मेहनत अगर आदत बन जाए तो, कामयाबी मुकद्दर बन जाती है!

CA INTER
ADVANCED ACCOUNTING

SOLUTION

OF

JANUARY 2025 EXAM

BY

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CA INTER ADVANCED ACCOUNTING (PART I) – JANUARY 25

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Video Link: https://youtu.be/c6MxcDycWPo

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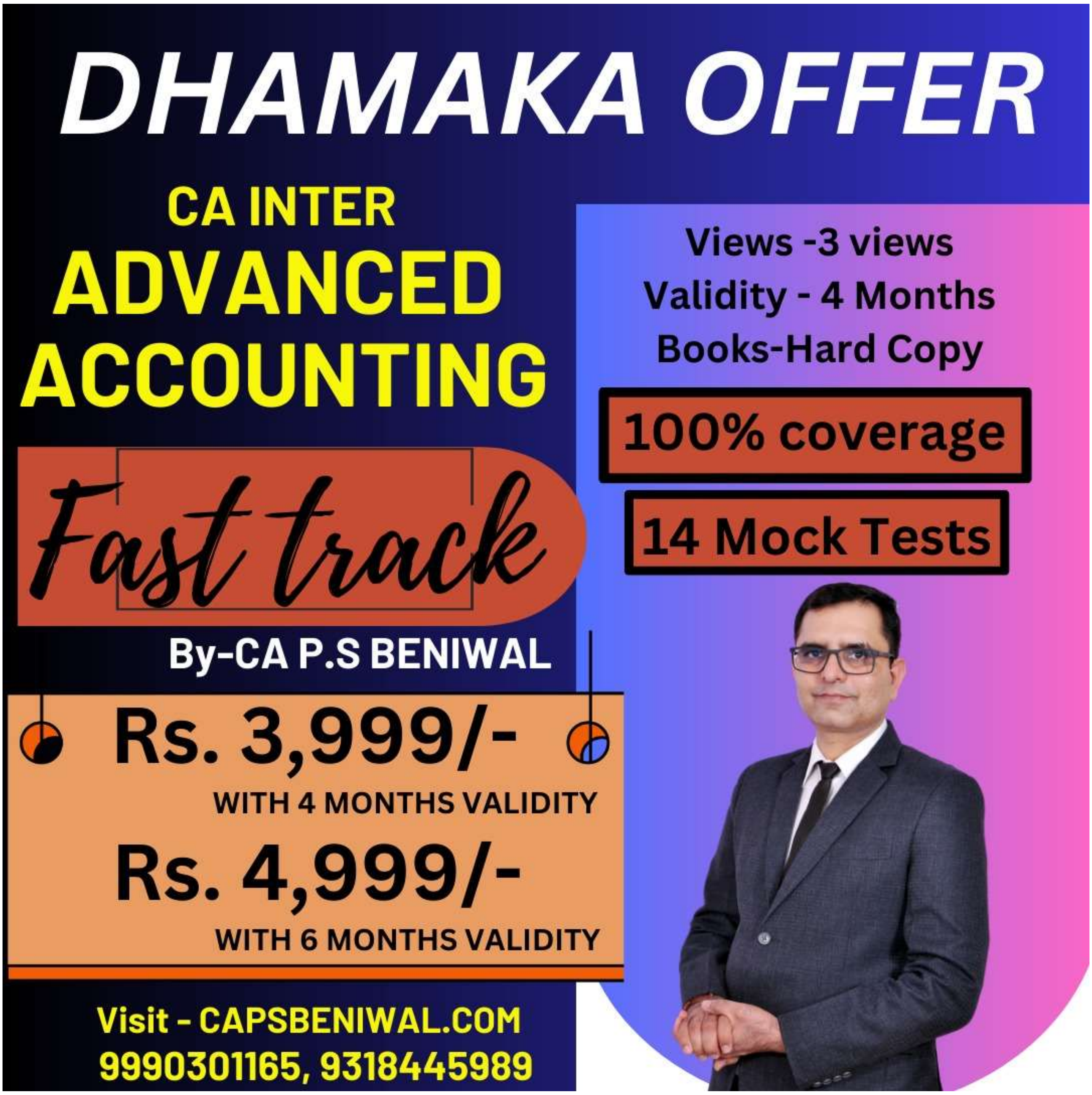
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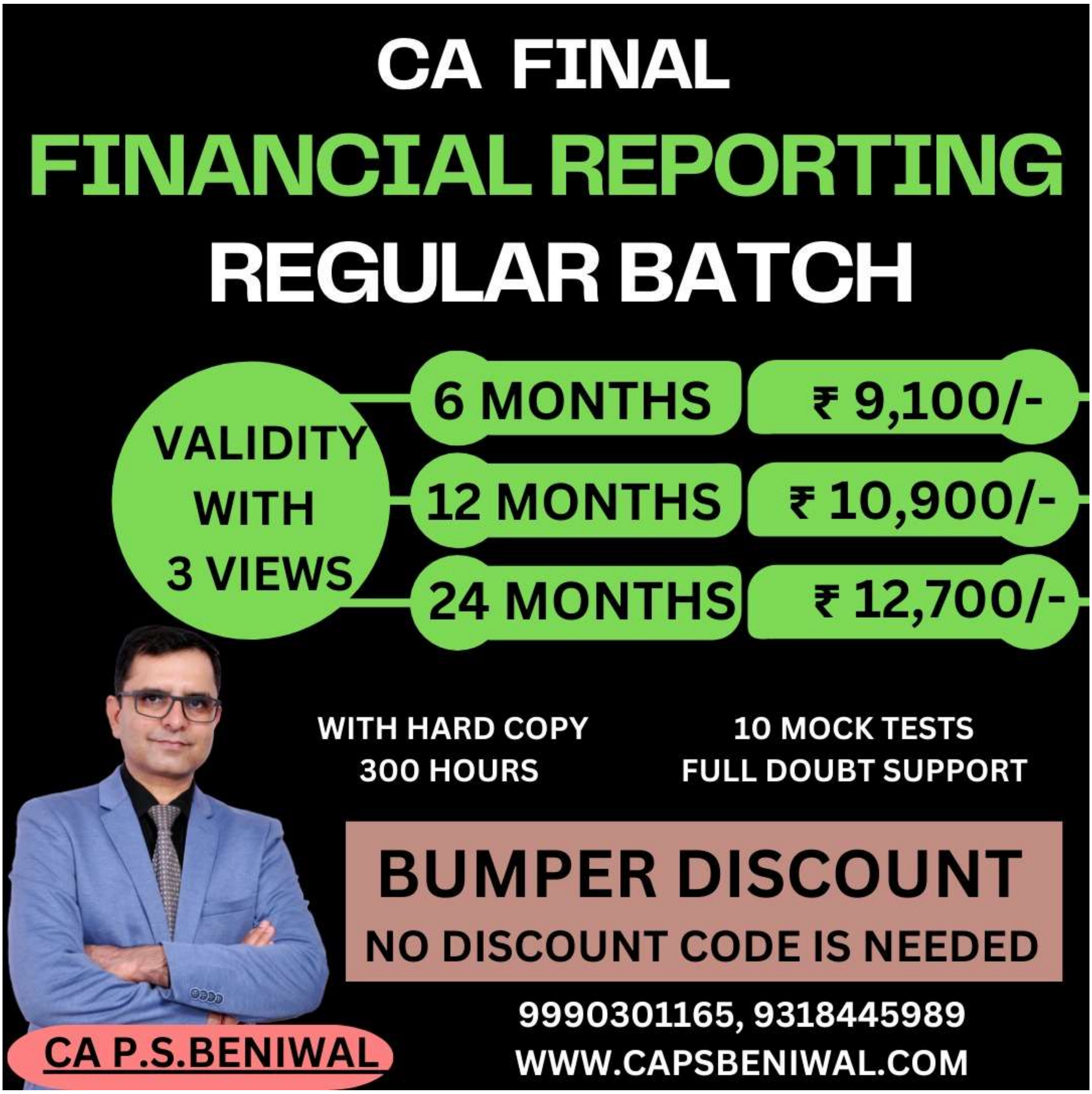


PART – I (CASE SCENARIOs AND MCQs)

Case Scenario - I:

The following summary cash account has been extracted from the Nextspace Limited's accounting records:

	₹	₹
Cash Balance as on 01-04-2023		72,000
Inflow of Cash		
Cash Sales	15,56,000	
Trade Receivable	7,40,000	
Rent from Property held as investment	64,000	
Income tax refund	25,000	
Loan from Bank	5,00,000	
Issue of Shares	2,50,000	
Sale of Investment	49,500	31,84,500
Outflow of Cash		
Trade Payable	19,60,000	
Office and Selling Exp.	1,20,000	
Trade Commission	40,500	
Underwriting Commission	25,000	
Redemption of Preference shares	8,00,000	
Brokerage on Sale of Investment	9,200	
Interest on long term borrowings	85,600	
Payment for Overheads	46,000	
Purchases of Goodwill	50,000	(31,36,300)
Balance as on 31-03-24		1,20,200

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

1. Which of the following would be considered as a 'Cash Flow item from an Investing Activities?
   (A) Trade Commission
   (B) Underwriting Commission
   (C) Purchase of Goodwill
   (D) Interest on Long Term Borrowings

2. What would be the value of Cash Flow from Operating Activities?
   (A) ₹ 1,54,500
   (B) ₹ 1,29,500
   (C) ₹ 1,45,300
   (D) ₹ 4,04,000

3. What would be the value of Cash Flow from Investing Activities?
   (A) ₹ 1,04,300
   (B) ₹ 54,300
   (C) ₹ 29,300
   (D) ₹ (500)

4. What would be the value of Cash Flow from Financing Activities ?
   (A) ₹ (1,35,600)
   (B) ₹ (50,000)
   (C) ₹ 54,300
   (D) ₹ (1,60,600)

Case Scenario II:

On 1st April, 2019, Black Limited received a government grant of ₹ 15,00,000 for acquisition of a Machine costing ₹ 50,00,000. The grant was credited to the cost the Machine. The life of the Machine is expected to be 10 years and estimated residual value at the end of 10 years is ₹ 5,00,000. The company charges depreciation on straight line basis.

Due to non-fulfillment of certain conditions the company had to refund the entire grant on 1st April, 2021.

On 31st March, 2023, Black Limited received certain indications of impairment of the Machine and the recoverable amount was ascertained to be Rs. 28,00,000 with revised useful life of 4 years and nil residual value.

On 1st April, 2024, the company exchanged the Machine by paying cash of ₹ 2,00,000 and new Machine valued at ₹ 18,00,000.

Based on the information given in above Case Scenario, answer the following Question No. 5 to 8:

5. What will be the carrying amount charging of the Machine as on 31st March, 2021 after depreciation for the year?
   (A) ₹ 26,00,000
   (B) ₹ 28,00,000
   (C) ₹ 41,00,000
   (D) ₹ 29,00,000

6. What will be the amount of depreciation to be charged on the Machine for the year ended 31st March, 2022?
   (A) ₹ 6,37,500
   (B) ₹ 4,87,500
   (C) ₹ 4,50,000
   (D) ₹ 5,37,500

7. What will be the impact of test of impairment on Profit & Loss Account of the company?
   (A) Impairment loss of ₹ 4,25,000 to be debited to Profit & Loss A/c.
   (B) Impairment loss of ₹ 4,00,000 to be debited to Profit & Loss A/c.
   (C) Impairment loss of ₹ 6,25,000 to be debited to Profit & Loss A/c.
   (D) Impairment loss of ₹ 15,25,000 to be debited to Profit & Loss A/c.

8. What will be the amount of Profit or Loss on exchange of Machine as on 1st April, 2024?
   (A) Loss of ₹ 1,00,000
   (B) Loss of ₹ 8,00,000
   (C) Profit of ₹ 1,00,000
   (D) Loss of ₹ 3,00,000

Case Scenario - III:

The following particulars are stated in the Balance Sheet of Star Limited as on 31st March, 2023:

Deferred Tax Assets (Dr.) ₹ 1,20,000
Deferred Tax Liabilities (Cr.) ₹ 2,10,000

The following transactions were reported during the year 2023-24:

	₹
1. Depreciation as per accounting records	12,00,000
2. Depreciation as per income tax records	18,00,000
3. Interest paid accounted in books on accrual basis but paid on 15-05-2024	4,50,000
4. Employer PF Contribution exp. disallowed for tax purpose in year 2022-23 but allowed in year 2023-24	82,000

5.	Unamortized preliminary expenses as per tax records	1,00,000
6.	Donation	70,000
7.	Tax Rate	20%

Based on the information given in above Case Scenario, answer the following Question No. 9 - 12:

9. Which is the permanent difference item as per AS 22?
(A) Donation
(B) Employer PF Contribution exp.
(C) Depreciation
(D) Unamortized preliminary expenses

10. What would be the value of the Deferred Tax Assets as on 31-03-2024?
(A) ₹ 3,30,000
(B) ₹ 1,52,000
(C) ₹ 1,23,600
(D) ₹ 4,50,000

11. What would be the value of the Deferred Tax Liabilities as on 31-03-2024?
(A) ₹ 3,30,000
(B) ₹ 1,23,600
(C) ₹ 1,52,000
(D) ₹ 1,20,000

12. What would be the value of reversal of Deferred Tax Assets as on 31-03-2024?
(A) ₹ 1,04,000
(B) ₹ 20,000
(C) ₹ 16,400
(D) ₹ 90,000

13. Glow Limited had taken a loan of ₹ 5,00,000 in June, 2023. The loan is to be repaid in 10 half yearly equal installments starting from December, 2023.
Determine how the remaining loan will be classified in the Balance Sheet as on 31 March, 2024 as per Schedule III of the Companies Act, 2013 ?
(A) ₹ 3,50,000 is to be shown under the head Long term borrowings' and ₹ 75,000 is to be shown under the head Short term borrowings' and ₹ 25,000 is to be shown under the head Other Current liabilities.'
(B) ₹ 3,50,000 is to be shown under the head 'Long term borrowings and ₹ 1,00,000 is to be shown under the head 'Short term borrowings.
(C) ₹ 4,50,000 is to be shown under the head 'Long term borrowings.
(D) ₹ 3,50,000 is to be shown under the head Long term borrowings' and ₹ 1,00,000 is to be shown under the head Other Current liabilities.'

14. Ace Limited borrowed ₹ 25 Lakhs from ABN Bank during the financial year 2023-24. Ace Limited used these funds to invest in Equity shares of Kay Limited.
Kay Limited is implementing a new Project, so with these future prospects, Ace Limited invested ₹ 25 Lakhs in Kay Limited.
As on 31st March, 2024, since the said project was not complete, the directors of Ace Limited capitalised the interest on loan amounting to ₹ 2 lakhs and thus added the amount of interest to the cost of Investments.
Market value of these investments on31 March, 2024 is ₹ 24 Lakhs.
Identify the correct statement, considering thë above facts as per AS 16:

(A) Since project is qualifying Asset, directors of Ace Limited correctly added the amount of interest in cost of investments.
(B) Interest paid is acquisition charge, hence directors of Ace Limited correctly added the amount of interest in cost of investment.
(C) Ace Limited invested in equity share therefore which is not a qualifying asset, directors are wrong to add the interest in cost of investments, rather it should be charged to profit and loss account.
(D) Since project is qualifying asset, directors of Ace Limited should capitalise the interest amount to market value of investments, rather than cost of investments.

15. AB Contractors undertakes a fixed price contract of ₹ 350 Lakhs. Information related to contract is given as under:

Material purchased	₹ 125 Lakhs
Labour charges	₹ 95 Lakhs
Unused material	₹ 22 lakhs
Estimated future costs to be incurred to complete the contract	₹ 115 Lakhs
Payment received as part payment of contract	₹ 50 Lakhs

Machinery used for 4 years for the contract. Original cost of the machine is ₹ 210 Lakhs. Expected life of machinery is 20 years.
What will be the Profit / Loss on the contract?
(A) Loss on contract ₹ 49 Lakhs
(B) Loss on contract ₹ 5 lakhs
(C) Profit on contract ₹ 45 Lakhs
(D) Profit on contract ₹ 26.5 Lakhs

ANSWERS

1.	**(C)**	**2.**	**(A)**	**3.**	**(B)**	**4.**	**(D)**	**5.**	**(D)**	**6.**	**(B)**
7.	**(C)**	**8.**	**(A)**	**9.**	**(A)**	**10.**	**(C)**	**11.**	**(A)**	**12.**	**(C)**
13.	**(B)**	**14.**	**(C)**	**15.**	**(B)**						

PART – II (DESCRIPTIVE QUESTIONS)

1.
(a) XYZ Limited has provided you the following information as on 31st March, 2024:

Particulars	
Net profit (After Tax)	₹ 31,20,000
No. of shares outstanding as on 31-3-2024 of ₹ 10 each	8,00,000
Average fair value of one equity share during the year 2023-24	₹ 25
Weighted average no. of shares under option during the year 2023-24	80,000
Exercise price for shares under option during the year 2023-24	₹ 20
12% Debentures of ₹ 100 each	₹ 30,00,000
(Each debenture is convertible into 4 equity shares)	
Tax rate	30%

The company issued one equity share as bonus for every 5 equity shares outstanding as on 1st October, 2023. It further issued 2,00,000 equity shares of ₹ 10 each as on 1st January, 2024. Financial Year of the company ends on 31st March each year.

You are required to calculate Basic and Diluted earnings per share as on 31st March, 2024 (round off your answer to 2 decimal places). **(5 Marks)**

Solution:

(i) Calculation of Basic Earnings per share (BEPS) :

$$\frac{\text{Earning attributable for ESH}}{\text{Weighted average of Equity share}}$$

= ₹ 31,20,000 / 6,50,000

= ₹ 4.80 / share

(ii) Calculation of Diluted Earnings per share (DEPS) :

$$\frac{\text{Profit attributable to ESH after taking effect of Potential Equity Shares}}{\text{Weighted average of Equity share + Weighted average number of Potential Equity Shares}}$$

= 33,72,000 / 7,86,000

= 4.290 / share

Working Notes:

(1) Calculation of weighted average of Equity share (WAES):

Particulars	**Numbers**
Opening Balance (8,00,000 – 2,00,000 = 6,00,000)	
= 6,00,000 X 5 / 6 = 5,00,000 X 12/12	5,00,000
Add: Issue of Bonus share as on 01/10/24	
(5,00,000 X 1/5) =1,00,000 X 12/12	1,00,000
Add: Share issued as public issue as on 01/01/2024	
(2,00,000 X 3/12)	50,000
Weighted Average of Equity Shares	6,50,000

OR

From 1st April 2023 to 31st December 2023(9 months)		
(As bonus share issued is considered on 1st day of the year)	= 6,00,000 X 9/12	= 4,50,000
From 1st January 2024 to 31st March 2024 (3 months)	= 8,00,000 X 3/12	= 2,00,000
Weighted Average of Equity Shares		6,50,000

(2) Calculation of number of potential Equity share in case of Option

= Number of Option - {(Number of Option X Exercise Price)/Average Fair value of share}
= 80,000 – {(80,000 X 20) / 25}
= 16,000

(3) Calculation of incremental earnings per share and allocation of rank

	Increase in earnings (1)	Increase in number of equity shares (2)	Earnings per incremental share (3) = (1) ÷ (2)	Rank
Options Increase in earnings No. of incremental shares in case of Option	Nil	16,000	Nil	1
10% Convertible Debentures Increase in net profit [(Rs. 30,00,000 X 12% X (1 – 0.30)] No. of incremental shares (30,000 X 4)	2,52,000	1,20,000	2.1	2

(4) Identification of Nature of potential Equity shares: As per AS 20, "Earnings Per Share" While calculating DEPS only that Potential Equity Shares shall be considered whose nature is diluted.

Potential Equity Share should be treated as diluted when and only when, their conversion into equity share would decrease net profit per share from continue ordinary operations (C.O.O).

	Net profit attributable to equity shareholders(Rs.)	No. of equity shares	Net Profit attributable per share (Rs.)	
Net profit attributable to equity shareholders	31,20,000	6,50,000	4.800	
Options	Nil	16,000		
	31,20,000	6,66,000	4.685	Dilutive
10% Convertible debentures	2,52,000	1,20,000		
	33,72,000	7,86,000	4.290	Dilutive

(5) Profit attributable to ESH after taking effect of Potential Equity Shares

Particulars	**Amount (₹)**
Earning Attributable for Equity Share Holder (ESH)	31,20,000
Add: Debenture Interest (Net of Tax) [(30,00,000 X 12%) – 30%]	2,52,000
Add: Impact of Options on earning	Nil
	33,72,000

(6) Calculation of weighted average of Equity share after taking effect of Potential Equity Shares:

Particulars	**Numbers**
Weighted average of Equity Shares	6,50,000
(+) Equity Shares will be issued to 10% Convertible Debenture	16,000
(+) Potential Equity share in case of Options	1,20,000
	7,86,000

(b) J Limited availed an equipment on lease from K Limited. The conditions of the lease terms are as under:

(i) Lease starts from 1st April, 2020 for a period of 4 years and useful life of the equipment is 6 years. Both the cost and fair value of the equipment are ₹ 12,50,000.

(ii) The equipment reverts back to the lessor on termination of the lease.

(iii) The unguaranteed residual value is estimated at ₹ 1,20,000 at the end of the financial year 2023-2024.

(iv) The amount will be paid in 4 equal instalments at the end of each year.

(v) Consider IRR = 8%.
(vi) The present value of ₹ 1 at the end of the 4th year at 8% of interest is ₹ 0.735.
(vii) The present value of annuity of ₹ 1 due at the end of 4th year at 8% IRR is ₹ 3.312.
State whether this lease is Operating lease or Finance lease (by applying two deterministic parameters). Also calculate unearned finance income. **(5 Marks)**

Solution:

Computation of annual lease payment:

Particulars	**₹**
Cost of equipment	12,50,000
Unguaranteed residual value	1,20,000
Present value of unguaranteed residual value (₹ 1,20,000 x 0.735)	88,200
Present value of lease payments (₹ 12,50,000 - ₹ 88,200)	11,61,800
Present value of annuity for four years is	3.312
Annual lease payment [11,61,800 / 3.312]	3,50,785

Classification of lease:

Parameter 1: The present value of lease payment i.e., ₹ 11,61,800 which equals 92.944% of the fair market value i.e., ₹ 12,50,000.
The present value of minimum lease payments substantially covers the fair value of the leased asset.

Parameter 2: The lease term (i.e. 4 years) covers the major part of the life of asset (i.e. 6 years).

Therefore, it constitutes a finance lease.

Computation of Unearned Finance Income:

Particulars	**₹**
Total lease payments (₹ 3,50,785 X 4)	14,03,140
Add: Unguaranteed residual value	1,20,000
Gross investment in the lease	15,23,140
Less: Present value of lease payments and residual value i.e. Net Investment	(12,50,000)
Unearned finance income	2,73,140

(c) What is the difference between Defined Contribution Plan and Defined Benefit Plan? From the following information calculate the amount of defined benefit liability/asset:

Particulars	**(₹ in lakhs)**
Present Value of Defined Benefit Obligation as on 31-3-2024	36.0
Fair Value of Plan asset	38.5
Past service cost not yet recognized	7.5
Present value of available future refund from the plan	6.0

(4 Marks)

Solution:

(1) Difference between Defined Contribution Plan and Defined Benefit Plan

A. **Define Contribution plan:** These are those benefits where obligation of employer is limited to the amount that it agrees to contribute into specified fund. All risk & reward of specified fund is lying with employee. Any contribution made by employer shall be considered as an expense for employer and if contribution is pending from the side of employer it shall be considered as short term liability. E.g – Provident Fund, Employees' State Insurance

Journal Entry

Employee benefit A/c	Dr.	XXX	
To employee benefit payable A/c			XXX

B. Define benefit plan/obligation: Under this plan employer is required to pay certain amount to employee for which no mandatory contribution is required. All risk & rewards of such obligation is lying with employer. On each reporting date employer records such expense on the basis of actuarial calculation & assumption. E.g. - Gratuity, Pension
Projected Unit Credit Method (PUCM) is used by an entity to determine the PV of its DBO and the related current service cost and, where applicable, past service cost.

(2) Calculation of the amount of defined benefit liability/asset:

(i) As per AS 15, "Employee Benefits" in the Balance Sheet of the enterprise, 'the amount recognized as a defined benefit liability should be the net total of the following amounts:

Particulars	Amount (Rs. in Lakhs)
The present value of the defined benefit obligation	36.00
(-) Past service cost not yet recognized;	(38.50)
(-) Fair value of plan assets	(7.50)
Net Defined Benefit / (Asset)	(10.00)

(ii) Further as per AS 15, "Employee Benefits" in case where fair value of plan assets is high, it may so happen that the net amount under defined benefit liability turns negative (giving rise to net assets). AS 15 states that the enterprise, in such a situation, should measure the resulting asset at the lower of:

(a) the amount so determined; **i.e. Rs. 10 lakhs** and

(b) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan **i.e. Rs. 6 lakhs**.

Therefore the Defined Benefit asset is recognised at Rs. 6 lakhs

2. Sustain Limited is incurring losses due to adverse market conditions. It decided to reorganize its capital structure. The summarized Balance Sheet of the company as on 31st March, 2024 is as follows:

Particulars	Notes	₹
Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	10,00,000
(b) Reserves and Surplus	2	(2,50,000)
2. Non-current liabilities		
Long-term borrowings		4,50,000
3. Current liabilities		
(a) Trade Payables		1,30,000
(b) Short term borrowings – Bank Overdraft		65,000
(c) Other Current Liabilities (Interest payable on Debentures)		45,000
(d) Short term provision (Provision for Income Tax)		1,00,000
Total		**15,40,000**
Assets		
1. Non-current assets		
(a) Property, Plant & Equipment	4	8,50,000
(b) Intangible assets	5	60,000
(c) Non-current investments	6	2,80,000
2. Current assets		
(a) Inventories		1,20,000
(b) Trade Receivables		2,30,000
Total		**15,40,000**

Notes to accounts

	₹
1. Share Capital	
Equity share capital:	
50,000 Equity shares of ₹ 10 each fully paid up	5,00,000
25,000 Equity shares of ₹ 10 each, ₹ 8 paid up	2,00,000
Preference share capital:	
30,000 8% Cumulative Preference shares of ₹ 10 each	
(Preference dividend has been in arrears for 3 years)	3,00,000
Total	10,00,000
2. Reserves and Surplus	
Profit and Loss account (debit balance)	(2,50,000)
	(2,50,000)
3. Long-term borrowings	
Secured:	
10% Debentures of ₹ 100 each	4,50,000
	4,50,000
4. Property, Plant and Equipment	
Freehold property	1,00,000
Plant and machinery	7,50,000
Total	8,50,000
5. Intangible assets	
Goodwill	60,000
	60,000
6. Non-current investments	
Non-trade investments at cost	2,80,000
	2,80,000

Subsequent to approval by court and all interested parties, the following scheme of reconstruction were agreed:

(1) Uncalled capital is to be called up in full and such shares and other fully paid-up equity shares to be reduced to ₹ 5 per share.

(2) The preference shareholders will accept a reduction of ₹ 2.5 per share, in exchange the rate of dividend is to be increased to 9%.

(3) Preference shareholders will forgo their claim of dividend for one year and one equity share of ₹ 5 each is to be issued for the remaining arrears of dividend.

(4) Mr. X holds 10% debentures for ₹ 2,50,000. He is also a creditor for ₹ 50,000. He agreed to cancel 50% of his total debt, including interest on debentures, pay ₹ 20,000 to the company, and to receive new 12% debentures for the balance amount.

(5) The remaining claim of the debenture holders, including outstanding interest, to be reduced to 60%. In consideration of the reduction, the debenture holders are to receive new 9% preference shares at new face value.

(6) The taxation liability is to be settled at ₹ 1,20,000.

(7) Market value of Non-current Investments is ₹ 2,50,000. Investments to be brought to their market value.

(8) Inventory equal to ₹ 1,00,000 at book value will be taken over by remaining creditors in full settlement of their claim.

(9) A bad debt provision of 2% is to be created on trade receivables.
(10) Plant and Machinery is to be written down by 20%.
(11) The company will further issue 12% debentures for such amount which is sufficient to pay off bank overdraft and other outstanding liabilities and maintain its cash/bank balance at ₹ 85,000.
(12) The amount available by the scheme shall be utilized in writing off Goodwill, debit balance of profit and loss a/c and balance of inventory.

You are required to:

(a) Show the journal entries, necessary to record the above transaction in the company's books and
(b) Prepare a note to show revised Share capital structure of the company after completion of the scheme. **(14 Marks)**

Solution:

(a) Journal Entries in the Books of Company

1.	Equity Share final call A/c (25,000 X ₹ 2)	Dr.	50,000	
	To Equity Share Capital A/c			50,000
	(Being final call made for ₹10 each on 1,00,000 shares)			
2.	Bank A/c (25,000 X ₹ 2)	Dr.	50,000	
	To Equity Share final call A/c			50,000
	(Being money on final call received)			
3.	Equity share capital (₹ 10) A/c	Dr.	7,50,000	
	To Equity Share Capital (₹ 5) A/c			3,75,000
	To Capital Reduction A/c (B/F)			3,75,000
	(Being conversion of equity share capital of ₹ 10 each into ₹ 5 each as per reconstruction scheme)			
4.	8% Cumulative Preference share capital(₹ 10) A/c	Dr.	3,00,000	
	To 9% Cumulative Preference share capital A/c (₹ 7.50) A/c			2,25,000
	To Capital Reduction A/c (₹ 2.50)			75,000
	(Being new9% Preference shares allotted at ₹7.50 each)			
5.	Capital Reduction A/c	Dr.	48,000	
	To Equity Share Capital A/c			48,000
	(Rs. 3,00,000 X 8% X 3 X 2/3)			
	(Being preference dividend in arrear is settled)			
6.	10% Debentures A/c	Dr.	2,50,000	
	Creditor A/c	Dr.	50,000	
	Interest Payable on Debentures A/c (2,50,000 X 10%)	Dr.	25,000	
	To 12% Debentures A/c			1,62,500
	To Capital Reduction A/c			1,62,500
	(Being cancellation of 50% of outstanding amount to Mr. X and issue of 12% New debentures for balance 50%)			
7.	Cash & Bank A/c	Dr.	20,000	
	To 12% Debentures A/c			20,000
	(Being new debentures subscribed by Mr. X)			
8.	10% Debentures A/c (4,50,000 – 2,50,000)	Dr.	2,00,000	
	Interest Payable on Debentures A/c (2,00,000 X 10%)	Dr.	20,000	
	To Capital Reduction A/c (2,20,000 X 40%)			88,000
	To 9% Cumulative Preference share capital A/c (₹ 7.50) A/c **(Refer Note)**			1,32,000
	(Being settlement of remaining debentures and outstanding interest as per reconstruction scheme)			

9.	Provision for Taxation A/c	Dr.	1,00,000	
	Capital Reduction A/c (B/F)	Dr.	20,000	
	To Income Tax Liability A/c			1,20,000
	(Being provision for taxation finalised)			
	Income Tax Liability A/c	Dr.	1,20,000	
	To Bank A/c			1,20,000
	(Being Income tax Liability paid)			
	Trade Payable A/c (1,30,000 – 50,000)	Dr.	80,000	
	Capital Reduction A/c (B/F)	Dr.	20,000	
	To Inventory A/c			1,00,000
	(Being creditor settled)			
11.	Capital Reduction A/c	Dr.	1,84,600	
	To Investment A/c (2,80,000 – 2,50,000)			30,000
	To Provision for doubtful debts / Trade receivable A/c (2,30,000 X 2%)			4,600
	To Plant & Machinery A/c(7,50,000X20%)			1,50,000
	(Being Investment, Trade receivable and Plant and Machinery revalued)			
11.	Cash & Bank A/c	Dr.	2,00,000	
	To 12% Debenture A/c			2,00,000
	(Being 12% Debenture issued)			
12.	Bank Overdraft A/c	Dr.	65,000	
	To Cash & Bank A/c			65,000
	(Being Bank overdraft paid)			
13	Capital Reduction A/c		4,27,900	
	To Goodwill A/c			60,000
	To Profit & Loss A/c			2,50,000
	To Inventory A/c			20,000
	To Capital Reserve A/c			97,900
	(Being amount of Capital Reduction utilized in writing off goodwill, P & L A/c (Dr.) balance, balance amount of Inventory and remaining balance transferred into capital reserve)			

(b) Revised Share Capital after the Scheme of Reconstruction:

	Rs.
Equity Share Capital	
84,600 Equity Shares of Rs. 5 each (₹ 3,75,000 + ₹ 48,000)	4,23,000
9% Cumulative Preference Share Capital	
47,600 Preference Shares of Rs. 7.50 each (₹ 2,25,000 + ₹ 1,32,000)	3,57,000

Working Notes:

Note: ***It is assumed that the remaining balance of the debenture holders has been settled by issuing new 9% preference shares. However, more alternative answer may also be possible.***

Alternative I:

1. Cash at Bank Account

Particulars	₹	Particulars	₹
To Equity Share Final Call A/c	50,000	By Income Tax Liability A/c	1,20,000
To 12% Debenture A/c	20,000	By Bank Overdraft A/c	65,000
To 12% Debenture A/c (B/F)	2,00,000	By Outstanding expenses A/c	-
		By Balance c/d	85,000
	2,70,000		**2,70,000**

2. Capital Reduction Account

Particulars	₹	Particulars	₹
To Equity Share Capital A/c	48,000	By Equity Share Capital A/c	3,75,000
To Income Tax Liability A/c	20,000	By 8% Cumm. PSC A/c	75,000
To Inventory A/c	20,000	By Due to Mr. X A/c	1,62,500
To Investment A/c	30,000		
To Provision for doubtful debts / Trade Receivable A/c	4,600	By 10% Debentures & Interest Payable on Debenture A/c	88,000
To Plant & Machinery A/c	1,50,000		
To Goodwill A/c	60,000		
To Profit & Loss A/c	2,50,000		
To Inventory A/c (Balance)	20,000		
To Capital Reserve (B/F)	97,900		
	7,00,500		**7,00,500**

Alternative II: ***It is assumed that new 9% preference shares have been issued in lieu of the reduction in the claim of the remaining debenture holders. However, more alternative answer may also be possible.***

10% Debentures A/c (4,50,000 – 2,50,000) X 40%	Dr.	80,000	
Interest Payable on Debentures A/c (2,00,000 X 10%) X 40%	Dr.	8,000	
To 9% Cumulative Preference share capital A/c (₹ 7.50) A/c **(88,000 / 7.50 = 11,733 X 7.5)**			87,997.5
To bank A/c (Fraction)			2.5

and

Bank Overdraft A/c	Dr.	65,000	
Interest Payable on Debentures A/c	Dr.	12,000	
To Cash & Bank A/c			77,000
(Being Bank overdraft paid)			

1. Cash at Bank Account

Particulars	₹	Particulars	₹
To Equity Share Final Call A/c	50,000	By Income Tax Liability A/c	1,20,000
To 12% Debenture A/c	20,000	By 10% Debentures & Interest By Payable on Debenture A/c	2.5
To 12% Debenture A/c (B/F)	2,12,002.50	By Bank Overdraft A/c	65,000
		By Outstanding expenses A/c (20,000 X 60%)	12,000
		By Balance c/d	85,000
	2,82,002.5		**2,82,002.5**

2. Capital Reduction Account

Particulars	₹	Particulars	₹
To Equity Share Capital A/c	48,000	By Equity Share Capital A/c	3,75,000
To Income Tax Liability A/c	20,000	By 8% Cumm. PSC A/c	75,000
To Inventory A/c	20,000	By Due to Mr. X A/c	1,62,500
To Investment A/c	30,000		
To Provision for doubtful debts / Trade Receivable A/c	4,600		
To Plant & Machinery A/c	1,50,000		
To Goodwill A/c	60,000		
To Profit & Loss A/c	2,50,000		
To Inventory A/c (Balance)	20,000		
To Capital Reserve (B/F)	9,900		
	6,12,500		**6,12,500**

Revised Share Capital after the Scheme of Reconstruction:

	Rs.
Equity Share Capital	
84,600 Equity Shares of Rs. 5 each (₹ 3,75,000 + ₹ 48,000)	4,23,000
9% Cumulative Preference Share Capital	
41,733 Preference Shares of Rs. 7.50 each (₹ 2,25,000 + ₹ 87,997.50)	3,12,997.50

3.

(a) An Engineering goods company provides 'after sales warranty' for 2 years to its customers. Based on the past experience, the company has been following policy for making provision for warranties on the Invoice amount on the remaining balance warranty period:
Invoice less than 1 Year : 2.5% provision
Invoice more than 1 Year : 4.5% provision
The Company has raised Invoices as under:

Invoice Date	**₹**
20th February, 2021	42,000
17th July, 2021	25,000
27th January, 2022	47,000
1st March, 2023	1,10,000
24th August, 2023	34,000
20th March, 2024	75,000

You are required to:

(i) Calculate the provision to be made for warranty under AS 29 as at 31st March, 2023 and 31st March, 2024.

(c) Also compute the amount to be debited to Profit and Loss Account for the year ended 31st March, 2024. **(7 Marks)**

Solution: Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities & Contingent Assets'

As at 31st March, 2023

Invoice Date upto 31/03/2023	**Invoice Amount (₹)**	**Remaining Warranty Period**	**Provision Rate**	**Provision (₹)**
20th February, 2021	42,000	Warranty Expired	No provision	0
17th July, 2021	25,000	< 1 year remaining	2.5%	625
27th January, 2022	47,000	< 1 year remaining	2.5%	1,175
1st March, 2023	1,10,000	> 1 year remaining	4.5%	4,950
Total				**6,750**

As at 31st March, 2024

Invoice Date upto 31/03/2024	**Invoice Amount (₹)**	**Remaining Warranty Period**	**Provision Rate**	**Provision (₹)**
20th February, 2021	42,000	Warranty Expired	No provision	0
17th July, 2021	25,000	Warranty Expired	No provision	0
27th January, 2022	47,000	Warranty Expired	No provision	0
1st March, 2023	1,10,000	< 1 year remaining	2.5%	2,750
24th August, 2023	34,000	> 1 year remaining	4.5%	1,530
20th March, 2024	75,000	> 1 year remaining	4.5%	3,375
Total				**7,655**

Amount debited to Profit and Loss Account for year ended 31st March, 2024	**₹**
Balance of provision required as on 31.03.2024	7,655
Less: Opening Balance as on 31.03.2023	(6,750)
Amount debited to profit and loss account	905

(b) Given below are the extracts of the Balance Sheet of BGH Limited:

Particulars	**31st March, 2024 (₹)**	**31st March, 2023 (₹)**
Share Capital	5,00,000	4,00,000
Profit & Loss Account	1,10,000	60,000
10% Debentures (issued at the end of the year)	1,00,000	-
Bank Loan	2,50,000	2,00,000
Trade Payable	60,000	75,000
Dividend Payable	-	50,000
Interest Payable on Bank Loan (Current Year)	25,000	20,000
Goodwill	1,20,000	1,50,000
Trade Receivables	65,000	95,000
Inventory	55,000	30,000

You are required to prepare for the year ended 31st March, 2024:

(a) Cash Flow from Operating Activities;

(d) Cash Flow from Financing Activities. **(7 Marks)**

Solution: Cash Flow Statement of BGH Limited for the year ended 31st March, 2024

1. Cash Flow from Operating Activities (CFOA)

Particulars	**Amount (₹)**
Net Profits for the year (1,10,000 – 60,000)	50,000
Adjustments for Non-Cash / Non-Operating Items:	
Amortisation of Goodwill (1,50,000 – 1,20,000)	30,000
Interest on Bank Loan	25,000
Working Capital Adjustments:	
Decrease in Trade Receivables (95,000 – 65,000)	30,000
Increase in Inventory (30,000 – 55,000)	(25,000)
Decrease in Trade Payables (60,000 – 75,000)	(15,000)
Net Cash Flow from Operating Activities	95,000

2. Cash Flow from Financing Activities (CFFA)

Particulars	**Amount (₹)**
Proceeds from issue of Share Capital (5,00,000 - 4,00,000)	1,00,000
Proceeds from issue of 10% Debentures	1,00,000
Increase in Bank Loan (2,50,000 – 2,00,000)	50,000
Interest Paid on Bank Loan	(20,000)
Dividend Paid	(50,000)
Net Cash Flow from Financing Activities	1,80,000

4. Following are the summarized Balance Sheets of Light Limited and Bright Limited as at 31st March, 2024:

Particulars	**Notes**	**Light Limited (₹ in Lakhs)**	**Bright Limited (₹ in Lakhs)**
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	50.00	40.00
(b) Reserves and Surplus	2	27.00	24.00
Non-Current Liabilities			
Long Term Provisions		1.50	-
Current Liabilities			
Trade Payables		3.40	2.00
Total		81.90	66.00

Assets			
Non-Current Assets			
Property, Plant and Equipment	3	68.70	50.25
Current Assets			
(a) Inventories		5.75	7.10
(b) Trade Receivables		4.30	5.80
(c) Cash and Cash equivalents		3.15	2.85
Total		81.90	66.00

Notes to Accounts:

Particulars	**Light Limited (₹ in Lakhs)**	**Bright Limited (₹ in Lakhs)**
1. Share Capital		
50,000 Equity Shares of ₹ 100 each	50.00	-
40,000 Equity Shares of ₹ 100 each	-	40.00
2. Reserves and Surplus		
Statutory Reserve	2.00	-
General Reserve	18.00	15.00
Securities Premium	-	5.00
Profit and Loss	7.00	4.00
	27.00	24.00
3. Property, Plant and Equipment		
Land and Building	58.00	44.00
Plant and Machinery	7.50	4.50
Other Assets	3.20	1.75
	68.70	50.25

Other Information:

(1) A company Rainbow Limited is formed to acquire the Assets and Liabilities of both the companies. Assets were acquired at book values except Land and Building of Light Limited, which is revalued at ₹ 62 lakhs.

(2) Other Assets of Bright Limited are obsolete and are scrapped and sold for ₹ 50,000 by Bright Limited itself before acquisition of its assets and liabilities by Rainbow Limited.

(3) Light Limited and Bright Limited will be issued 80,000 and 64,000 equity shares of ₹ 100 each respectively of new company Rainbow Limited in lieu of purchase consideration due to them.

You are required to Prepare:

(i) Realisation Account and Equity Shareholders Account in the books of Light Limited and Bright Limited;

(ii) Opening Balance Sheet of Rainbow Limited as at 31st March, 2024. **(14 Marks)**

Solution:

(i)

(a) In the Books of Light Limited

(₹ in Lakhs)

Realization Account

		Rs			Rs
To	Land & Building	58.00	By	Long term provisions	1.50
To	Plant & Machinery	7.50	By	Trade Payables	3.40
To	Other Assets	3.20	By	Rainbow Ltd. (Purchase consideration) (W.N. 1)	80.00
To	Inventories	5.75			
To	Trade receivables	4.30			
To	Cash and Cash Equivalents	3.15			

To	Equity Shareholders A/c (Profit)	3.00			
		84.90			**84.90**

Equity Shareholders Account

	Rs		Rs
To Equity Shares in Rainbow Ltd. (W.N. 2)	80.00	By Equity Share capital	50.00
		By Statutory Reserve	2.00
		By General Reserve	18.00
		By Securities Premium	-
		By Profit and Loss	7.00
		By Realisation A/c (Profit)	3.00
	80.00		**80.00**

(b) **In the Books of Bright Limited**

(₹ in Lakhs)

Realization Account

		Rs			**Rs**
To	Land & Building	44.00	By	Long term provisions	-
To	Plant & Machinery	4.50	By	Trade Payables	2.00
To	Other Assets	-	By	Rainbow Ltd. (Purchase consideration) (W.N. 1)	64.00
To	Inventories	7.10			
To	Trade receivables	5.80			
To	Cash and Cash Equivalents (2.85 + 0.50)	3.35			
To	Equity Shareholders A/c (Profit)	1.25			
		66.00			**66.00**

Equity Shareholders Account

	Rs		Rs
To Equity Shares in Rainbow Ltd. (W.N. 2)	64.00	By Equity Share capital	40.00
		By Statutory Reserve	-
		By General Reserve	15.00
		By Securities Premium	5.00
		By Profit and Loss [4 – (1.75 - 0.50)]	2.75
		By Realisation A/c (Profit)	1.25
	64.00		**64.00**

(ii) **Balance Sheets of Rainbow Limited as at 31st March, 2024**

Particulars	**Notes**	**(₹ in Lakhs)**
Equity and Liabilities		
Shareholders' Funds		
(a) Share Capital	1	144.00
(b) Reserves and Surplus	2	-
Non-Current Liabilities		
Long Term Provisions		1.50
Current Liabilities		
Trade Payables		5.40
Total		**150.90**

Assets		
Non-Current Assets		
Property, Plant and Equipment	3	121.20
Intangible Assets		
Goodwill (W.N. 3)		0.25
Current Assets		
(a) Inventories		12.85
(b) Trade Receivables		10.10
(c) Cash and Cash equivalents		6.50
Total		**150.90**

Notes to Accounts:

Particulars		**(₹ in Lakhs)**
1. Share Capital		
1,44,000 Equity Shares of ₹ 100 each		144.00
(1,44,000 shares were issued for consideration other than cash)		
2. Reserves and Surplus		
Statutory Reserve	2.00	
Less: Amalgamation Adjustment Reserve	(2.00)	-
3. Property, Plant and Equipment		
Land and Building		106.00
Plant and Machinery		12.00
Other Assets		3.20
		121.20

Working Notes

(1) Computation of purchase consideration

A. For Light Limited

80,000 equity shares of ₹ 100 each Rs. 80,00,000

B. For Bright Limited

64,000 equity shares of ₹ 100 each Rs. 64,00,000

(2) In the Books of Light Limited

Rainbow Ltd. Account

	Rs		Rs
To Realization A/c (Purchase consideration)	80.00	By Equity Shares in Rainbow Ltd.	80.00
	80.00		**80.00**

In the Books of Bright Limited

Rainbow Ltd. Account

	Rs		Rs
To Realization A/c (Purchase consideration)	64.00	By Equity Shares in Rainbow Ltd.	64.00
	64.00		**64.00**

(3) Calculation of Goodwill / Capital Reserve:

Particulars		**Amount (₹)**
Purchase consideration paid (80.00 + 64.00) (A)		**144.00**
Less: Net Assets acquired		
Land & Building	62.00 + 44.00	106.00
Plant & Machinery	7.50 + 4.50	12.00
Other Assets	3.20 +0	3.20
Inventories	5.75 + 7.10	12.85
Trade receivables	4.30 + 5.80	10.10
Cash and Cash Equivalents	3.15 + 3.35	6.50
Less: Long term provisions	(1.50 + 0	(1.50)
Less: Trade Payables	(3.40 + 2.00)	(5.40)
(B)		**143.75**
Goodwill (A-B)		**0.25**

5. The summarised Balance Sheets of Super Limited and Clear Limited as on 31st March, 2024 is as below:

Particulars	**Note**	**Super Limited (₹)**	**Clear Limited (₹)**
Equity and Liabilities			
Shareholders' Funds			
Share Capital	1	95,00,000	50,00,000
Reserves and Surplus	2	25,75,000	12,25,000
Non-Current Liabilities			
Long term borrowings	3	5,00,000	2,00,000
Current Liabilities			
Short term borrowings		4,50,000	-
Trade Payables		3,65,000	2,45,000
Total		1,33,90,000	66,70,000
Assets			
Non-current assets			
Property, Plant and Equipment	4	77,00,000	54,00,000
Non-Current investment	5	41,50,000	-
Current Assets			
(a) Inventories		6,75,000	5,65,000
(b) Trade Receivables		5,85,000	4,90,000
(c) Cash and Cash equivalents		2,80,000	2,15,000
Total		1,33,90,000	66,70,000

Notes to Accounts:

Particulars	**Super Limited (₹)**	**Clear Limited (₹)**
1. Share Capital		
8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000	-
5,00,000 Equity Shares of ₹ 10 each fully paid up	-	50,00,000
15,000 Preference Shares of ₹ 100 each fully paid up	15,00,000	-
	95,00,000	50,00,000
2. Reserves and Surplus		
General Reserve	15,50,000	6,50,000
Profit and Loss Account	10,25,000	5,75,000
	25,75,000	12,25,000
3. Long term borrowings		
10% Debentures	5,00,000	--
9% Debentures	-	2,00,000

4. Property, Plant & Equipment		
Land & Building	65,00,000	45,50,000
Plant & Machinery	9,50,000	6,75,000
Furniture & Fittings	2,50,000	1,75,000
	77,00,000	54,00,000
5. Non-Current Investment		
Investment in Clear Limited	41,50,000	-

Additional Information:

(i) Super Limited holds 75% of Equity Shares in Clear Limited since the incorporation of Clear Limited.
(ii) 25% of Trade Receivables of Super Limited is due from Clear Limited.
(iii) During the year, Super Limited sold inventory costing ₹ 2,00,000 to Clear Limited at a price of 15% above cost. The entire inventory remains unsold with Clear Limited at the end of financial year.

You are required to prepare Consolidated Balance Sheet of Super Limited and Clear Limited as on 31st March, 2024. **(14 Marks)**

Solution: Consolidated balance Sheet of Super Ltd. and its Subsidiary Clear Ltd. as at 31st March, 2024

Particulars		Note	Amount (Rs.)
I	EQUITY AND LIABILITIES:		
(1)	Shareholders' Funds:		
	(a) Share Capital	1	95,00,000
	(b) Reserve and Surplus	2	34,63,750
(2)	Minority Interest	3	15,56,250
(3)	Non-Current Liabilities:		
	Long Term Borrowings	4	7,00,000
(4)	Current Liabilities:		
	Short term Borrowing (Super Ltd.)		4,50,000
	Trade Payables	5	4,63,750
	Total		1,61,33,750
II	ASSETS:		
(1)	Non-Current Assets		
	Property, Plant & Equipment	6	1,31,00,000
	Intangible Assets:		
	Goodwill (WN 3)		4,00,000
(2)	Current Assets:		
	(a) Inventories	7	12,10,000
	(b) Trade receivables	8	9,28,750
	(c) Cash and Cash Equivalents	9	4,95,000
	Total		1,61,33,750

Notes to Accounts

Particulars	Rs.	Rs.
1. Share capital		
8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000	
15,000 Preference Shares of ₹100 each fully paid up	15,00,000	
Total		95,00,000

2.	Reserves and Surplus		
	General Reserve (WN 4)	20,37,500	
	Profit and Loss A/c (WN 5)	14,26,250	
	Total		34,63,750
3.	Minority interest		
	25% share in Clear Ltd (WN 3)		15,56,250
4	Long term borrowings		
	10% Debentures of Super Ltd.	5,00,000	
	9% Debentures of Clear Ltd.	2,00,000	
	Total		7,00,000
5.	Trade payables		
	Trade payables of Super Ltd.	3,65,000	
	Add: Trade payables of Clear Ltd.	2,45,000	
	Less: Mutual indebtedness (5,85,000 X 25%)	(1,46,250)	
	Total		4,63,750
6.	Property, Plant and Equipment (PPE)		
	Land and Building of Super Ltd	65,00,000	
	Add: Land and Building of Clear Ltd	45,50,000	
	Total (A)	**1,10,50,000**	
	Plant and Machinery of Super Ltd	9,50,000	
	Plant and Machinery of Clear Ltd	6,75,000	
	Total (B)	**16,25,000**	
	Furniture and Fitting of Super Ltd	2,50,000	
	Furniture and Fitting of Clear Ltd	1,75,000	
	Total (C)	**4,25,000**	
	Total (A + B + C)		1,31,00,000
7.	Inventories of Super Ltd	6,75,000	
	Add: Inventories of Clear Ltd	5,65,000	
	Less: Stock Reserve / Unrealised profit (2,00,000 X 15%)	(30,000)	
	Total		12,10,000
8.	Trade receivables of Super Ltd.	5,85,000	
	Add: Trade receivables of Clear Ltd.	4,90,000	
	Less: Mutual indebtedness (5,85,000 X 25%)	(1,46,250)	
	Total		9,28,750
9	Cash and cash equivalents of Super Ltd	2,80,000	
	Add: Cash and cash equivalents of Clear Ltd	2,15,000	
	Total		4,95,000

Working Notes:

(1) Basic Information

Company Status	Dates	Holding Status
Holding Co. = Super Ltd. Subsidiary = Clear Ltd.	Acquisition: Clear Ltd.'s Incorporation Consolidation: 31st March, 2024	Holding Company = 75% Minority Interest = 25%

(2) Analysis of General Reserves and Profit and Loss Account of Clear Ltd.: Since Super Ltd. holds shares in Clear Ltd. since its incorporation, the entire balance will be Revenue.

(3) Consolidation of Balances

Holding- 75%, Minority - 25%	Total	Minority Interest	Holding Company	
Equity Share Capital	50,00,000	12,50,000	37,50,000	-
General Reserves	6,50,000	1,62,500	Nil (pre-acq)	4,87,500 (post-acq)
Profit & Loss A/c	5,75,000	1,43,750		4,31,250 (post-acq)
Total		15,56,250	37,50,000	
Cost of Investment			41,50,000	-
Goodwill			4,00,000	

(4) Calculation of Consolidated balance of General Reserve

Particulars	**Amount (₹)**
Super Ltd.	15,50,000
(+) Share in Post – Acquisition balance of General Reserve of Clear Ltd.	4,87,500
	20,37,500

(5) Calculation of Consolidated balance of Profit and Loss Account

Particulars	**Amount (₹)**
Super Ltd.	10,25,000
(-) Stock Reserve / Unrealised profit (2,00,000 X 15%)	(30,000)
(+) Share in Post – Acquisition balance of Profit and Loss A/c of Clear Ltd.	4,31,250
	14,26,250

6.

(a) The following information is provided for the year ended 31st March, 2024:

(i) AX Limited holds 70% shares of BX Limited

(ii) BX Limited holds 30% shares of CX Limited

(iii) DX Limited holds 40% shares in CX Limited

(iv) DX Limited holds 49% shares in EX Limited

You are required to:

(i) Identify the related parties for the reporting entities – AX Limited, CX Limited, and EX Limited.

(ii) If DX Limited would have sold its investment in EX Limited on 1st October, 2023, but goods were continued to be supplied by DX Limited to EX Limited throughout the year, will this scenario change your answer with respect to any of the reporting entity mentioned in point (i)?

Give reasons for your answer as per AS 18. **(4 Marks)**

Solution:

(i) Related Party Relationships: As Per AS-18, "Related Party Disclosure" Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

It is worthwhile to note that AS-18 provides a definitive list of related party relationships to which AS-18 applies. Accordingly, AS 18 deals only with the following five types of related party relationships described in (a) to (e) below:

(A) Enterprises that directly, or indirectly through one or more intermediaries#, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries & fellow subsidiaries).
(# Meaning of intermediary: Intermediary means subsidiary as mentioned in ASI - 19.)

(B) Associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture.

(C) Individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual.

(D) Key management personnel (KMP) and relatives of such personnel.

(E) Enterprises over which any person described in (c) or (d) is able to exercise significant influence.

In the given question:

Reporting entity – AX Ltd.

- BX Ltd. (subsidiary) is a related party
- CX Ltd. Associate of BX Ltd. (subsidiary co.) is a related party

Reporting entity- CX Ltd.

- AX Ltd. Parent company of investor/ investing party is a related party
- BX Ltd. (investor/ investing party) is a related party
- DX Ltd. (investor/ investing party) is a related party

Reporting entity- EX Ltd.

- DX Ltd. (investor/ investing party) is a related party

(ii) If DX Limited had sold its investment in EX Limited on 1st October 2023, the related party relationship would still have been reported as per AS-18, **"Related Party Disclosures,"** since the standard requires disclosure of related party relationships that existed at any time during the year.
However, the disclosure requirements under the standard apply only to the period during which the related party relationship existed.
Accordingly, only transactions between DX Ltd and EX Ltd up to 1st October 2023 need to be reported or disclosed under AS-18. Transactions entered into after 1st October 2023 are not required to be disclosed under AS-18.

OR

Given below is the balance sheet of Sky and Associates as on 31st March, 2023 :

Liabilities	**₹**	**Assets**	**₹**
Capital	1,60,000	Machinery	1,80,000
Profit & Loss Account	93,000	Stock	1,15,000
8% Loan	40,000	Trade Receivables	75,000
Trade Payables	66,000	Deferred Expenditure	9,000
Bank Overdraft	20,000		
Total	3,79,000	Total	3,79,000

Additional Information:

(1) The firm is planning to shut down its business with immediate effect from 1st April, 2024.
(2) The sale and purchase of the firm for the year 2023-24 amounts to ₹ 8,20,000 and ₹ 6,50,000 respectively.
(3) The value of Closing Stock as on 31-3-2024 was ₹ 65,000. The net realizable value is estimated at 120% of cost.
(4) Other expenses for the period amount to ₹ 25,000.
(5) Deferred expenditure is getting amortized over 5 years starting from 31-3-2022.
(6) The remaining life of Machinery is expected to be 3 years. The realizable value of Machine is expected at ₹ 1,65,000, an expense of ₹ 5,000 is to be incurred to realize the same.
(7) Out of trade receivables, ₹ 5,000 is expected to be unrealizable due to an ongoing dispute.
(8) Bank has charged a penalty of ₹ 2,500 for crossing the overdraft limit.
(9) The lender has agreed to forgo 50% of interest charge for the year.
(10) The firm is expecting a discount of ₹ 4,000 from creditors at the time of full and final settlement.

You are required to prepare a Profit & Loss A/c for the year ended 31st March, 2024 to ascertain its Profit/Loss for the period. **(4 Marks)**

Solution: Profit and Loss Account of Sky and Associates for the year ended 31st March, 2024

Particulars	**₹**	**Particulars**	**₹**
To Opening Stock	1,15,000	By Sales	8,20,000
To Purchases	6,50,000	By Closing Stock	78,000
To Other Expenses	25,000	(65,000 X 120%)	
To Depreciation	20,000	By discount from creditor	4,000
[1,80,000 – (1,65,000 – 5,000)]			
To provision for doubtful debts	5,000		

To Deferred expenditure To Bank Charges / Penalty To Interest Expenses [(40,000 X 8%) – 50%] To Net profit	9,000 2,500 1,600 73,900		
	9,02,000		9,02,000

(b) Following information are available in respect of Z Limited as on 31st March, 2024:

4,00,000 Equity share capital of ₹ 10 each:	₹ 40,00,000
Capital Reserve:	₹ 20,000
Revenue Reserve:	₹ 50,00,000
Securities Premium:	₹ 6,00,000
Profit and Loss Account:	₹ 19,00,000
Investments:	₹ 40,00,000

The company decides to buy back 20% of its Equity capital @ ₹ 15 per share on 1st April, 2024. Buy back is as per provisions of the Companies Act and company passed the necessary resolutions for it. For this purpose, it sold its investments of ₹ 40 lakhs for ₹ 32 lakhs.

You are required to pass the necessary journal entries. **(4 Marks)**

Solution: **Journal Entries in the books of Z Limited**

			Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c	Dr.	32,00,000	
	Profit and Loss A/c	Dr.	8,00,000	
	To Investment A/c			40,00,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			
2.	Equity share capital A/c [(4,00,000 X 20%) X Rs. 10]	Dr.	8,00,000	
	Premium payable on buy-back A/c (80,000 X Rs. 5)	Dr.	4,00,000	
	To Equity shares buy-back A/c/ Equity shareholders A/c (80,000 X Rs. 15)			12,00,000
	(Being the amount due on buy-back of Equity Shares)			
3.	Equity shares buy-back A/c/ Equity shareholders A/c	Dr.	12,00,000	
	To Bank A/c			12,00,000
	(Being payment made for buy-back of ES)			
4.	Securities Premium A/c	Dr.	4,00,000	
	To Premium payable on buy-back			4,00,000
	(Being premium payable on buy-back charged from Securities premium)			
5.	Revenue Reserve A/c	Dr.	8,00,000	
	To Capital Redemption Reserve A/c			8,00,000
	(Being creation of capital redemption reserve to the extent of face value of the equity shares bought back)			

(c) Give Journal Entries (with Narrations) in the books of an Independent Branch of a business entity to rectify or adjust the following:

(i) Commission (income) of ₹ 7,500 allocated to Branch by Head office but still no entry is passed in the books of Branch.

(ii) Head office paid ₹ 12,000 directly to one of Branch's supplier. The intimation is received by Branch on reconciliation of bank statement of Branch with its books.

(iii) A remittance of ₹ 85,000 is sent by Branch to Head office has not been received by Head office till date.

(iv) Branch paid ₹ 9,800 as salary to Head office's employee, but the amount paid has been wrongly debited to salary account.

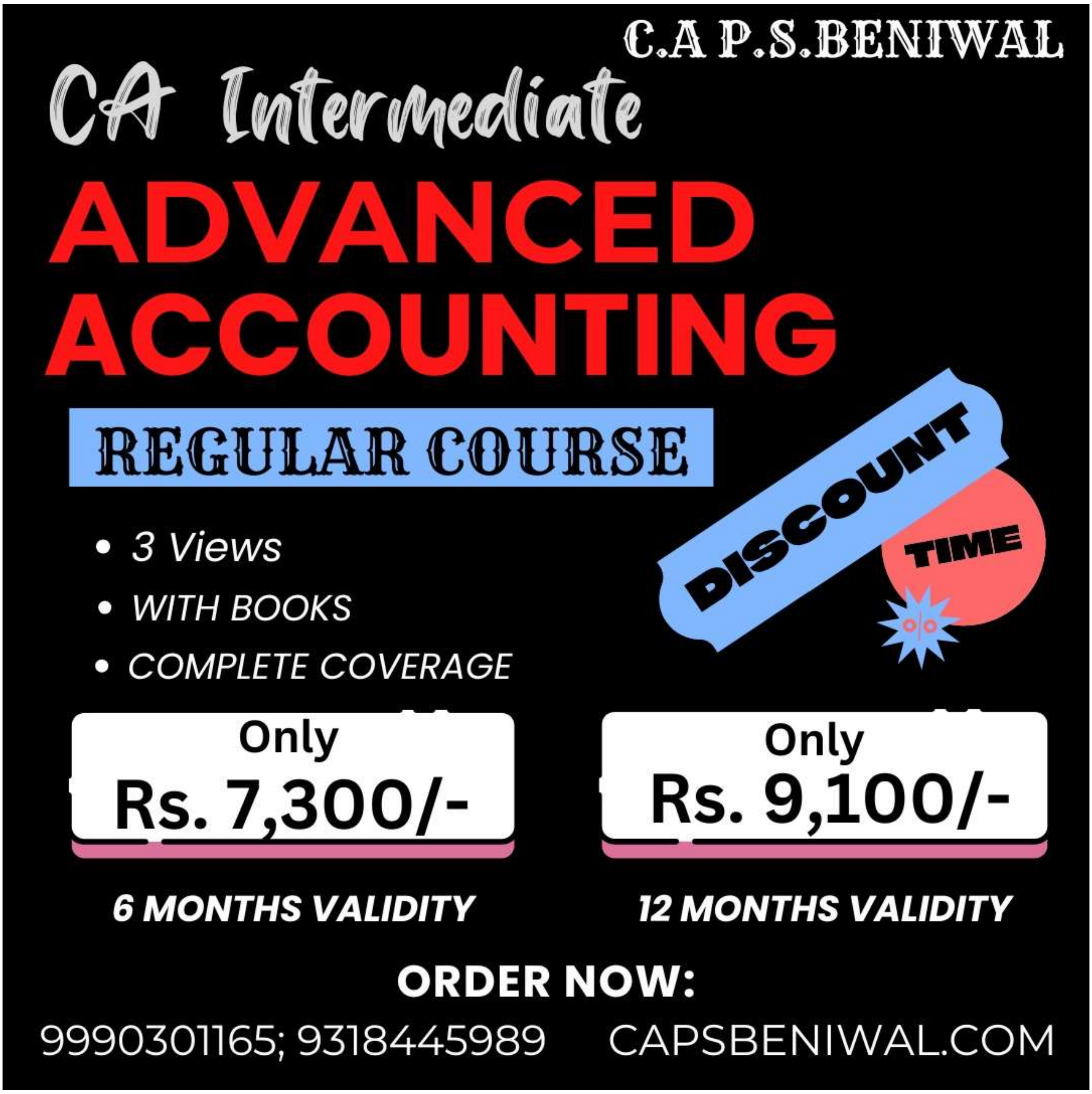
(v) Branch purchased Furniture for ₹ 18,000 through cheque, but the Furniture account was retained in Head Office Books. No entry has yet been passed.

(vi) Branch incurred ₹ 5,500 of expenses on behalf of other Branches of Head office, this transaction was not recorded in the books of Branch. **(6 Marks)**

Solution: **Journal Entries in the books of Branch**

	Particulars		Dr. Amount ₹	Cr. Amount ₹
(i)	Head Office A/c	Dr.	7,500	
	To Commission Income A/c			7,500
	(Being commission income allocated by H.O. recorded)			
(ii)	Supplier Account	Dr.	12,000	
	To Head office account			12,000
	(Being amount paid by the H.O. to the branch supplier)			
(iii)	No entry in branch books			
(iv)	Head office account	Dr.	9,800	
	To Salaries account			9,800
	(Being the rectification of salary paid on behalf of H.O.)			
(v)	Head office account	Dr.	18,000	
	To Bank Account			18,000
	(Being furniture purchased by Branch but Furniture account is maintained by H.O.)			
(vi)	Head Office account	Dr.	5,500	
	To Bank account			5,500
	(Being the expenditure on account of other Branches, recorded in books)			

Video Link: https://youtu.be/c6MxcDycWPo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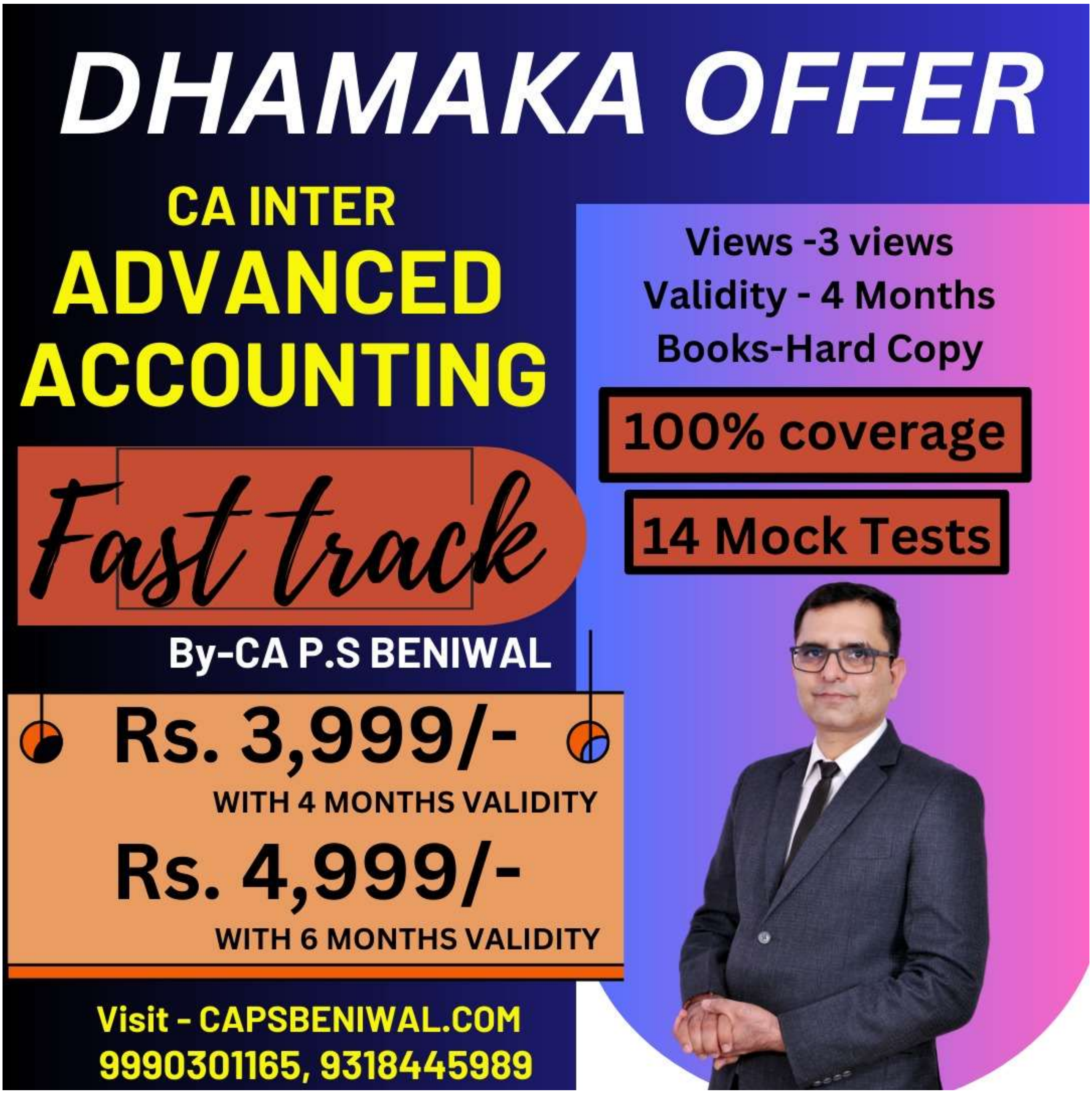
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