PAPER – 1 : ADVANCED ACCOUNTING

PART - I

Case Scenario 1

Mr. Vikram took a loan of ₹ 6,00,000 carrying interest @ 10% p.a. on 1st August, 2023 to purchase raw material. He purchased 4000 units of raw material @ 125 per unit. Replacement cost of raw material as on 31 March, 2024 is 100 per unit. Labour charges and variable overheads incurred are ₹ 1,00,000 to produce 1000 units of finished goods.

1000 units of Finished goods are produced with raw material (for every unit of finished goods produced, 2 units of raw material are required). Net realizable value of finished good is ₹ 300 per unit. All the finished goods produced are lying in stock as on 31 March, 2024.

There is no opening stock of raw material and finished goods.

Mr. Vikram used 1500 units of raw material to construct an Asset (Qualifying Asset). Labour and other overhead charges incurred on construction of asset are ₹ 90,000. Mr. Vikram also paid ₹15,000 to install the asset at Factory premises. Mr. Vikram used Balance of loan proceeds of ₹ 1,00,000 to invest in Equity Shares of P. Ltd. He purchased 9,000 Equity shares (Face Value ₹ 10 each) for ₹ 1,00,000 on 25th March, 2024.

The P. Ltd declared and paid dividend @ 20% on 30th March for the year 2023-24.

Based on the information given in above Case Scenario, answer the following Question No. 1-4:

1. *What would be the value of closing stock of Raw Material X and Finished Goods as on 31st March 2024?*

   (A) *Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,50,000*

   (B) *Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,00,000*

(C) *Closing Stock of Raw Material X ₹62,500 and closing stock of Finished Goods ₹3,50,000*

(D) *Closing Stock of Raw Material X ₹62,500 and closing stock of Finished Goods ₹3,00,000*

2. *Cost of Self Constructed Asset as per AS 10 will be ?*

   (A) *₹2,92,500*

   (B) *₹2,77,500*

   (C) *₹3,05,000*

   (D) *₹2,90,000*

3. *As per AS 16 what will be the amount of interest to be capitalized and amount of interest to be charged to Profit & Loss A/c ?*

   (A) *₹ 12,500 interest to be capitalised and Profit & Loss A/c. ₹ 27,500 interest to be charged to Profit & Loss A/c*

   (B) *₹12,500 interest to be capitalised and ₹20,833 interest to be charged to Profit & Loss A/c.*

   (C) *₹19,167 interest to be capitalised and ₹20,833 interest to be charged to Profit & Loss A/c.*

   (D) *Whole of ₹40,000 interest to be charged to Profit & Loss A/c.*

4. *What is the carrying amount of investment as on 31st March, 2024 as per AS 13 and suggest the treatment of dividend received from P. Ltd.?*

   (A) *Carrying amount of Investment as on 31st March, 2024 is ₹ 72,000 and the dividend is deducted from the nominal value of investment.*

   (B) *Carrying amount of Investment as on 31st March, 2024 is ₹90,000 and the dividend is credited to Profit & Loss A/c.*

   (C) *Carrying amount of Investment as on 31st March, 2024 is ₹ 1,00,000 and the dividend is credited to Profit & Loss A/c.*

   (D) *Carrying amount of Investment as on 31st March, 2024 is 82,000 and the dividend is deducted from the cost of investment.*

Case Scenario 2

Kay Ltd. sold goods of ₹ 22,00,000 to Mr. Ravi Kumar on 1st February, 2024 but at the request of the buyer, these goods were delivered on 10th April 2024.

Kay Ltd. also sold ₹ 2,00,000 goods on approval basis on 1st January, 2024 to Sheetal Enterprises. The period of approvals 3 months after which they were considered sold. Buyer sent disapproval for 25% of goods and approval for 50% of goods till 31 March, 2024.

Mr. Ravi Kumar has commenced legal action against Kay Ltd. for supply of faulty goods to claim damages. The lawyers of Kay Ltd. have advised that it is not remote yet that resources may be required to settle the claim. Legal cost to be incurred irrespective of the outcome of the case is ₹45,000. Settlement amount if the claim is required to be paid ₹ 5,00,000,

Sheetal Enterprises, a trade receivable of Kay Ltd. suffered a heavy loss due to an earthquake that occurred on 30th March, 2024. The loss was not covered by any insurance policy. In April, 2024, Sheetal Enterprises became bankrupt. The Balance due from Sheetal Enterprises as on 31 March, 2024 is ₹ 75,000.

Kay Ltd. makes provision for doubtful debts @ 5%.

Based on the information given in above Case Scenario, answer the following Question No. 5-7

5. *What is the amount to be recognized as Revenue as per AS 9 in the books of Kay Ltd. as on 31 March, 2024?*

   (A) ₹ 23,50,000

   (B) ₹ 1,50,000

   (C) ₹ 23,00,000

   (D) ₹ 1,00,000

6. *What will be the treatment of legal cost and claim for legal action commenced by Mr. Ravi Kumar in the Books of Kay Ltd. as on 31 March, 2024 as per AS 29?*

   (A) Create a Provision for ₹ 5,45,000

   (B) Create a Provision for ₹ 5,00,000

(C) *Create a Provision for ₹ 45,000 and make a disclosure of contingent liability of ₹ 5,00,000*

(D) *Make a disclosure of contingent liability of ₹ 5,45,000*

7. *What is the treatment of insolvency of Sheetal Enterprises in the Books of Kay Ltd. as on 31st March, 2024 as per AS 4?*

(A) *An Adjusting Event, full provision of ₹ 75,000 should be made in the Final Accounts for the year ended 31 March, 2024.*

(B) *An Adjusting Event, provision of ₹ 3,750 should be made in the Final Accounts for the year ended 31 March, 2024.*

(C) *A Non-adjusting event, no provision is required to be made as Sheetal Enterprises became bankrupt in April, 2024.*

(D) *A Non-adjusting event, only disclosure is required in the Final Accounts for the year ended 31st March, 2024.*

8. *P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a Listed Company and regularly supplies goods to P Ltd. The Management of R Ltd. has not disclosed its relationship with P Ltd. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?*

(A) *Q Ltd.*

(B) *R Ltd.*

(C) *Q Ltd. and R Ltd.*

(D) *Neither of Q Ltd. or R Ltd.*

9. *A Machinery was giver on 3 years lease by a dealer of the machinery for equal annual lease rentals to yield 20% profit margin on cost of the machinery, which is Rs.3,00,000. Economic life of the machinery is 5 years, and estimated output from the machinery in 5 years is as follows:*

Year I	*50,000 units*
Year II	*60,000 units*
Year III	*40,000 units*
Year IV	*65,000 units*

Year V 85,000 units.

Compute Annual Lease Rent.

(A) ₹ 30,000

(B) ₹ 60,000

(C) ₹ 50,000

(D) ₹ 36,000

10. *A Ltd. had 1,50,000 shares of common stock outstanding on 1 April, 2023. Additional 50,000 shares were issued on 1 November, 2023 and 32,000 shares were bought back on 1 February, 2024. Calculate the weighted average number of shares outstanding at the year ended on 31 March, 2024 is:*

(A) 1,34,500 shares

(B) 1,65,500 shares

(C) 1,76,167 shares

(D) 1,23,833 shares

Case Scenario 3

Jay Ltd. submits the following data extracted from the Final Accounts as on 31 March, 2023:

Equity Share Capital *Equity shares of ₹ 10 each*	*50,000*
Profit & Loss (Dr. balance)	*(50,000)*
9% Debentures	*2,00,000*
Loan from Bank	*3,00,000*
Advance given to suppliers of goods	*45,000*
Provision for tax	*14,000*
Plant & Machinery	*4,50,000*
Furniture & Fixtures	*85,000*
Investment in Star Ltd. *10,000 equity shares of 10 each*	*1,25,000*

Sundry Debtors	*70,000*
Cash & Bank Balance	*65,500*

Additional information given by Jay Ltd.:

On 31 March, 2023 Jay Ltd. decided to reconstruct the company for which necessary resolution was passed. Accordingly, it was decided that:

(a) 9% Debentures to be settled in full by issuing them 15,000 Equity shares of 10 each.

(b) Equity shareholders will give up 40% of their capital in exchange for allotment of new 11% Debentures of ₹ 1,00,000.

(c) Balance of Profit & Loss to be written off.

(d) Equity shares issued for ₹ 1,00,000.

In addition to above, following information was also presented by Jay Ltd. on 1st April, 2023:

(a) Interest is received on advances given to suppliers of goods ₹ 3,000.

(b) Taxation liability is settled at ₹ 14,000.

(c) A debtor of ₹ 40,000 is insolvent, only 40% of his dues are recovered from his estate.

(d) Dividend is received on Investment in Star Ltd. ₹ 1 per equity share invested.

(e) Part of Plant and Machinery is sold at a loss of ₹ 3,000 (book value ₹ 15,000)

Based on the information given in above Case Scenario, answer the following Question No. 11-14:

11. The amount of Cash Flow from operating activity is:

(A) ₹ 2,000

(B) ₹ 5,000

(C) ₹ 12,000

(D) ₹ 15,000

12 *The amount of Cash Flow from investing Activity is*

(A) *₹ 28,000*

(B) *₹ 25,000*

(C) *₹ 15,000*

(D) *₹ 22,000*

13. *What is the amount of closing Cash and Cash equivalents as on 1 April, 2023 ?*

(A) *₹1,92,500*

(B) *₹ 92,500*

(C) *₹ 1,27,000*

(D) *₹ 1,98,500*

14. *The Balance of Equity Share Capital after internal reconstruction is :*

(A) *₹ 6,50,000*

(B) *₹ 4,50,000*

(C) *₹ 5,50,000*

(D) *₹ 7,50,000*

15. *"Fixed Asset held for sale" will be classified in the Balance Sheet as per Schedule III of the Companies Act as:*

(A) *Deferred Tax Assets*

(B) *Current Asset*

(C) *Non-Current Asset*

(D) *Long term Investments*

Answers Key

MCQ No.	Answers
1.	**B**
2.	**C**
3.	**A**

4.	D
5.	A
6.	C
7.	A
8.	C
9.	B
10.	B
11.	B
12.	D
13.	A
14.	C
15.	B

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Part II

*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) *In the following cases, record Journal Entries for amortization in the books of Huge Ltd. for the year ended 31st March, 2024 with reference to AS-26:*

(i) *The company had acquired Patent Rights for ₹ 340 lakhs on 01.04.2022. The estimated product life is 4 years. Amortization was decided in the ratio of estimated future cash flows which are as under:*

1st Year	*₹ 140 Lakhs*
2nd Year	*₹ 350 Lakhs*
3rd Year	*₹ 280 Lakhs*
4th Year	*₹ 420 Lakhs*

(ii) *The company had developed know-how by incurring expenditure of ₹ 80 lakhs. The know-how has been used by the company since 01.04.2018. Its useful life is 8 years from the year of commencement of its use. The company has not amortised the asset until 31.03.2024.*

(b) *Pendora Ltd. has given the following details in respect of employee benefit pension plan:*

Particulars	***Amount ₹***
The fair value of plan assets as on 01-04-2023	*5,00,000*
The benefits paid out on 30-11-2023	*63,000*
Inward contributions received on 30-09-2023	*1,42,000*
The fair value of plan assets as on 31-03-2024	*7,50,000*

On 01.04.2023, the company made following estimates, based on its market studies and prevailing prices :

Particulars	***%***
Interest and dividend income (after tax) payable by fund	*10.50*
Realised gains on plan assets (after tax)	*2.00*
Fund administrative costs	*-2.00*
Expected rate of annual return *(Interest is compounded annually)*	*10.50*

You are required to find the expected and actual returns on plan assets as on 31.03.2024 as per AS 15.

(c) Delta Ltd. is working on different projects those are likely to be completed within 3 years period. It recognizes revenue from these contracts on Percentage of Completion Method for Financial Statements for the years ending 2021, 2022 and 2023 for ₹ 34 Lakhs, ₹ 50 Lakhs and ₹ 65 Lakhs respectively.

However, for Income Tax purpose, it has adopted the Completed Contract Method under which it has recognized revenue of ₹ 30 Lakhs, ₹ 52 Lakhs and ₹ 67 Lakhs for the years ending 2021, 2022 and 2023 respectively.

Income Tax rate is 30%.

Compute the amount of Deferred Tax Asset / Liability and Total Tax Expenses for the years ending 31st March 2021, 2022 and 2023. ***(4+5+5=14 Marks)***

Answer

(a) (i) Journal Entry for the year ended on 31st March 2024

			₹ in lakhs	**₹ in lakhs**
31.3.24	Amortization A/c (340 × 350/ 1,190)	Dr.	100	
	To Patent Rights A/c			100
	P&L A/c	Dr.	100	
	To Amortization A/c			100

Working note

Huge Limited amortised ₹ 340 lakhs during next 4 years on the basis of net cash flows arising of the product. The amortisation for second year will be worked out as under:

₹ 340 x 350 /1,190 (140+350+280+420) = ₹ 100 lakhs

(ii)

Particulars		**₹ in lakhs**	**₹ in lakhs**
Prior period item	Dr.	50	
Amortization A/c	Dr.	10	
To Know-how A/c			60
[Being amortization of 6 years (out of which amortization of 5 years charged as prior period item i.e. 80 x 6 /8 = 60 lakhs)]			
Profit and Loss A/c	Dr.	60	
To Amortization A/c			10
To Prior Period Item			50
(Being amount transferred to Profit and Loss account)			

(b) Computation of Expected and Actual Returns on Plan Assets

		₹
Return on ₹ 5,00,000 held for 12 months at 10.50%		**52,500**
Return on ₹ 1,42,000 for 6 months at 10.50%		**7,455**
Loss of interest on benefits paid for 4 months on ₹ 63,000 for 4 months @ 10.50%		**(2,205)**
Expected return on plan assets for 2023-2024		**57,750**
Fair value of plan assets as on 31st March 2024		**7,50,000**
Less: Fair value of plan assets as on 1 April,2023	**5,00,000**	
Contributions received on 30.9.2023	**1,42,000**	(6,42,000)
		1,08,000
Add: Benefits paid on 30th Nov 2023		**63,000**
Actual return on plan assets		**1,71,000**

(c) Calculation of Deferred Tax Asset/Liability in Delta Limited

Year	Accounting Income	Taxable Income	Timing Difference	Timing Difference (balance)	Deferred Tax	Deferred Tax Liability (balance)
2021	34,00,000	30,00,000	4,00,000	4,00,000	1,20,000	1,20,000
2022	50,00,000	52,00,000	(2,00,000)	2,00,000	(60,000)	60,000
2023	65,00,000	67,00,000	(2,00,000)	NIL	(60,000)	NIL
	1,49,00,000	1,49,00,000				

Calculation of total tax

Year	Deferred Tax	Current tax expense	Total tax
2021	1,20,000	9,00,000 (30,00,000 x 30%)	10,20,000
2022	(60,000)	15,60,000 (52,00,000 x 30%)	15,00,000
2023	(60,000)	20,10,000 (67,00,000 x 30%)	19,50,000

Note: It is assumed that the revenue and the taxable profit is the same.

Question 2

The following is the Trial Balance of Shivam Ltd as on 31st March, 2024 :

Particulars	*Dr. (₹ 000)*	*Particulars*	*Cr. (₹ 000)*
Land at Cost	*148*	*Equity Share of ₹ 10 each*	*200*
Plant & Machinery at Cost	*520*	*10% Debenture of ₹ 100 each*	*135*
Debtors	*65*	*General Reserve*	*90*
Closing Stock	*58*	*Profit & Loss Ale*	*48*
Bank	*14*	*Security Premium*	*27*
Adjusted Purchases	*226*	*Sales*	*473*
Factory Expenses	*40*	*Creditors*	*35*
Administration Expenses	*22*	*Provision for Depreciation*	*116*

Selling Expenses	*20*	*Suspense A/c*	*3*
Debenture Interest	*14*		
Total	*1,127*	*Total*	*1,127*

Additional Information:

- *On 31st March, the Company issued Bonus Shares to the Shareholders on 1 : 2 basis (one equity share issued as bonus for every 2 equity shares held). No entry relating to this has yet been made.*
- *The Authorized Share Capital of the Company is 35,000 Equity Shares of ₹ 10 each.*
- *The Company, on the advice of an independent valuer, revalued the Land at ₹ 2,45,000.*
- *The Directors declared a Dividend of 10% on 5th April, 2024 and also transferred profit @ 10% to General Reserve.*
- *Suspense Account of ₹ 3,000 represents cash received for the Sale of some Machinery on the 1st day of the financial year 2023-24. Cost of this Machinery was ₹ 10,000 and Accumulated Depreciation thereon being ₹ 8,000.*
- *Depreciation is to be provided on Plant & Machinery at 10% on Cost.*
- *Provision for Income tax is required@ 30%.*

You are required to prepare Shivam Ltd.'s Profit and Loss A/c for the year ended 31st March, 2024 and Balance Sheet as at that date as per the provisions of the Companies Act, 2013 after considering the above information. Ignore previous year figures. ***(14 Marks)***

Answer

Shivam Limited
Balance Sheet as at 31st March 2024

Particulars	Note No.	₹ (in 000)
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share capital	1	300.00
(b) Reserves and Surplus	2	232.70

	2.	**Non-Current liabilities**		
		(a) Long term borrowings	3	135.00
	3.	**Current liabilities**		
		(a) Trade Payables		35.00
		(b) Short-Term Provisions		30.30
		Total		733.00
II.		**Assets**		
	1.	**Non-current assets**		
		(a) Property, Plant and Equipment and Intangible assets		
		(i) Property, Plant and Equipment	4	596.00
	2.	**Current assets**		
		(a) Inventories		58.00
		(b) Trade receivables		65.00
		(c) Cash and cash equivalents		14.00
		Total		733.00

Shivam Limited

Statement of Profit and Loss for the year ended 31st March 2024

	Particulars	**Notes**	**₹ (in '000)**
I.	Revenue from operations		473.00
II.	Other Income	5	1.00
III.	Total Income		474.00
IV.	Expenses:		
	Purchases		226.00
	Finance costs		14.00
	Depreciation and Amortisation expenses (10% of 510*)		51.00
	Other expenses	6	82.00

* 520 (Plant and machinery at cost) – 10 (Cost of plant and machinery sold)

	Total Expenses		373.00
V.	Profit before Tax (III-IV)		101.00
	Tax Expense:		
	Current tax		(30.30)
	Profit for the period (after tax)		70.70

Notes to accounts

				₹ (in 000)
1.	**Share Capital**			
	Equity share capital			
	Authorised			
	35,000 shares of ₹ 10 each			350.00
	Issued, subscribed & paid-up			
	20,000 shares of ₹ 10 each fully paid up		200.00	
	Add: 10,000 Bonus Shares issued during the year		100.00	300.00
2.	**Reserves and Surplus**			
	Securities Premium Account			
	Opening Balance	27.00		
	Less: Utilised for bonus issue	27.00		0.00
	Revaluation reserve (2,45,000 – 1,48,000)			97.00
	General Reserve 90			
	Less: Utilized for bonus issue (73)	17.00		
	Add: Transfer from Profit & loss @ 10%	7.07		24.07
	Profit & loss Balance			
	Opening balance	48.00		
	Profit for the period	70.70		
	Appropriations			
	Transfer to General Reserve @ 10%	(7.07)		111.63
				232.70

3.	**Long term borrowing**		
	10% Debentures		135.00
4	**Property, Plant and Equipment**		
	Land		
	Opening balance	148.00	
	Add: Revaluation adjustment	97.00	
	Closing balance		245.00
	Plant and Machinery		
	Opening balance	520.00	
	Less: Disposed off	(10.00)	
		510.00	
	Less: Depreciation (1,16,000-8,000+51,000)	(159.00)	
	Closing balance		351.00
	Total		596.00
5	**Other Income**		
	Profit on sale of machinery:		
	Sale value of machinery	3.00	
	Less: Book value of machinery (10,000-8,000)	(2.00)	1.00
6	**Other expenses:**		
	Factory expenses	40.00	
	Selling expenses	20.00	
	Administrative expenses	22.00	82.00

The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March 2024. Such dividends will be disclosed in notes only.

Working note:

Bonus Shares Issue:

- Bonus shares are issued in a 1:2 ratio, so for every 2 equity shares, 1 bonus share is issued.
- Equity Share Capital = ₹ 2,00,000 / ₹ 10 = 20,000 shares.
- Bonus Shares = 20,000 / 2 = 10,000 shares × ₹ 10 = ₹ 1,00,000.

Alternatively, since, the amount of interest on 10% 1,35,000 Debentures comes to Rs 13,500 while the Debenture Interest in the trial balance is listed as ₹ 14,000, the difference of ₹ 500 (₹13,500 - ₹14,000) may be treated as an advance payment.

Question 3

(a) On the basis of the following data, prepare Cash Flow Statement as per AS-3 for the year ended 31st March, 2024:

- *Total Sales for the year were ₹ 380 lakhs out of which Cash Sales amounted to ₹ 262 Lakhs.*
- *Receipts from credit customers during the year, total ₹ 134 lakhs.*
- *Total Purchases for the year amounted to ₹ 220 lakhs, out of which 80% were credit purchases.*
- *Opening balance in creditors ₹ 84 lakhs and Closing balance in creditors ₹ 92 lakhs.*
- *Suppliers of other consumables and services were paid ₹ 19 lakhs in cash.*
- *Employees of the enterprise were paid ₹ 20 lakhs in cash.*
- *Fully-paid preference shares of the face value of ₹ 32 lakhs were redeemed.*
- *Issued equity shares of the face value of ₹ 20 lakhs at a premium of 20%.*
- *Debenture of ₹ 20 lakhs at premium of 10% were redeemed by issuing equity shares in lieu of their claims.*
- *₹ 26 lakhs were paid by way of Income Tax.*
- *A new machinery costing ₹ 20 lakhs was purchased in a part exchange of an old machinery. The book value of the old machinery was ₹ 13 lakhs,*

but the vendor agreed to take over the old machinery at a higher value of ₹ 15 lakhs. The balance due to vendor was paid in cash.

- *Dividend ₹ 15 lakhs (including dividend distribution tax)* of ₹ 2.7 lakhs was also paid on 30th March, 2024.*
- *Debenture interest ₹ 3 lakhs was paid.*
- *During the year ₹ 8 lakhs rent was received from property held as investment.*
- *₹ 0.50 lakh interest was earned on the advance payments to suppliers of Goods.*
- *Cash and cash equivalents on 1st April 2023, ₹ 2 lakhs.* ***(7 Marks)***

(b) Aerodots Ltd. has the following capital structure as on 31.03.2024 :

Particulars	***Amount (₹ in thousands)***
Equity Share Capital (shares of ₹ 10 each)	*600*
Reserves:	
General Reserve	*540*
Securities Premium	*200*
Profit & Loss	*100*
Revaluation Reserve	*30*
Investment Allowance Reserve (Statutory Reserve)	*75*
Infrastructure Development Reserve	*25*
Loan Funds	*2000*

On 1st April, 2024 the company wants to buy back 14,000 equity shares of ₹ 10 each at ₹ 30 per Equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back.

Buy Back of shares is duly authorized by its articles and necessary resolution has been passed by the company. ***(7 + 7 = 14 Marks)***

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*PS: As per IT Act, 1961 DDT is no more applicable

Answer

(a) Cash flow statement for the year ended 31st March 2024

	(₹ in lakhs)	(₹ in lakhs)
Cash flow from operating activities		
Cash sales	262.00	
Cash collected from credit customers	134.00	
Interest received on advance payment to suppliers	0.50	
Less: Cash purchases	(44.00)	
Less: Payment to Creditors (84 + 176 – 92)	(168.00)	
Less: Cash paid to suppliers for consumables & services	(19.00)	
Less: Cash paid to employee	(20.00)	
Cash from operations	145.50	
Less: Income tax paid	(26.00)	
Net cash generated from operating activities		119.50
Cash flow from investing activities		
Payment for purchase of Machine (20-15)	(5.00)	
Proceeds from rent received	8.00	
Net cash used in investing activities		3.00
Cash flow from financing activities		
Redemption of Preference shares	(32.00)	
Proceeds from issue of Equity shares	24.00	
Debenture interest paid	(3.00)	
Dividend Paid	(15.00)	
Net cash used in financing activities		(26.00)
Net increase in cash and cash equivalent		96.50
Add: Cash and cash equivalents as on 1.04.2023		2.00
Cash and cash equivalents as on 31.3.2024		98.50

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

(in thousands)

Particulars	**Number of shares**
Shares Outstanding Test (W.N.1)	15
Resources Test (W.N.2)	12
Debt Equity Ratio Test (W.N.3)	11
Maximum number of shares that can be bought back [least of the above]	11

Thus, the lowest being 11,000 shares, the company cannot buy back 14,000 shares.

Working Notes:

1. Shares Outstanding Test

Particulars	**(Shares in thousands)**
Number of shares outstanding	60
25% of the shares outstanding	15

2. Resources Test

Particulars	**₹ (in thousands)**
Paid up capital	600
Free reserves (540 + 200 +100)	840
Shareholders' funds	1,440
25% of Shareholders fund	360
Buy-back price per share	₹ 30
Number of shares that can be bought back	12,000 shares

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

Particulars	₹ in thousands
(a) Loan funds	2,000
(b) Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	1,000
(c) Present equity shareholders fund (₹)	1,440
(d) Future equity shareholders fund (₹) (see W.N.4) (1,440-110)	1,330
(e) Maximum permitted buy-back of Equity (₹) [(d) – (b)]	330
(f) Maximum number of shares that can be bought back @ ₹ 30 per share	11,000 shares

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

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

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

$$= (1{,}440 - x) - 1{,}000 = y$$

$$= 440 - x = y \qquad (1)$$

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

$y/30 \times 10 = x$

or

$3x = y \qquad (2)$

by solving the above two equations we get

x = ₹ 110 thousands

y = ₹ 330 thousands

Alternatively, Maximum number of shares from debt equity ratio test may be worked out as follows:

Buy-back price + Face value of equity shares ₹ 30 + ₹ 10 = ₹ 40

Excess of equity fund over the minimum equity to be maintained 1440-1000 = 440 thousands

Number of Shares that can be bought back = 440/40 thousands = 11 thousands.

Question 4

The following are the summarized Balance Sheets of Well Ltd. and Nice Ltd. as at 31st March, 2024 :

		Particulars	***Notes***	***Nice Ltd. (₹ in '000)***	***Well Ltd. (₹ in '000)***
		Equity and Liabilities			
1.		*Shareholder's funds*			
	a.	*Share capital*	*1*	*41,000*	*14,300*
	b.	*Reserves and Surplus*	*2*	*19,500*	*(7,350)*
2.		*Non-current liabilities*			
	a.	*Long-term borrowings*	*3*	*20,500*	*5,425*
3.		*Current Liabilities*			
	a.	*Trade Payables*		*15,740*	*4,850*
	b.	*Short-term Borrowings*		*-*	*1,975*
		Total		*96,740*	*19,200*
		Assets			
1.		*Non-current Assets*			
	a.	*Property, plant, and equipment*	*4*	*62,550*	*16,380*
	b.	*Non-current Investments*		*22,500*	*-*
2.		*Current assets*			
	a.	*Inventories*		*300*	*870*
	b.	*Trade Receivables*		*6,590*	*1,950*

	c.	Cash and Cash equivalents		4,800	-
		Total		96,740	19,200

Notes to Accounts

		Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
1.	Share Capital		
	Equity Share Capital		
	Issued, subscribed & paid up capital		
	Equity Shares of ₹ 100 each	31,500	12,500
	Preference Share Capital		
	Issued, subscribed & paid up capital		
	9% Preference Shares of ₹ 100 each	9,500	
	10% Preference Shares of ₹ 100 each		1,800
	Total	41,000	14,300
2.	**Reserves and Surplus**		
	Balance of Profit and Loss A/c	19,500	(7,350)
3.	**Long-term borrowings**		
	9% Debentures of ₹ 100 each	11,200	
	10% Debentures of ₹ 100 each		900
	Loan from Banks	9,300	4,525
		20,500	5,425

Details of Trade receivables and Trade payables are as under :

		Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
1.	Trade receivables		
	Debtors	6,200	1,800

	Bills Receivables	*390*	*150*
		6,590	*1,950*
2.	*Trade payables*		
	Creditors	*14,750*	*4,400*
	Bills Payables	*990*	*450*
		15,740	*4,850*

On 31.03.2024, Nice Ltd. absorbs the business of Well Ltd. on the following terms:

- *For every five equity shares held by the equity shareholders of Well Ltd., they receive three equity shares of Nice Ltd. issued at a premium of ₹ 20 per share.*
- *The 10% debenture-holders of Well Ltd. were to be allotted such 9% debentures in Nice Ltd. as would bring the same amount of interest.*
- *10% Preference Shareholders of Well Ltd. are to be paid at 10% discount by issue of 9% Preference Shares at par in Nice Ltd.*
- *Banks agreed to waive off the loan of ₹ 270 thousand of Well Ltd.*
- *Expenses of Liquidation of Well Ltd. are to be reimbursed by Nice Ltd. ₹ 55 thousand.*
- *Inventory of Well Ltd. is taken over at 10% more than their book value by Nice Ltd.*
- *Debtors of Nice Ltd. include ₹ 215 thousand receivables from Well Ltd.*
- *Property, Plant, and Equipment of Well Ltd. are revalued at 20% abo their book value.*
- *The remaining Assets and Liabilities of Well Ltd. are taken over at book value by Nice Ltd.*

You are required to :

1. *Record Journal Entries in the books of Nice Ltd.*
2. *Prepare Balance Sheet of Nice Ltd. after absorption as at 31 March, 2024.*

(14 Marks)

Answer

Journal Entries in the Books of Nice Ltd.

		Dr. ₹ in '000	Cr. ₹ in '000
Business Purchase Account	Dr.	10,620	
To Liquidator of Well Ltd.			10,620
(Consideration payable for the business taken over from Well Ltd.)			
Property, Plant and Equipment (120% of ₹ 16,380)	Dr.	19,656	
Inventory (110% of ₹ 870)	Dr.	957	
Trade receivables	Dr.	1,950	
Goodwill A/c (Balancing figure)	Dr.	137	
To Trade payables			4,850
To Debenture Holders Account			1,000
To Loan from bank (4,525-270)			4,255
To Short term borrowings			1,975
To Business Purchase Account			10,620
(Incorporation of various assets and liabilities taken over from Well Ltd. at agreed values and difference of net assets and purchase consideration debited to Goodwill A/c))			
Liquidator of Well Ltd.	Dr.	10,620	
To Equity Share Capital (75,000x 100)			7,500
To 9% Preference Share Capital			1,620
To Securities premium (7,5000x 20)			1,500
(Discharge of consideration for Well Ltd.'s business)			
Debenture holders A/c	Dr.	1,000	
To 9% Debentures A/c			1,000
(Being 9% debentures issued to 10% debenture holders)			

Sundry Creditors of Well Ltd.	Dr.	215	
To Sundry Debtors of Nice Ltd.			215
(Cancellation of mutual owing)			
Goodwill	Dr.	55	
To Bank			55
(Being liquidation expenses reimbursed to Well Ltd.)			

Working Note:

The purchase consideration will be:

		₹	Form
Preference shareholders:	16,200 × 100	16,20,000	9% Pref. shares
Equity shareholders:	1,25,000 × 3/5 × 120	90,00,000	Equity shares
			1,06,20,000

10 % Preference shares	18,00,000
Less: 10% discount	1,80,000
	16,20,000

Debenture calculation

		Interest
10% Debenture	9,00,000	90,000
Therefore 9% debentures	90,000/9% = 10,00,000	

Balance Sheet of Nice Ltd. (After absorption) as at 31st March 2024

		Particulars	Notes	₹ in '000
	I	Equity and Liabilities		
1		Shareholders' funds		
	(a)	Share capital	1	50,120
	(b)	Reserves and Surplus	2	21,000
2		Non-current liabilities		
	(a)	Long-term borrowings	3	25,755
3		Current liabilities		
	(a)	Trade payables	4	20,375

	(b)	Short term borrowing		1,975
		Total		1,19,225
	II	Assets		
1		Non-current assets		
	(a)	Property, Plant and Equipment and Intangibles	5	
		(i) Property, plant and equipment		82,206
		(ii) Intangible assets		192
	(b)	Non-current investments		22,500
2		Current assets		
	(a)	Inventories	6	1,257
	(b)	Trade receivables	7	8,325
	(c)	Cash and Cash equivalents	8	4,745
		Total		1,19,225

Notes to accounts

			₹ in '000
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	3,90,000 Equity shares of ₹ 100 each (out of above 75,000 shares are issued for consideration other than cash)		39,000
	Preference Shares		
	Issued, subscribed and paid up		
	1,11,200 9% Preference Shares of ₹ 100 each (9,500 + 1,620) (out of above 16,200 shares are issued for consideration other than cash)		11,120
			50,120

2	**Reserves and Surplus**		
	Securities premium	1,500	
	Reserves and surplus	19,500	21,000
3	**Long-term borrowings**		
	9 % Debentures (11,200+1,000)	12,200	
	Loan from bank (9,300+4255)	13,555	25,755
4	**Trade Payable**		
	Nice Limited	15,740	
	Well Limited	4,850	
		20,590	
	Less: Inter Company holdings	(215)	20,375
5	**Property, Plant and Equipment and Intangibles**		
	Property, Plant and Equipment	62,550	
	Acquired during the year	19,656	82,206
	Intangibles		
	Goodwill (137+55)		192
6	**Inventories**	300	
	Acquired during the year	957	1,257
7	**Trade receivables**	6,590	
	Acquired during the year (1,585+150)	1,735	8,325
8	**Cash and Cash Equivalents**		
	Nice Limited	4,800	
	Less: Expenses on liquidation	(55)	4,745

Question 5

On 1st February, 2024, Best Ltd. acquired 80% Equity shares of Cool Ltd. for ₹ 14,80,000.

On 31st March, 2024, Best Ltd. also acquired 25% Equity shares of Good Ltd. for ₹ 3,80,000.

The following are the balances extracted from the books of Best Ltd., Cool Ltd., and Good Ltd. as on 31st March, 2024 :

Particulars	Best Ltd. Amount in ₹	Cool Ltd. Amount in ₹	Good Ltd. Amount in ₹
Equity Shares of ₹ 100 each fully paid	30,00,000	20,00,000	10,00,000
Securities Premium	-	2,20,000	-
9% Debentures	6,30,000	-	2,40,000
General Reserve	2,69,000	84,000	1,20,000
Profit & Loss Account (Credit Balance)	3,26,000	2,70,000	50,000
Investments	17,50,000	6,10,000	-
Property, Plant, and Equipment	18,90,000	18,14,000	12,10,000
Current Assets	9,65,000	5,60,000	2,25,000
Trade Payable (Including Bills Payable)	3,80,000	4,10,000	25,000
Sales and other income	56,00,000	38,00,000	27,00,000
Raw material consumed	36,50,000	31,20,000	22,30,000
Wages and Salaries	5,07,000	4,01,000	2,69,000
Production expenses	1,35,000	1,06,000	98,000

Additional information :

- *The Profit and Loss account of Cool Ltd. showed a credit balance of ₹ 30,000 on 1st April, 2023.*
- *The General Reserve balance is brought forward from the previous year.*
- *On 31st March, 2024, all the bills payable in Cool Ltd.'s balance sheet were*

acceptances in favour of Best Ltd. However, on the date, Best Ltd. held only ₹ 3,00,000 of these acceptances in hand, the rest having been endorsed in favour of its creditor.

- *Best Ltd. purchased goods costing ₹ 5,00,000 from Cool Ltd. on 1st June, 2023 at a price of ₹ 6,50,000. The entire goods remain unsold with Best Ltd. at the end of the financial year.*
- *Best Ltd. is preparing Consolidated Financial Statements for the year ending 31.03.2024.*

You are required to calculate :

(1) Trade Payable (Consolidated)

(2) Current Assets (Consolidated)

(3) Minority Interest

(4) Goodwill/Capital Reserve on the acquisition of Cool Ltd.'s shares

(5) Goodwill/Capital Reserve on the acquisition of Good Ltd.'s shares

(6) Profit & Loss Account (Consolidated)

(7) General Reserve (Consolidated)

(8) Revenue from Operations (Consolidated)

(9) Cost of material purchased/consumed (Consolidated) ***(14 Marks)***

Answer

1. Trade payable (Consolidated)

Best limited	3,80,000
Add: Cool Ltd	4,10,000
Less: Elimination	(3,00,000)
Total	4,90,000

2. Current assets (Consolidated)

Best limited		9,65,000
Add: Cool Ltd		5,60,000
Less: Elimination of inter company owing	(3,00,000)	

Less: Unrealized stock profit	(1,50,000)	(4,50,000)
Total		10,75,000

3. Minority interest Cool Ltd

Share Capital (20,00,000 x 20%)		4,00,000
Add: Securities premium (2,20,000 x 20%)		44,000
Add: General Reserve (84,000 x 20%)		16,800
Add: Profit and loss balance	2,70,000	
Less: Adjustment of unrealised profit stock	(1,50,000)	
Balance	1,20,000	
20% of above balance		24,000
Total		4,84,800

4. Goodwill/Capital Reserve on Acquisition of Cool Ltd.:

Purchase Consideration		14,80,000
Less: Share Capital (20,00,000 x 80%)		16,00,000
Less: Securities premium (2,20,000 x 80%)		1,76,000
Less: General Reserve (84,000 x 80%)		67,200
Less: Profit and loss balance opening (30,000 x 80%)		24,000
Less: Pre acquisition profits		
(2,70,000-30,000) x 10/12 x 80%	1,60,000	
Less: Unrealised profit stock (1,50,000 x 80%)	1,20,000	40,000
Capital Reserves		4,27,200

5. Goodwill/Capital Reserve on Acquisition of Good Ltd.

Purchase Consideration	3,80,000
Less: Share Capital (10,00,000 x 25%)	2,50,000
Less: General Reserve (1,20,000 x 25%)	30,000
Less: Profit and loss balance (50,000 x 25%)	12,500
Goodwill	87,500

6. Profit and Loss Account (Consolidated)

Best limited	3,26,000
Add: Post acquisition profit of Cool Ltd	
{(2,70,000-30,000) x 2/12}80%	32,000
Total	3,58000

7. General Reserve (Consolidated)

Best limited	2,69,000

With reference to para no 15 of AS 21

If an enterprise makes two or more investments in another enterprise at different dates and eventually obtains control of the other enterprise, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence. If two or more investments are made over a period of time, the equity of the subsidiary at the date of investment, for the purposes of paragraph 13 above, is generally determined on a step-by-step basis; however, if small investments are made over a period of time and then an investment is made that results in control, the date of the latest investment, as a practicable measure, may be considered as the date of investment.

And para no 22 of AS 21 The results of operations of a subsidiary are included in the consolidated financial statements as from the date on which parent-subsidiary relationship came in existence. The results of operations of a subsidiary with which parent- subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship. The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

8. Revenue (Consolidated) as per para no 15 and 22 of AS 21

Revenue of Best Ltd	56,00,000
Add: Revenue of Cool Ltd. (38,00,000 × 2/ 12)	6,33,333
	62,33,333

9. Cost of materials purchased/consumed (Consolidated) as per para no 15 and 22 of AS 21

Raw material of Best Ltd	36,50,000
Add: Raw material of Cool Ltd (31,20,000x 2/12)	5,20,000
	41,70,000

Question 6

(a) On 01.04.2023, Mr. Day has 25,000 shares of Squares Ltd. at a book value of ₹ 25 per share (nominal value of ₹ 10 each). Further information is as under:

(i) On 31st July 2023, the Directors of Squares Ltd. issued one equity bonus share for every five shares held by the shareholders.

(ii) On 30th September 2023, the Directors of Squares Ltd. announced a right issue which entitled the ·holders to subscribe three shares for every two shares at ₹ 20 per share. Shareholders can transfer their rights in full or in part.

Mr. Day sold 1/4th of entitlement to Dhwani for a consideration of ₹ 5 per share and subscribed the rest on 5th October, 2023.

You are required to prepare Investment A/c in the books of Mr. Day for the year ending 31.03.2024.

OR

(a) "In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred."

Provide examples of such costs as per AS 2 (Revised) 'Valuation of Inventories.

(b) The following scheme of reconstruction has been approved for Equity shareholders and Debenture holders of TP Ltd.

(i) The Equity shareholders to receive in lieu of their present holding of 1,50,000 shares of ₹ 10 each, the following :

(1) For ₹ 50,000, equivalent cash

(2) For ₹ 9,00,000, 10% debentures issued at premium of 20% (Face value of debenture is ₹ l00 each)

(3) For balance ₹ 5,50,000, Equity shareholders agreed to accept 50,000 equity shares of ₹ 10 each in full settlement.

(ii) 8% Debenture ₹ 5,00,000.

Debenture holders agreed to accept Freehold property (Book value ₹ 3,50,000) at a valuation of ₹ 4,45,000 in full settlement of their claim. Pass necessary Journal Entries in the Books of TP Ltd. for the above reconstruction. Narration for Journal entries is not required to be given.

(c) Following is the information of Kullu Branch of M/s Best Enterprises of Shimla for the year ending 31st March 2023 :

(1) Goods are invoiced to the branch at cost plus 20%

(2) Branch sold goods at invoice price plus 25%.

(3) Other Information is as follows:

(i) Stock (at cost price) as on 1st April, 2022 is ₹ 2,25,000

(ii) Goods sent by Head office to branch during the year (at cost price) are ₹ 14,85,000

(iii) Goods returned by Branch to Head office during the year (at Invoice price) are ₹ 75,000

(iv) Sales by the branch during the year ₹ 19,50,000

(v) Expenses incurred at Branch ₹ 56,000.

You are required to ascertain the following:

(a) Profit earned by the Branch by Preparing Trading and profit and loss account for the year ended 31st March 2023

(b) Also find the stock reserve on Closing stock ***(4 + 6 + 6 = 14 Marks)***

Answer

(a) **In the books of Mr. Day**
Investment Account
(Equity shares in Square Ltd.)

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.23	To Balance b/d	25,000	6,25,000	31.3.24	By Balance c/d (Bal. fig.)	63,750	13,00,000
31.7.23	To Bonus issue (W.N.1)	5,000	-				
5.10.23	To Bank A/c (right shares) (W.N.4)	33,750	6,75,000				
		63,750	13,00,000			63,750	13,00,000

Working Notes:

(1) Bonus shares = $\frac{25,000}{5}$ = **5,000** shares

(2) Right shares = $\frac{25,000 + 5,000}{2} \times 3$ = **45,000** shares

(3) Sale of rights = 45,000 shares × $\frac{1}{4}$ × ₹ 5

= 11,250 x 5 = **56,250**

₹ 56,250 to be credited to statement of profit and loss

(4) Rights subscribed = 45,000 shares × $\frac{3}{4}$ × ₹ 20 = ₹ **6,75,000**

Or

In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Examples of such costs are:

(a) **Abnormal amounts** of wasted materials, labour, or other production costs;

(b) **Storage costs**, unless the production process requires such storage.

(c) **Administrative overheads** that do not contribute to bringing the inventories to their present location and condition.

(d) **Selling and distribution costs**.

(b) **Journal Entries**

		₹	₹
Equity Share Capital (old) A/c	Dr.	15,00,000	
To Equity Share Capital (₹ 10) A/c			5,00,000
To Cash A/c			50,000
To 10% Debentures A/c			7,50,000
To Securities premium			1,50,000
To Capital Reduction/Reconstruction A/c			50,000
(Being new equity shares, 8% Debentures issued, cash of ₹ 50,000 and the balance transferred to Reconstruction account as per the Scheme)			
8% Debentures A/c	Dr.	5,00,000	
To Freehold Property A/c			4,45,000
To Capital Reduction/Reconstruction A/c			55,000
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			

Capital Reduction/Reconstruction A/c To Capital Reserves A/c (Being balance in capital reduction account transferred to Capital Reserves A/c)	Dr.	1,05,000	 1,05,000

(c) (i) In the books of Kullu Branch

Trading and Profit and Loss Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Opening stock	2,70,000	By Sales	19,50,000
To Goods received by Head office	17,82,000	By Goods returned by Branch	75,000
To Expenses	56,000	By Closing stock (Refer W.N.)	4,17,000
To Net profit (Bal fig)	3,34,000		
	24,42,000		24,42,000

(ii) Calculation of Closing Stock

Cost price	100
Invoice price	120 (100+20)
Sales price	150 (120+25% of 120)
Opening Stock	2,70,000
Goods received	17,82,000
Less: Goods Returned	75,000
	19,77,000
Less: Cost of Goods Sold (Invoice price)	15,60,000
Closing Stock	4,17,000

Stock reserve in respect of unrealised profit

= 4,17,000 x (20/120) = ₹ 69,500