</sup> March 2023 (₹)	31 <sup>st</sup> March 2024 (₹)
Profit and Loss a/c	5,400 (Dr.)	37,800
Provision for Taxation	2,21,400	1,35,000
General Reserve	54,000	81,000
12% Debentures	1,18,800	2,91,600
Trade Payables	1,29,600	1,18,800
8% Current Investments	54,000	1,08,000
Property, plant and equipment (Gross)	3,99,600	3,99,600
Accumulated Depreciation	1,29,600	1,62,000
Trade Receivables (Gross)	81,000	2,61,360
Provision for Doubtful Debts	27,000	54,000
Inventories	1,35,000	81,000
Cash and Cash Equivalent	54,000	30,240

*Additional information:*

- (i) *Income tax provided during the year ₹ 1,62,000.*
- (ii) *New debentures have been issued at the end of current financial year.*
- (iii) *New investments have been acquired at the end of the current financial year.*

*You are required to calculate net Cash Flow from Operating Activities.*

**(7 Marks + 7 Marks = 14 Marks)**

**Answer**

**(a) (a) Stage of completion = Costs incurred to date / Total estimated costs**

Year 1: 98.8 crore / 375 crore = 26.35%

Year 2: 202.4 crore / 375 crore = 53.97%

Year 3: (310 crore – 3 crore) / (375+7) crore = 80.37%

Year 4: 382 crore / 382 crore = 100%

**(b) Profit to be recognized each year has been calculated as follows:**

	Year 1	Year 2	Year 3	Year 4
Contract Revenue (1)	105.40 crore	110.48 crore	113.64 crore	80.48 crore
	(400 crore x 26.35%)	(400 crore x 53.97% - 105.40 crore)	(410 crore x 80.37% - 105.40 crore - 110.48 crore)	(410 crore x 100% - 105.40 crore - 110.48 crore - 113.64 crore)
Contract Cost (2)	98.8 crore	103.60 crore	104.60 crore	75 crore
		202.40 - 98.80 crore)	(307 crore - 98.8 crore - 103.60 crore)	(382 crore - 98.8 crore - 103.6 crore - 104.6 crore)
Contract Profit (1) – (2)	6.60 crore	6.88 crore	9.04 crore	5.48 crore

**(b) Cash Flow from Operating Activities**

	₹
Difference between Profit and Loss Account ₹ (37,800 + 5,400)	43,200
Add: Transfer to General Reserve (81,000-54,000)	27,000
Add: Adjustment for Provision for taxation	<u>1,62,000</u>
Profit Before tax	2,32,200
Add: Adjustment for Depreciation (₹ 1,62,000 – ₹ 1,29,600)	32,400
Add: Adjustment for provision for doubtful debt (₹ 54,000 – ₹ 27,000)	27,000
Add: Debenture Interest Paid ₹ (1,18,800 × 12%)	14,256
Less: Income from Investments (54,000 × 8%)	<u>(4,320)</u>
Operating Profit before Working Capital changes	3,01,536
Decrease in Inventories ₹ (1,35,000-81,000)	54,000
Increase in Trade receivables ₹ (2,61,360-81,000)	(1,80,360)
Decrease in Trade payables ₹ (1,29,600-1,18,800)	<u>(10,800)</u>
Cash generated from operations	1,64,376
Income tax paid	<u>(2,48,400)</u>
Net Cash generated from Operating Activities	(84,024)

**Working Note:****Provision for taxation account**

	₹		₹
To Cash (Paid) (Balancing figure)	2,48,400	By Balance b/d	2,21,400
To Balance c/d	1,35,000	By Profit and Loss A/c	1,62,000
	<u>3,83,400</u>		<u>3,83,400</u>

**Question 4**

*Intelligent Limited and Diligent Limited are carrying their business independently for last two years. Following financial information in respect of both the companies as at 31<sup>st</sup> March, 2024 has been given to you:*

Particulars	Intelligent Limited (₹)	Diligent Limited (₹)
Equity Shares Capital of ₹ 100 each	12,00,000	10,00,000
8% Preference shares of ₹ 100 each	3,00,000	2,00,000
Trade Payables	12,00,000	4,00,000
Retirement Gratuity Fund (Long Term)	3,00,000	2,00,000
Profit and Loss Account		
Opening balance	4,50,000	2,50,000
Profit for the current year	2,50,000	1,50,000
Land and Buildings	10,00,000	8,00,000
Plant and Machinery	10,00,000	6,00,000
Inventories	7,00,000	4,00,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	4,00,000	1,00,000

On 1<sup>st</sup> April, 2024, both the companies agreed to amalgamate and form a new company 'Genius Limited, with an authorized capital of ₹ 40,00,000 divided into 30,000 equity shares of ₹ 100 each and 10,000 8% preference shares of ₹ 100 each.

The amalgamation has to be carried out on the basis of following agreement:

(1) Assets of both the companies were to be revalued as follows:

Particulars	Intelligent Limited (₹)	Diligent Limited (₹)
Land and Buildings	11,00,000	8,50,000
Plant and Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000

(2) Trade payables of Intelligent Limited includes ₹ 1,00,000 due to Diligent Ltd. and the Trade receivables of Diligent Limited shows ₹ 1,00,000 receivables from Intelligent Limited.

(3) The purchase consideration is to be discharged in the following manner:

(i) Issue 22,000 Equity Shares of ₹ 100 each fully paid up in the proportion of the sum of their profitability in the preceding two financial years.

- (ii) Preference shareholders of both companies are issued equivalent number of 8% Preference Shares of ₹ 100 each of Genius Limited at a price of ₹ 125 per share.
- (iii) 12% debentures of ₹ 100 each in Genius Limited at par to provide an income equivalent to 10% return on the basis of net assets in their respective business as on 1<sup>st</sup> April, 2024 after revaluation of assets.

**You are required to:**

- (a) Compute the amount of Shares & Debentures to be issued to Intelligent Limited and Diligent Limited.
- (b) Prepare a Balance Sheet of Genius Limited showing the position immediately after amalgamation. **(14 Marks)**

**Answer****Computation of shares and debentures to be issued**

		Intelligent Ltd.	Diligent Ltd.
(i) Equity shares	22,000 x 7/11 = 14,000 (W.N.1)	14,00,000	
	22,000 x 4/11 = 8,000 (W.N.1)		8,00,000
(ii) Preference shares	$\left(\frac{3,00,000}{100} \times 125\right)$	3,75,000	
	$\left(\frac{2,00,000}{100} \times 125\right)$		2,50,000
(iii) Debentures	Refer (W.N.3)	<u>17,50,000</u>	<u>11,25,000</u>
Total Purchase Consideration (i + ii + iii)		<u>35,25,000</u>	<u>21,75,000</u>

**Balance Sheet of Genius Limited  
as at 1<sup>st</sup> April, 2024 (after amalgamation)**

		Notes no.	₹
<b>I.</b>	<b>Equity and Liabilities</b>		
<b>(1)</b>	Shareholder's fund		
<b>(a)</b>	Share Capital	1	27,00,000
<b>(b)</b>	Reserves & Surplus	2	1,25,000

<b>(2)</b>	Non-current Liabilities		
<b>(a)</b>	Long term borrowings	3	28,75,000
<b>(b)</b>	Other non-current liabilities	4	5,00,000
<b>(3)</b>	Current Liabilities		
<b>(a)</b>	Trade Payables (12,00,000 + 4,00,000 – 1,00,000)		<u>15,00,000</u>
	Total		<u>77,00,000</u>
<b>II.</b>	<b>Assets</b>		
<b>(1)</b>	Non-current Assets		
<b>(a)</b>	Property, Plant & Equipment	5	32,50,000
<b>(b)</b>	Intangible Assets	6	22,50,000
<b>(2)</b>	Current Assets		
<b>(a)</b>	Inventories (6,00,000 + 3,00,000)		9,00,000
<b>(b)</b>	Trade Receivables (6,00,000 + 3,00,000 - 1,00,000)		8,00,000
<b>(c)</b>	Cash & Cash Equivalentents		<u>5,00,000</u>
	Total		<u>77,00,000</u>

**Notes to Accounts:**

Sr. No.	Particular	₹
<b>1.</b>	<u>Share Capital</u>	
	<u>Authorized Share Capital</u>	
<b>a)</b>	Equity Share Capital 30,000 Equity Shares of ₹ 100 each	30,00,000
<b>b)</b>	Preference Share Capital 10% 10,000 Preference Shares ₹ 100 each	<u>10,00,000</u>
		<u>40,00,000</u>
	<u>Issued, Subscribed &amp; Paid-up Capital</u>	
<b>a)</b>	Equity Share Capital	



	22,000 Equity Shares of ₹100 each (out of the above all shares are issued for consideration other than cash)	22,00,000
	<b>b) Preference Share Capital</b>	
	10% 5,000 Preference Shares of ₹100 each (out of the above all shares are issued for consideration other than cash)	<u>5,00,000</u>
		<u>27,00,000</u>
<b>2.</b>	<u>Reserves &amp; Surplus</u>	
	Securities Premium	1,25,000
<b>3.</b>	<u>Long term borrowings</u>	
	12% Debentures of ₹ 100 each	28,75,000
<b>4.</b>	<u>Other Non-current Liabilities</u>	
	Gratuity Fund	5,00,000
<b>5.</b>	<u>Property, Plant &amp; Equipment</u>	
	Land & Building (11,00,000 + 8,50,000)	19,50,000
	Plant & Machinery (9, 00,000 + 4,00,000)	<u>13,00,000</u>
		<u>32,50,000</u>
<b>6.</b>	<u>Intangible Assets</u>	
	Goodwill	22,50,000

**Working Notes:****1. Calculation of Ratio of Equity Shares**

	<b>Intelligent Ltd.</b>	<b>Diligent Ltd</b>
*Opening balance P&L	4,50,000	2,50,000
Profit for the current year	<u>2,50,000</u>	<u>1,50,000</u>
Total	<u>7,00,000</u>	<u>4,00,000</u>

\*As the company has been in existence for two years, the opening balance of profit and loss account has been assumed to be the profit of the previous year.

The total profits- ₹ 7,00,000+ ₹ 4,00,000 = ₹ 11,00,000.

No. of shares to be issued = 22,000 equity shares in the proportion of the preceding 2 years' profits. i.e. in 7:4.

## 2. Calculation of Net assets as on 31.3.2024

Particulars	Intelligent Ltd.	Diligent Ltd
<b><u>Assets (after revaluation)</u></b>		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	3,00,000
Cash & Cash Equivalents	<u>4,00,000</u>	<u>1,00,000</u>
Total (a)	<u>36,00,000</u>	<u>19,50,000</u>
<b>Liabilities</b>		
Trade Payables	12,00,000	4,00,000
Gratuity Fund	<u>3,00,000</u>	<u>2,00,000</u>
Total (b)	<u>15,00,000</u>	<u>6,00,000</u>
Net Assets (a – b)	21,00,000	13,50,000

## 3. Calculation of 12% Debentures to be issued to Intelligent Ltd. and Diligent Ltd.

	Intelligent Ltd.	Diligent Ltd
	₹	₹
Net assets (Refer working note)	21,00,000	13,50,000
10% return on Net assets	2,10,000	1,35,000
12% Debentures to be issued	17,500	
$\left[2,10,000 \times \frac{100}{12}\right] = 17,50,000$ of ₹ 100 each		
$\left[1,35,000 \times \frac{100}{12}\right] = 11,25,000$ of ₹ 100 each		11,250

## 4. Calculation of Goodwill / Capital Reserve

S. No.	Particulars	Intelligent Ltd.	Diligent Ltd.	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets	<u>21,00,000</u>	<u>13,50,000</u>	
(iii)	Goodwill	<u>14,25,000</u>	<u>8,25,000</u>	<u>22,50,000</u>

Alternatively:

## 4. Calculation of Goodwill / Capital Reserve

S. No.	Particulars	Intelligent Ltd.	Diligent Ltd.	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets*	<u>22,00,000</u>	<u>12,50,000</u>	
(iii)	Goodwill	<u>13,25,000</u>	<u>9,25,000</u>	<u>22,50,000</u>

\* Calculation of Net assets taken over

Particulars	Intelligent Ltd.	Diligent Ltd.
<b>Assets (after revaluation)</b>		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	2,00,000*
Cash & Cash Equivalents	<u>4,00,000</u>	<u>1,00,000</u>
Total (a)	<u>36,00,000</u>	<u>18,50,000</u>
<b>Liabilities</b>		
Trade Payables	11,00,000**	4,00,000
Gratuity Fund	<u>3,00,000</u>	<u>2,00,000</u>
<b>Total (b)</b>	<u>14,00,000</u>	<u>6,00,000</u>
<b>Net Assets (a - b)</b>	22,00,000	12,50,000

\* ₹ 3,00,000 - ₹ 1,00,000 = ₹ 2,00,000

\*\* ₹ 12,00,000 - ₹ 1,00,000 = ₹ 11,00,000

**Question 5**

The Balance Sheets of Art Limited and Craft Limited as on 31 March 2024 are as below:

Particulars	Note No	Art Limited (₹)	Craft Limited (₹)
<b>I. Equity and Liabilities</b>			
<b>a. Shareholder's Fund</b>			
i. Share Capital	1	6,50,000	4,00,000
ii. Reserve & Surplus	2	3,12,000	2,48,000
<b>b. Current Liabilities</b>			
i. Trade Payables		1,45,000	92,000
ii. Short term borrowings	3	70,000	-
		<b>11,77,000</b>	<b>7,40,000</b>
<b>II. Assets</b>			
<b>a. Non-current Assets</b>			
i. Property, Plant & Equipment	4	4,21,000	3,60,000
ii. Non-current investment	5	4,32,000	-
<b>b. Current Assets</b>			
i. Inventories		1,66,000	2,05,000
ii. Trade Receivables	6	1,33,500	1,68,300
iii. Cash & Cash equivalent		24,500	6,700
		<b>11,77,000</b>	<b>7,40,000</b>

**Notes to Accounts:**

		Art Limited (₹)	Craft Limited (₹)
1.	Share capital 6,500 shares of ₹ 100 each fully paid up 4,000 shares of ₹ 100 each fully paid-up	6,50,000 -	4,00,000
	Total	6,50,000	4,00,000
2.	Reserves and Surplus		

	General Reserve	1,20,000	40,000
	Profit and Loss account	1,92,000	2,08,000
	Total	3,12,000	2,48,000
3.	Short term borrowings		-
	Bank Overdraft	70,000	
4.	Property Plant & Equipment		
	Land & Building	1,90,000	1,35,000
	Plant & Machinery	2,31,000	2,25,000
	Total	4,21,000	3,60,000
5.	Non-current investments		-
	Investment in Craft Limited (Cost)	4,32,000	
6.	Cash & Cash equivalents		
	Cash	24,500	6,700

**Additional information:**

- (i) Art Limited acquired 3,200 ordinary shares of Craft Limited on 1<sup>st</sup> October, 2023. The Reserve & Surplus and Profit & Loss Account of Craft Limited showed a credit balance of ₹40,000 and ₹58,700 respectively as on 1<sup>st</sup> April, 2023.
- (ii) The Plant & Machinery of Craft Limited which stood at ₹2,50,000 as on 1<sup>st</sup> April, 2023 was considered worth ₹2,20,000 on the date of acquisition. The depreciation on Plant & Machinery is calculated @ 10% p.a. on the basis of useful life. The revaluation of Plant & Machinery is to be considered at the time of consolidation.
- (iii) Craft Limited deducts 1% from Trade Receivables as a general provision against doubtful debts. This policy is not followed by Art Limited.
- (iv) On 31<sup>st</sup> March 2024, Craft Limited's inventory includes goods which it had purchased from Art Limited for 1,03,500 which made a profit of 15% on cost price.

You are required to prepare a consolidated Balance Sheet as on 31<sup>st</sup> March 2024.

**(14 Marks)**

## Answer

**Consolidated Balance Sheet of Art and Craft Ltd**  
**As on 31<sup>st</sup> March, 2024**

	Particulars	Note no.	₹
<b>I.</b>	<b>Equity &amp; Liabilities</b>		
(1)	Shareholders' fund		
(a)	Share Capital	1	6,50,000
(b)	Reserves & Surplus	2	3,73,460
(2)	Minority Interest	3	1,26,740
(3)	Current Liabilities		
(a)	Short term borrowings	4	70,000
(b)	Trade Payables (1,45,000 + 92,000)		<u>2,37,000</u>
	Total		<u>14,57,200</u>
<b>II.</b>	<b>Assets</b>		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	7,65,000
(2)	Current Assets		
(a)	Inventories	6	3,57,500
(b)	Trade Receivables	7	3,03,500
(c)	Cash & Cash Equivalents	8	<u>31,200</u>
	Total		<u>14,57,200</u>

## Notes to Accounts

Sr. No.	Particulars	₹
1.	Share Capital	
	<u>Issued, Subscribed &amp; Paid-up Capital</u>	
	a) Equity Share Capital	
	6,500 Equity Shares of ₹ 100 each	6,50,000

<b>2.</b>	Reserves & Surplus		
	Profit & Loss A/c (WN 5)		2,40,100
	General Reserve (WN 5)		1,20,000
	Capital Reserve (W.N. 3)		<u>13,360</u>
			<u>3,73,460</u>
<b>3.</b>	Minority interest in Craft Ltd. (W.N.4)		1,26,740
<b>4.</b>	Short-term borrowings		
	Bank Overdraft		70,000
<b>5.</b>	Property, Plant & Equipment		
	Land & Building		
	Art Ltd.	1,90,000	
	Craft Ltd.	<u>1,35,000</u>	3,25,000
	Plant & Machinery		
	Art Ltd.	2,31,000	
	Craft Ltd. (2,25,000-17,500+1,500)	<u>2,09,000</u>	<u>4,40,000</u>
			<u>7,65,000</u>
<b>6.</b>	Inventories		
	Art Ltd.	1,66,000	
	Craft Ltd.	2,05,000	
	Less: unrealized profit	<u>(13,500)</u>	3,57,500
<b>7.</b>	Trade Receivables		
	Art Ltd.	1,33,500	
	Craft Ltd.	<u>1,70,000</u>	3,03,500
<b>8.</b>	Cash & Cash Equivalents		
	Art Ltd.	24,500	
	Craft Ltd.	<u>6,700</u>	<u>31,200</u>

**Working Notes:****1. Shareholding Pattern**

Total 4,000 shares	
3,200 shares	800 shares
Art Ltd (80%)	20% Minority Interest

**2. Analysis of Profit**

	General reserve	Profit and loss account
Opening balance	40,000	58,700
Closing balance	40,000	<u>2,08,000</u>
Changes during the year		<u>1,49,300</u>

**Analysis of Profit**

Particulars	Pre acquisition profit (6 months) (₹)	Post acquisition profit (6 months) (₹)
Opening Balances (40,000 + 58,700)	98,700	
Profit for 6 months (1,49,300 x 6/12)	74,650	74,650
Provision reversed (1,700) (W.N. 8)	850	850
Revaluation Loss (W.N. 6)	(17,500)	-
Savings in depreciation (W.N. 6)	-	<u>1,500</u>
Total	<u>1,56,700</u>	<u>77,000</u>
Holding (80%)	1,25,360	61,600
Minority Interest (20%)	31,340	15,400

**3. Cost of Control**

Particulars	₹	₹
Cost of Investment (Given)		4,32,000



Less: Share in Net Assets:		
<b>a)</b> Share Capital (3,200 shares × ₹100)	3,20,000	
<b>b)</b> Capital Profit (W.N. 2)	<u>1,25,360</u>	<u>(4,45,360)</u>
Capital Reserve		<u>13,360</u>

**4. Minority Interest**

Particulars	₹
Share Capital (800 shares × 100)	80,000
Capital Profit (W.N. 2)	31,340
Revenue Profit (W.N. 2)	<u>15,400</u>
Total	<u>1,26,740</u>

**5. Consolidated Profit and General Reserve of Art Ltd**

Particulars	Profit and loss account ₹	General reserve ₹
Balance as per Balance Sheet	1,92,000	1,20,000
Revenue Profit	61,600	-
Unrealized Profit (Downstream)	<u>(13,500)</u>	
Total	<u>2,40,100</u>	<u>1,20,000</u>

**6. Calculation of Revaluation Profit /Loss**

Particulars	₹
Balance as on 01.04.2023 (given)	2,50,000
Depreciation for 6 months (2,50,000 × 10% × 6/12)	<u>(12,500)</u>
WDV as on date of acquisition	2,37,500
Revalued amount	<u>2,20,000</u>
Revaluation Loss	17,500

**7. Savings in Depreciation**

$$\begin{aligned}
 &= \text{Depreciation Provided for 6 months} - \text{Depreciation Should be} \\
 &= 12,500 - (2,20,000 \times 10\% \times 6/12) \\
 &= 1,500
 \end{aligned}$$

**8. Calculation of provision reversed**

Trade Receivable (Given) = 1,68,300 it is after provision i.e 99%

So, 100% will be 1,70,000 therefor provision will be **1,700**

**As per para 20 and 21 of AS 21, Consolidated financial statements:**

Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

**Question 6**

(a) *Colour Limited leased a Machine to Red Limited on 1 April, 2021 on the following:*

<i>Cost of the machine</i>	₹ 18,00,000
<i>Lease term</i>	3 Years
<i>Fair market value of the machine</i>	₹ 18,00,000
<i>Unguaranteed residual value as on 31.3.2024</i>	₹ 2,00,000
<i>Internal rate of return</i>	12%

*Other information:*

*The expected useful life of the machine is 5 years. The machine will revert to Colour Limited on termination of the lease. The lease payment is to be made at the end of each year in 3 equal parts.*

*The present value of ₹ 1 due at the end of 3<sup>rd</sup> year at 12% rate of interest is ₹ 0.7118. The present value of annuity of ₹ 1 due at the end of 3<sup>rd</sup> year at 12% IRR is ₹ 2.4018.*

*You are required to analyze whether lease constitutes finance lease. Also calculate unearned finance income, if any.*

OR

(a) On 1 April 2023, ABC Limited has given the following information:

	₹
50,000 equity shares of ₹ 100 each (₹ 80 paid up by all shareholders)	40,00,000
2,00,000 8% Preference shares of ₹ 10 each	20,00,000
10,000, 12% Debentures of ₹ 100 each (Each debenture is convertible into 3 equity shares of ₹ 100 each)	10,00,000

On 1<sup>st</sup> July 2023, the remaining ₹ 20 was called up and paid by all the shareholders except one shareholder holding 10,000 equity shares. During the year 2023-24 the company had a profit after tax of ₹ 3,44,000.

Tax rate is 30%.

You are required to compute Basic and Diluted EPS.

**(4 Marks)**

(b) Following information are available in respect of Z Limited as on 31<sup>st</sup> March, 2024

- |  |             |
|--|-------------|
| 1. Equity shares of ₹ 100 each                           | ₹ 500 lakhs |
| 2. General Reserve                                       | ₹ 100 lakhs |
| 3. Loss for the year ending 31 <sup>st</sup> March, 2024 | ₹ 5 lakhs   |

Due to absence of profits during the year 2023-24, the management recommends to declare dividend of 10% on equity share capital out of general reserve.

The rates of equity dividend for the last 5 years immediately preceding the year 2023-24 are as follows:

2022-23	2021-22	2020-21	2019-20	2018-19
12%	14%	10%	10%	7%

As an accountant of the company, you are required to suggest whether the recommendation of the management is justified? If, you do not agree, then suggest the rate of dividend.

**(4 Marks)**

(c) *Smart Limited is an Indian Company and has its Branch at New York. The following balances in respect of Smart Limited's USA Branch office are provided:*

(i) *Debit Balances (in USD)*

<i>Expenditure (excluding Depreciation)</i>	:	<i>1,03,095</i>
<i>Cash &amp; bank balances</i>	:	<i>2,175</i>
<i>Debtors</i>	:	<i>7,365</i>
<i>Fixed Assets (Gross)</i>	:	<i>34,200</i>
<i>(Rate of Depreciation on Fixed Assets: 20%)</i>		
<i>Inventory-Stock 'P'</i>	:	<i>5,520</i>
<i>Inventory- Stock 'Q'</i>	:	<i>1,035</i>

(ii) *Credit Balances (in USD)*

<i>Incomes</i>	:	<i>1,32,000</i>
<i>Creditors</i>	:	<i>15,570</i>
<i>HO Control a/c</i>	:	<i>5,820</i>

*The following additional information is provided:*

- (1) *The average exchange rate during the above financial year was 1 USD = ₹ 56.*
- (2) *The fixed assets were purchased when the exchange rate was 1 USD ₹ 55.*
- (3) *The closing exchange rate on reporting date is 1 USD = ₹ 58.*
- (4) *Stock item 'P' is valued at cost of USD 5,520, purchased when the exchange rate was ₹ 56.50. The present net realizable value of this item is ₹ 2,85,000.*
- (5) *Stock item 'Q' is carried at net realizable value of USD 1,035, but its cost in USD is 1,065, It was purchased when exchange rate was 1 USD = ₹ 53.*
- (6) *Branch Control Account as per HO books was ₹ 2,66,265.*

You are required to show how it will be reflected in the books of Head Office in the form of Trial Balance, if the USA Branch Office is classified as an Integral Foreign Operation. **(6 Marks)**

**Answer****(a) Computation of Annual Lease Payment**

Particulars	Amount
Cost of Equipment	18,00,000
Unguaranteed Residual Value	2,00,000
Present Value of unguaranteed residual value (₹ 200,000 × 0.7118)	1,42,360
Present Value of Lease Payments (₹ 18,00,000 – ₹ 1,42,360)	16,57,640
Present Value of Annuity for three years is 2.4018 Annual Lease Payment (16,57,640 / 2.4018)	6,90,165.71

**Classification of Lease:****Parameter 1:**

The present value of lease payment i.e. ₹ 16,57,649 which equals 92.09% of the fair market value i.e., ₹ 18,00,000.

The present value of minimum lease payments is substantially covers the fair value of the leased asset

**Parameter 2:**

The lease term (i.e. 3 years) covers the major part of the life of the asset (i.e. 5 years).

Therefore, it constitutes a finance lease.

**Computation of unearned Finance Income:**

Particulars	Amount
Total Lease Payments (₹ 6,90,165 × 3)	₹ 20,70,495
Add: Unguaranteed residual value	₹ 2,00,000
	<u>₹ 22,70,495</u>

Less: Present value of lease payments and residual value i.e. Net investment (1,42,360+16,57,640)	₹ 18,00,000
Unearned Finance Income	₹ 4,70,495

OR

(a) Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{1,84,000}{46,000 \text{ Shares (as per working note)}} = ₹ 4 \text{ per share}$$

**Diluted earnings per share**

Net profit for the current year	₹ 3,44,000
No. of equity shares outstanding	50,000
Basic earnings per share	₹ 4
No. of 12% convertible debentures of ₹ 100 each Each debenture is convertible into 3 equity shares	10,000
Interest expense for the current year	₹ 1,20,000
Tax relating to interest expense (30%)	₹ 36,000
Adjusted net profit for the current year	₹ (1,84,000 + 1,20,000 - 36,000) = ₹ 2,68,000
No. of equity shares resulting from conversion of debentures	30,000
No. of equity shares used to compute diluted earnings per share	46,000 + 30,000 = 76,000
Diluted earnings per share	2,68,000 / 76,000 = ₹ 3.53

**Working Note:**

**1. Net profit attributable to equity share holders = Net profit less preference dividends**

Total earnings – preference shares dividend

$$₹ 3,44,000 - ₹ (8\% \times 20,00,000)$$

$$₹ 3,44,000 - ₹ 1,60,000$$

$$= ₹ 1,84,000$$

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

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

<i>Date</i>	<i>No. of equity shares</i>	<i>Amount paid per share</i>	<i>Weighted average no. of equity shares</i>
	₹	₹	₹
01.04.2023	50,000	80	50,000x 80/100x 3/12 = 10,000
01.07.2023	40,000	100	40,000 x 9/12 = 30,000
01.07.2023	10,000	80	10,000x 80/100x 9/12 = <b>6,000</b>
Total weighted average equity shares			<b>46,000</b>

### (b) In case of declaration of dividend out of free reserves, there are 3 conditions:

- (1) Dividend Rate < Average Rate of last 3 years

$$10\% < 12\% [(12+14+10)/3]$$

Condition is Satisfied

- (2) Dividend Distributed < 10% of PUSC + Reserve and Surplus

$$50,00,000 < 59,50,000 [(5,00,00,000 + 1,00,00,000 - 5,00,000) \times 10\%]$$

Condition is Satisfied

- (3) Reserves after dividend > 15% of PUSC 45,00,000 not > 75,00,000  
(5,00,00,000 × 15%)

Condition is Not Satisfied

- (4) The closing balance of reserves after payment of dividend and set off of loss = ₹ 75,00,000

Therefore, can be utilized = 20,00,000 (1,00,00,000 – 5,00,000 – 75,00,000)

Thus, rate of dividend = (20,00,000/5,00,00,000) = 4%

### Alternatively

To judge the recommendation of management, the satisfaction of all three conditions is to be checked:

- (1) Condition I

The proposed dividend of 10% is less than the average rate of dividend being 12%

(i.e.)  $(12+14+10) / 5 = 12\%$ .

Hence, this condition is satisfied.

- (2) Condition II

Amount to be withdrawn.

10% dividend on Equity share capital	50,00,000
+ Loss of Current year	<u>5,00,000</u>
Amount to be drawn from General Reserve	<u>55,00,000</u>

Maximum amount that can be withdrawn should not exceed 10% of paid-up share capital + free reserves.

= 10% of [₹ 500 lakhs + ₹ 100 lakhs] = ₹ 60,00,000

As the amount to be withdrawn is within the maximum limit, hence, this condition is also satisfied.

- (3) Condition III

Balance of reserves after withdrawal (100-55)      ₹ 45,00,000

15% of paid-up capital      ₹ 75,00,000

As the balance of reserves should not be less than 15% of its paid-up share capital, but here the balance of reserves after withdrawal is less



than 15% of paid-up share capital, hence this condition is not satisfied, hence, 10% dividend cannot be declared.

Maximum withdrawal of Reserve if condition II is satisfied.

Opening balance of Reserves in the beginning of the year = ₹ 1,00,00,000

- Closing balance of reserves being 15% of paid-up capital = ₹ 75,00,000

Reserves available = ₹ 25,00,000

Maximum permissible Divisible Profits

Permissible withdrawal as above = ₹ 25,00,000

Less: Current Year's Loss = ₹ 5,00,000

Maximum permissible Divisible profit = ₹ 20,00,000

Actual permissible rate of Dividend =

$(\text{₹ } 20,00,000 / \text{₹ } 5,00,00,000) \times 100 = 4\%$

Therefore, the recommendation of management is not justified and a dividend only up to a rate of 4% can be declared.

**(c) Converted branch trail balance (in the books of head office)**

Particular	Dr. \$	Cr. \$	Rate per \$	₹ Dr.	₹ Cr.
Expenditure	1,03,095		56	57,73,320	
Cash & bank balance	2,175		58	1,26,150	
Debtors	7,365		58	4,27,170	
Fixed assets	27,360		55	15,04,800	
Depreciation 20%	6,840		55	3,76,200	
Inventory P	5,520		Direct	2,85,000	
Inventory Q	1,065		53	56,445	
Income		1,32,000	56		73,92,000
Creditors		15,570	58		9,03,060

HO control A/c		5,820			2,66,265
Exchange difference				<u>12,240</u>	
				85,61,325	<u>85,61,325</u>

**Working Note:**

<b>Inventory P</b>	<b>\$ 5,520</b>	<b>Inventory Q</b>	<b>\$ 1,065</b>
Purchased Cost rate	56.50	NRV	\$ 1,035
NRV	₹ 2,85,000	Closing rate	58
Cost	₹ 3,11,880	Purchased Cost rate	53
Value at cost or NRV whichever is less	₹ 2,85,000	Value at cost or NRV whichever is less	\$ 1,035 @ ₹ 58 or \$1,065 @ ₹ 53 = 56,445 or 60,030