CA INTERMEDIATE

VIVITSU

PAPER 1

Advanced Accounting Reviewer

Chapter-wise compilation RTP, MTP and PYP questions

APPLICABLE FOR MAY'25, SEPT'25 AND JAN'26

KEY HIGHLIGHTS

- Easy to Hard Difficulty Level
- Importance levels marked as A, B or C
- Reference to all questions
- Quick recap of important concepts
- Exam Insights
- Last Day Revision Questions Marked

ADVANCED ACCOUNTING REVIEWER

CA Intermediate
May 2025,
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VIVITSU
STRIVING TOWARDS KNOWLEDGE

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VIVITSU

STRIVING TOWARDS KNOWLEDGE

This book belongs to future,

CA Finalist ______________________________

"You become what you believe."

-Oprah Winfrey

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YOU MUST BE WONDERING

How to Read this book?

Step 1
Prioritize more time for 'A' chapters in the ABC analysis

Step 2
Identify key concepts in each chapter.

Step 3
Solve questions in order, from easy to difficult.

Step 4
Focus on solving LDR questions during the final revision

01 — 02 — 03 — 04

Step 1: Prioritize your chapters

Chapters in the index are categorized as A, B, or C based on their importance. Focus more on 'A' chapters, as they carry the most weight, and give adequate attention to 'B' chapters. While all chapters must be covered, this approach helps manage time efficiently for better results.

Step 2: Identify key concept

Identify the key concepts for each chapter using the list provided at the start of the chapter. Ensure you understand them thoroughly. If you struggle with a question, revisit the concepts, review them, and strengthen your understanding before moving forward.

Step 3: Start easy

The questions are segregated AS-wise. Start with Question 1, as they progress from easy to difficult, helping you build confidence throughout the chapter. Pay close attention to the “EXAM INSIGHTS” to avoid common mistakes.

Step 4: Last Day Revision (LDR)

Focus on solving LDR questions during the final revision. In the 1.5 days before the exam, prioritize these questions as they cover the most critical concepts from each chapter. You'll find a quick summary of LDR question numbers listed right before each chapter for easy reference.

Table of Contents

A

CHAPTER 10: ACCOUNTING STANDARDS FOR CONSOLIDATED FINANCIAL STATEMENT

Chapter 10.1: AS 21- Consolidated Financial Statement

CONCEPTS OF THIS CHAPTER

- Solve consolidation-related problems
- Prepare consolidated financial statements
- Concepts of group, holding, and subsidiary companies
- Consolidation procedures for subsidiaries and holding companies

QUICK REVIEW OF IMPORTANT CONCEPTS

Holding company- "Holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies.

Subsidiary Company- Section 2(87) of the Companies Act, 2013 defines "subsidiary company" as a company in which the holding company -

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies

A company shall be deemed to be a subsidiary company of the holding company even if there is indirect control through the subsidiary company (ies).

Parent: A parent is an enterprise that has one or more subsidiaries. **Subsidiary** is an enterprise that is controlled by another enterprise (known as the parent).

Exemptions from preparation of Consolidated Financial Statements (CFS):

- It is a wholly or partially owned subsidiary, and no member objects after written intimation with proof of delivery.
- Its securities are not listed or in the process of listing on any stock exchange.
- Its ultimate or intermediate holding company files compliant consolidated financial statements with the Registrar.

Consolidation Adjustments

MAJOR ADJUSTMENTS	INTRA-GROUP ADJUSTMENTS
Those which 'drive' the double entry:	1. Intra-group balances
1. Goodwill / Capital Reserve (i.e., cost of Control)	2. Unrealized profit
2. Minority Interests	3. Inventory
3. Consolidated Reserves	4. Non-Current Asset transfers
4. Disposal of Subsidiary*	5. Minority Interests

Calculation of Goodwill/Capital Reserve (Cost of Control)

Goodwill = Cost of Investment - Parent's share in the equity of the subsidiary on date of investment

Capital Reserve = Parent's share in the equity of the subsidiary on date of investment – Cost of Investment

Minority Interests

Minority interest is the portion of a subsidiary's net assets held by external parties. It is presented separately in the consolidated balance sheet, distinct from liabilities and parent equity. Minority interest in group income is shown separately in the consolidated income statement. It includes:

- Equity attributable to minorities at the subsidiary's acquisition date.
- Their share of equity movements since the parent-subsidiary relationship began.

Profit or Loss of Subsidiary Company

All reserves and profits (or losses) of subsidiary company should be classified into **pre and post-acquisition reserves and profits (or losses).**

Minority Interest = Share Capital of subsidiary belonging to outsiders + Minority interest in reserves and profits of subsidiary company

Consolidation Adjustments

Revaluation of Assets of Subsidiary Company

Property, Plant and Equipment (PPE)

Initial Recognition Fair Value (-) Carrying Amount (As on the date of acquisition)		Subsequent Measurement Additional Depreciation would arise in case of initial upward or Reversal of excess depreciation would arise in case of initial downward valuation.	
PPE A/c Dr.	xxx	**Post** P/L Dr.	xxx
To **Pre**- P/L (In case of upward revaluation)	xxx	To PPE (Additional depreciation)	xxx
Pre- P/L Dr.	xxx	PPE Dr.	xxx
To PPE (In case of downward revaluation)	xxx	To **Post** P/L (Reversal of excess depreciation)	xxx

The debit /credit on account of revaluation could alternatively be taken to the Revaluation Reserve or the P/L depending on whether it is a first-time upward / downward revaluation. However, as ultimately the reserves have to be analyzed between pre- and post-acquisition for the purposes of consolidation, the nature of reserves is irrelevant.

Dividend Received From Subsidiaries

Treatment in case of post-acquisition dividend

Post Acquisition dividend

Accounted by the subsidiary No further adjustment required	Not accounted by the subsidiary Adjusted at the time of consolidation	In the books of the holding company Accounted by crediting P&L A/c of the holding company

Treatment in case of pre-acquisition dividend

Accounted by holding company

• If correctly accounted as reduction to the cost of investment	• If wrongly accounted by crediting to P&L A/c
– No further adjustment required	– Reverse the entry passed and credit investment in subsidiary

Not accounted by holding company

• Adjust the same at the time of consolidation	• Account for as reduction to cost of investment

Not accounted by subsidiary company

Adjust the same at the time of consolidation

- Reduce the preacquisition profit of subsidiary and then distribute it into holding and minority interest Also reduce the cost of investment

Elimination of Intra-Group Transactions

For transactions between group enterprises, unrealized profits resulting from intra-group transactions that are included in the carrying amount of assets, such as inventories and tangible fixed assets, are eliminated in full. The requirement to eliminate such profits in full applies to the transactions of all subsidiaries that are consolidated – even those in which the group's interest is less than 100%.

Unrealized profit in inventories:

On consolidation, the unrealized profit on closing inventories will be eliminated from the group's profit, and the closing inventories of the group will be recorded at cost to the group.

Intra - group transaction

Upstream	Downstream
transaction in which the subsidiary company sells goods to holding company.	holding company is the seller and subsidiary company is the buyer
• Unrealised profit eliminated from holding and minority interest • Corresponding decrease of inventories	• Unrealised profit eliminated from holding company's P&L in full • Corresponding decrease of inventories

Alignment Of Reporting Dates

- The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements are usually drawn up to the same date. When the reporting dates are different, the subsidiary often prepares, for consolidation purposes, statements as at the same date as that of the parent.
- The difference between reporting dates should not be more than six months.
- Adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements.

Uniform Accounting Policies

If any company in the same group uses accounting policies other than those adopted in consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.

Preparation of Consolidated Statement of Profit and Loss

- All the revenue items are to be added on line by line basis and from the consolidated revenue items, inter-company transactions should be eliminated.
- If there remains any unrealized profit in the inventory of goods, of any of the Group Company, such unrealized profit should be eliminated of inventory to arrive at the consolidated profit.

Preparation of Consolidated Cash Flow Statement

All the items of Cash flow from operating activities, investing activities and financing activities are to be added on line by line basis and from the consolidated items, inter-company transactions should be eliminated.

Question & Answers

Question 1

A Ltd. holds 80% of the equity capital and voting power in B Ltd. A Ltd sells inventories costing Rs. 180 lacs to B Ltd at a price of Rs. 200 lacs. The entire inventories remain unsold with B Ltd at the financial year end i.e. 31 March 2020. What will be the accounting treatment for this transaction in the consolidated financial statements of A Ltd? *(MTP 5 Marks Oct'20, MTP 4 Marks Mar'22 & Oct'23)*

Answer 1

This would be the case of downstream transaction. In the consolidated profit and loss account for the year ended 31 March 2020, entire transaction of sale and purchase of Rs. 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of Rs. 20 lacs (i.e. Rs. 200 lacs – Rs. 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31 March 2020, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31 March 2020.

Question 2

A Ltd. had acquired 80% shares of B Ltd. for Rs. 15 lakhs at the beginning of year. During the year, A Ltd. sold the investment for Rs. 30 lakhs and net assets of B Ltd. on the date of disposal was Rs. 35 lakhs. Calculate the

profit or loss on disposal of this investment to be recognized in the Financial Statements of A Ltd. *(MTP 4 Marks Oct'21 & Oct'23)*

Answer 2

Calculation of Profit/Loss on disposal of investment in subsidiary

Particulars	Rs.
Proceeds from the sale of Investment	30,00,000
Less: A Ltd.'s share in net assets of B Ltd.	(28,00,000)
	2,00,000

Working Note:

A Ltd.'s share in net assets of B Ltd.

	Rs.
Net Assets of B Ltd. on the date of disposal	35,00,000
Less: Minority Interest (20% of Rs. 35 lakhs)	(7,00,000)
A Ltd.'s share in the net assets of B Ltd.	28,00,000

Question 3

A Ltd. acquired 70% equity shares of B Ltd. @ Rs.20 per share (Face value - Rs.10) on 31st March, 2021 at a cost of Rs. 140 lakhs. Calculate the amount of share of A Ltd. and minority interest in the net assets of B Ltd. on this date. Also compute goodwill/capital reserve for A Ltd. on acquisition of shares of B Ltd. from the following information available from the balance sheet of B Ltd. as on 31st March, 2021: (RTP May'21)

	Rs. in lakhs
Property, plant and equipment	360
Investments	90
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

Answer 3

Net assets of B Ltd. as on 31st March, 2021

	Rs. in lakhs	Rs. in lakhs
Property, plant and equipment		360
Investments		90
Current Assets		140
Loans and Advances		30
Total Assets		620
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280)
Equity / Net Worth		340
Share of Minority Interest in net assets (30% of 340)		102
A Ltd.'s share in net assets (70% of 340)		238
A Ltd.'s cost of acquisition of shares of B Ltd.		
(Rs.140 lakhs)		(140)
Capital reserve		98

Question 4

From the following data, determine Minority Interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% of Share Owned	Cost	Date of Acquisition		Consolidation date	
				01-01-2021		31-12-2021	
				Share Capital	Profit and Loss A/c	Share Capital	Profit and Loss A/c
				₹	₹	₹	₹
Case-i	X	85%	1,85,000	1,35,000	60,000	1,35,000	70,000
Case-ii	Y	70%	1,60,000	1,25,000	45,000	1,25,000	5,000
Case-iii	Z	65%	83,000	25,000	5,000	25,000	5,000
Case-iv	M	90%	60,000	45,000	20,000	45,000	40,000
Case-v	N	100%	85,000	25,000	25,000	25,000	50,000

(MTP 5 Marks Sep'22, PYP 5 Marks Nov'19, RTP Nov 20, MTP 7 Marks Dec'24) (Same concept different figures RTP May'19)

Answer 4

Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.2021

B = Profit & loss account balance on 1.1.2021

C = Share capital on 31.12.2021

D = Profit & loss account balance on 31.12.2021

	Minority % Shares Owned	Minority interest as at the date of acquisition	Minority interest as at the date of consolidation
	[E]	[E] x [A + B] ₹	[E] X [C + D] ₹
Case i [100-85]	15%	29,250	30,750
Case ii [100-70]	30%	51,000	39,000
Case iii [100-65]	35%	10,500	10,500
Case iv [100-90]	10%	6,500	8,500
Case v [100-100]	NIL	NIL	NIL

Question 5

Gamma Ltd. Acquired 24,000 equity shares of ₹ 10 each, in Beta Ltd. On October 1, 2023 for ₹ 4,60,200. The profit and loss account of Beta Ltd. Showed a balance of ₹ 15,000 on April 1,2023. The plant and machinery of Beta Ltd. Which stood in the books at ₹ 2,25,000 on April 1,2023 was considered worth ₹ 2,70,000 on the date of acquisition.

The information of the two companies as at 31-3-2024 was as follows:

	Gamma Ltd. (₹)	Beta Ltd. (₹)
Shares capital (fully paid equity shares of ₹ 10 each)	7,50,000	3,00,000
General reserve	3,60,000	1,50,000
Profit and loss account	85,800	1,23,000
Current Liabilities	2,54,700	49,500
Land and building	2,70,000	2,85,000
Plant and machinery	3,60,000	2,02,500
Investments	4,60,200	
Current assets	3,60,300	1,35,000

You are required to compute impact of revaluation of Plant and Machinery. (7+7 = 14 Marks)

(MTP 7 Marks Apr'24)

Answer 5

Impact of Revaluation of Plant and Machinery will be as –

	₹
Book value of Plant and Machinery as on 01-04-2023	2,25,000

Depreciation Rate $\frac{(2,25,000-2,02,500}{2,25,000}$ =22,500/2,25000 x 100	10 %
Book value of Plant and Machinery as on 01-10-2023 after six months depreciation @10% (2,25,000-11,250)	2,13,750
Revalued at	2,70,000
Revaluation profit (2,70,000-2,13,750)	56,250
Share of Gamma Limited in Revaluation Profit (80%)	45,000
Share of Minority in Revaluation profit (20%)	11,250
Additional Depreciation on appreciated value to be charged from post-acquisition profits	
(10% of ₹ 22,5,000 for 6 months) + (10% of ₹ 2,70,000 for 6 months) less ₹ 22500 (as already charged)	2,250
Share of Gamma Limited in additional depreciation that will reduce its share (80%) in post-acquisition profit by	1,800
Share of Minority Interest in additional depreciation	450

Working Note :

Percentage of holding:	**No. of Shares**	**Percentage**
Holding Co. :	24,000	(80%)
Minority shareholders :	6,000	(20%)
TOTAL SHARES :	30,000	

Question 6

H Ltd. and S Ltd. provide the following information as at 31st March,2022:

	H Ltd.₹	S Ltd.₹
Property, Plant and Equipment	2,00,000	2,60,000
Investments (14,000 Equity Shares of S Ltd.)	2,52,000	-
Current Assets	1,48,000	1,40,000
Share capital (Fully paid equity shares of ₹ 10 each)	3,00,000	2,00,000
Profit and loss account	1,00,000	80,000
Trade Payables	2,00,000	1,20,000

Additional information:

H Ltd. acquired the shares of S Ltd. on 1st July, 2021 and Balance of profit and loss account of S Ltd. on 1st April, 2021 was ₹ 60,000. Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31st March, 2022. ***(PYP 15 Marks Nov'22)***

Answer 6

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2022

		Note No	Amoun (₹)
	I Equity and Liabilities		
1	Shareholders' Fund:		
	(a) Share Capital	1	3,00,000
	(b) Reserve and Surplus	2	1,10,500
2	Minority interest	3	84,000
3	Current Liabilities		
	Trade payables	4	3,20,000
	Total		8,14,500
	II Assets		
1	Non-Current Assets:		
	Property, plant and equipment	5	4,60,000
	Intangible Asset	6	66,500
2	Current Assets	7	2,88,000
	Total		8,14,500

Notes to Accounts

		Amount (₹)
1	Share capital 30,000 Equity Shares @ ₹10 each	3,00,000
2	Reserve and Surplus Profit and loss account (₹ 1,00,000 + 70% of 9/12 x 20,000 i.e. ₹ 10,500)	1,10,500
3	Minority Interest (W/N 2)	84,000
4	Trade payables	
	H Ltd.	2,00,000
	S Ltd.	1,20,000
		3,20,000
5	Property, plant and equipment	
	H Ltd.	2,00,000
	S Ltd.	2,60,000
		4,60,000
6	Intangible Asset:	
	Goodwill (W/N 3)	66,500
7	Current Assets	
	H Ltd.	1,48,000
	S Ltd.	1,40,000
		2,88,000

Working Notes:

1. **Percentage of holding**

	No. of Shares	Percentage
Holding Co.:	14,000	(70%)
Minority shareholders:	6,000	(30%)
Total Shares:	20,000	

2. **Calculation of Minority Interest**

Share capital (30% of ₹ 2,00,000)	60,000	
Share in Profit and loss account (₹ 80,000 X 30%)	24,000	84,000

3. **Calculation of Cost of Control (Goodwill)**

Cost of Investment	2,52,000
Less: Paid up value of shares (70% of ₹ 2,00,000) Share in pre-acquisition profits	(1,40,000)
70% of [60,000+3/12(80,000-60,000)]	(45,500)
	66,500

Exam Insights: Some examinees erred in calculation of minority interest and cost of control. Consequently, they were unable to prepare the consolidation Balance sheet of the company as per Schedule III of the Companies Act, 2013.

Question 7

From the Balance Sheets and information given below, prepare Consolidated Balance Sheet of Viwitzu Ltd. and Anushka Ltd. as at 31st March. Viwitzu Ltd. holds 80% of Equity Shares in Anushka Ltd. since its (Anushka Ltd.'s) incorporation.

Balance Sheet of Viwitzu Ltd. and Anushka Ltd. as at 31st March, 2023

Particulars	Note No.	Viwitzu Ltd. (₹)	Anushka Ltd. (₹)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	6,00,000	4,00,000

(b) Reserves and Surplus	2	1,00,000	1,00,000
(2) Non-current Liabilities			
Long Term Borrowings		2,00,000	1,00,000
(3) Current Liabilities (a) Trade Payables		1,00,000	1,00,000
Total		10,00,000	7,00,000
II. Assets (1) Non-current assets (a) Property, Plant and Equipment		4,00,000	3,00,000
(b) Non-current investments	3	3,20,000	-
(2) Current Assets (a) Inventories		1,60,000	2,00,000
(b) Trade Receivables		80,000	1,40,000
(c) Cash & Cash Equivalents		40,000	60,000
Total		10,00,000	7,00,000

Notes to Accounts

	Particulars	(₹)	Viwitzu Ltd. (₹)	Anushka Ltd. (₹)
1.	Share capital			
	60,000 equity shares of ₹ 10 each fully paid up		6,00,000	--
	40,000 equity shares of ₹ 10 each fully paid up		--	4,00,000
	Total		6,00,000	4,00,000
2.	Reserves and Surplus			
	General Reserve		1,00,000	1,00,000
	Total		1,00,000	1,00,000
3.	Non-current investments			
	Shares in Anushka Ltd		3,20,000	--

(MTP 14 Marks Mar'24, SM)

Answer 7

Consolidated balance Sheet of Viwitzu Ltd. and its Subsidiary Anushka Ltd. as at 31st March, 2023

	Particulars	Note	Amount (₹)
I	**EQUITY AND LIABILITIES:**		
(1)	**Shareholders' Funds:**		
	(a) Share Capital	1	6,00,000
	(b) Reserve and Surplus	2	1,80,000
(2)	**Minority Interest**	3	1,00,000
(3)	**Non-Current Liabilities:**		
	Long Term Borrowings	4	3,00,000
(4)	**Current Liabilities:**		
	Trade Payables	5	2,00,000
	Total		**13,80,000**
II	**ASSETS:**		
(1)	**Non-Current Assets**		
	Property, Plant & Equipment	6	7,00,000
(2)	**Current Assets:**		
	(a) Inventories	7	3,60,000
	(b) Trade receivables	8	2,20,000
	(c) Cash and Cash Equivalents	9	1,00,000

	Total		13,80,000

Notes to Accounts

	Particulars	₹	₹
1.	**Share capital**		
	60,000 equity shares of ₹ 10 each fully paid up		6,00,000
2.	**Reserves and Surplus**		
	General Reserve	1,00,000	
	Add: General reserve of Anushka Ltd (80%)	80,000	
	Total		1,80,000
3.	**Minority interest**		
	20% share in Anushka Ltd (WN 3)		1,00,000
4	**Long term borrowings**		
	Long term borrowings of Viwitzu	2,00,000	
	Add: Long term borrowings of Anushka	1,00,000	
	Total		3,00,000
5.	**Trade payables**		
	Trade payables of Viwitzu	1,00,000	
	Add: Trade payables of Anushka	1,00,000	
	Total		2,00,000
6.	**Property, Plant and Equipment (PPE)**		
	PPE of Viwitzu Ltd	4,00,000	
	Add: PPE of Anushka Ltd	3,00,000	
	Total		7,00,000
7.	Inventories		
	Inventories of Viwitzu Ltd	1,60,000	
	Add: Inventories of Anushka Ltd	2,00,000	
	Total		3,60,000
8.	Trade receivables		
	Trade receivables of Viwitzu Ltd	80,000	
	Add: Trade receivables of Anushka Ltd	1,40,000	
	Total		2,20,000
9	Cash and cash equivalents		
	Cash and cash equivalents of Viwitzu Ltd	40,000	
	Add: Cash and cash equivalents of Anushka Ltd	60,000	
	Total		1,00,000

Working Notes:

1. **Basic Information**

Company Status	Dates	Holding Status
Holding Co. = Viwitzu Ltd. Subsidiary = Anushka Ltd.	Acquisition: Anushka's Incorporation Consolidation: 31st March, 2023	Holding Company = 80% Minority Interest = 20%

2. **Analysis of General Reserves of Anushka Ltd**
   Since Viwitzu holds shares in Anushka since its incorporation, the entire Reserve balance of ₹1,00,000 will be Revenue.

3. **Consolidation of Balances**

Holding- 80%, Minority - 20%	Total	Minority Interest	Holding Company	
Equity Capital	4,00,000	80,000	3,20,000	-
General Reserves	1,00,000	20,000	Nil (pre-acq)	80,000 (post-acq)
Total		1,00,000	3,20,000	80,000

Cost of Investment Goodwill/ capital reserve			(3,20,000) NIL	-
Parent's Balance				1,00,000
Amount for Consolidated Balance Sheet				1,80,000

Question 8 LDR

GB Limited acquired 80% of equity shares of TB Limited on 1st April,2016 at a cost of ₹ 58,00,000 when TB Limited had an Equity share capital of ₹ 50,00,000 and Reserves and Surplus of ₹ 4,64,000.
The following information is provided:

Year	Profit /(Loss) of TB Limited (₹)
2016-17	(14,50,000)
2017-18	(23,20,000)
2018-19	(29,00,000)
2019-20	(6,96,000)
2020-21	1,90,000
2021-22	6,80,000
2022-23	12,70,000

You are required to calculate the minority interests and cost of control at the end of each year for the purpose of consolidation. ***(PYP 15 Marks Nov'23)(Same Concept Different Figure MTP 10 Marks Mar'19, MTP 12 Marks Oct'19, RTP May'23, PYP 10 Marks May'19, SM)***

Answer 8

Year	Profit / (Loss)	Minority Interest (20%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by GB Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 2016			-			
		10,92,800				
		-				
		(W.N.)				
2016-17	(14,50,000)	(2,90,000)	(11,60,000)			14,28,800
						(W.N.)
Balance 2017-18	(23,20,000)	8,02,800 (4,64,000)	(18,56,000)			14,28,800
		3,38,800				
Balance 2017-18	(29,00,000)	(5,80,000)	(23,20,000)			14,28,800
		(2,41,200)				
	Loss of minority Borne by Holding Co.	2,41,200	(2,41,200)	2,41,200	2,41,200	
Balance		Nil	(25,61,200)			
2019-20	(6,96,000)	(1,39,200)	(5,56,800)			14,28,800
	Loss of minority borne by Holding Co.	1,39,200	(1,39,200)	1,39,200	3,80,400	
Balance		Nil	(6,96,000)			
2020-21	1,90,000	38,000	1,52,000			14,28,800
	Profit share Of minority adjusted	(38,000)	38,000	(38,000)	3,42,400	

	Against Losses of Minority absorbed by Holding Co.					
Balance		Nil	1,90,000			
2021-22	6,80,000	1,36,000	5,44,000			
	Profit share of minority adjusted Against Losses of Minority absorbed by Holding Co.	(1,36,000)	1,36,000	(1,36,000)	2,06,400	14,28,800
Balance		Nil	6,80,000			
2022-23	12,70,000	2,54,000	10,16,000	(2,06,400)	Nil	14,28,800
		(2,06,400)	2,06,400			
Balance		47,600	12,22,400			

Working Note:

Calculation of Minority interest and Cost of control on 1.4.2016

		Share of Holding Co.	Minority Interest
	100%	80%	20%
	(₹)	(₹)	(₹)
Share Capital	50,00,000	40,00,000	10,00,000
Reserve	4,64,000	3,71,200	92,800
		43,71,200	10,92,800
Less: Cost of investment		(58,00,000)	
Goodwill		14,28,800	

Exam Insights: A significant number of examinees accurately computed the amount of Goodwill/cost of control at the time of acquisition. However, they struggled with calculating the loss incurred by the holding company due to the losses suffered by the minority company . Additionally, some of them erroneously adjusted the post-acquisition profits to calculate the cost of control for each year, resulting in changes to the cost of control for all seven years.

Question 9

On 31st March, 2015, P Ltd. acquired 1,05,000 shares of Q Ltd. for Rs. 12,00,000. The position of Q Ltd. on that date was as under:

	Rs.
Property, plant and equipment	10,50,000
Current Assets	6,45,000
1,50,000 equity shares of Rs. 10 each fully paid	15,00,000
Pre-incorporation profits	30,000
Profit and Loss Account	60,000
Trade payables	1,05,000

P Ltd. and Q Ltd. give the following information on 31st March, 2021:

	P Ltd.	Q Ltd.
	Rs.	Rs.
Equity shares of Rs. 10 each fully paid (before bonus issue)	45,00,000	15,00,000
Securities Premium	9,00,000	-
Pre-incorporation profits	-	30,000
General Reserve	60,00,000	19,05,000
Profit and Loss Account	15,75,000	4,20,000

Trade payables	5,55,000	2,10,000
Property, plant and equipment	79,20,000	23,10,000
Investment: 1,05,000 Equity shares in Q Ltd. at cost	12,00,000	-
Current Assets	44,10,000	17,55,000

Directors of Q Ltd. made bonus issue on 31.3.2021 in the ratio of one equity share of Rs. 10 each fully paid for every two equity shares held on that date. Bonus shares were issued out of post-acquisition profits by using General Reserve.

Calculate as on 31st March, 2021 (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases:

(a) Before issue of bonus shares.

(b) Immediately after issue of bonus shares. *(RTP Nov'21, SM)*

Answer 9

Shareholding pattern

Particulars	Number of Shares	% of holding
a. P Ltd.		
(i) Purchased on 31.03.2015	1,05,000	
(ii) Bonus Issue (1,05,000/2)	52,500	
Total	1,57,500	70%
b. Minority Interest	67,500	30%

Calculations of (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account as on 31st March, 2021:

(a) Before issue of bonus shares

(i)	**Cost of control/capital reserve**	**Rs.**	**Rs.**
	Investment in Q Ltd.		12,00,000
	Less: Face value of investments	10,50,000	
	Capital profits (W.N.)	63,000	(11,13,000)
	Cost of control		87,000
(ii)	**Minority Interest**		**Rs.**
	Share Capital		4,50,000
	Capital profits (W.N.)		27,000
	Revenue profits (W.N.)		6,79,500
			11,56,500
(iii)	**Consolidated profit and loss account – P Ltd.**		**Rs.**
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		15,85,500
			31,60,500

(b) Immediately after issue of bonus shares

(i)	**Cost of control/capital reserve**	**Rs.**	**Rs.**
	Face value of investments (Rs. 10,50,000 + Rs. 5,25,000)	15,75,000	
	Capital Profits (W.N.)	63,000	16,38,000
	Less: Investment in Q Ltd.		(12,00,000)
	Capital reserve		4,38,000
(ii)	**Minority Interest**		**Rs.**
	Share Capital (Rs. 4,50,000 + Rs. 2,25,000)		6,75,000
	Capital Profits (W.N.)		27,000
	Revenue Profits (W.N.)		4,54,500
			11,56,500
(iii)	**Consolidated Profit and Loss Account – P Ltd.**		**Rs.**
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		10,60,500
			26,35,500

Working Note:

Analysis of Profits of Q Ltd.

	Capital Profits (Before and after issue of bonus shares) Rs.	Revenue Profits	
		Before Bonus Issue Rs.	After Bonus Issue Rs.
Pre-incorporation profits	30,000		
Profit and loss account on 31.3.2015	60,000		
	90,000		
General reserve*		19,05,000	19,05,000
Less: Bonus shares			(7,50,000)
			11,55,000
Profit for period of 1st April, 2015 to 31st March, 2021 (Rs. 4,20,000 – Rs. 60,000)		3,60,000	3,60,000
		22,65,000	15,15,000
P Ltd.'s share (70%)	63,000	15,85,500	10,60,500
Minority's share (30%)	27,000	6,79,500	4,54,500

*Share of P Ltd. in General reserve has been adjusted in Consolidated Profit and Loss Account.

Question 10

On 31st March, 2022, H Ltd. and S Ltd. give the following information:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Equity Share Capital – Authorised	5,000	3,000
Issued and subscribed in Equity Shares of ₹ 10 each fully paid	4,000	2,400
General Reserve	928	690
Profit and Loss Account (Cr. Balance)	1,305	810
Trade payables	611	507
Provision for Taxation	220	180
Other Provisions	65	17
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	-
Inventory	983	786
Trade receivables	820	778
Cash and Bank Balances	410	102
Sundry Advances (Dr. balances)	260	190

Following Additional Information is available:

(a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2021 at which date the following balances stood in the books of S Ltd.:

General Reserve ₹ 1,500 thousand; Profit and Loss Account ₹ 633 thousand.

(b) On 14th July, 2021 S Ltd. declared a dividend of 20% out of pre-acquisition profits. H Ltd. credited the dividend received to its Profit and Loss Account.

(c) On 1st November, 2021, S Ltd. issued 3 fully paid Equity Shares of ₹ 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.

(d) On 31st March, 2021, the Inventory of S Ltd. included goods purchased for ₹ 50 thousand from H Ltd., which had made a profit of 25% on cost.

(e) Details of Trade payables and Trade receivables:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Trade payables		
Bills Payable	124	80
Sundry creditors	487	427
Trade receivables	611	507

Debtors	700	683
Bills Receivables	120	95
	820	778

Prepare a consolidated Balance Sheet as on 31st March, 2022. ***(RTP Nov'22)***

Answer 10

Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2022

Particulars	Note No.	(₹ in 000's)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	4,000
(b) Reserves and Surplus	2	3,063
(2) Minority Interest (W.N.6)		1,560
(3) Current Liabilities		
Trade payables	3	1,118
Short term provisions	4	482
Total		10,223
II. Assets		
(1) Non-current assets		
PPE	5	5,904
(2) Current assets		
(a) Inventories	6	1,759
(b) Trade receivables	7	1,598
(c) Cash and cash equivalents	8	512
(d) Short term loans and advances	9	450
Total		10,223

Notes to Accounts

			(₹ in 000's)	(₹ in 000's)
1.	Share Capital			
	Authorised share capital			
	5 lakhs equity shares of ₹ 10 each			5,000
	Issued, Subscribed and Paid up			
	4 lakhs equity shares of ₹ 10 each fully paid			4,000
2.	Reserves and surplus			
	Capital Reserve (Note 5)		679.8	
	General Reserve		928	
	Profit and Loss Account:			
	H Ltd.	₹ 1,305		
	Add: Share in S Ltd	₹ 340.20		
		₹ 1,645.20		
	Less: Dividend wrongly credited	₹ (180)		
		₹ 1,465.20		
	Less: Unrealised profit (50 X 1/5)	₹ (10)	1,455.20	3,063
3.	Trade payables			
	H Ltd.		611	
	S Ltd.		507	1,118
4.	Short –term provisions			
	Provision for Taxation H Ltd.	₹ 220		
	S Ltd.	₹ 180	400	
	Other Provisions H Ltd	₹ 65		
	S Ltd.	₹ 17	82	482
5.	PPE			
	Plant and Machinery			

	H Ltd.	₹ 2,541		
	S Ltd.	₹ 2,450	4,991	
	Furniture and fittings			
	H Ltd.	₹ 615		
	S Ltd.	₹ 298	913	5,904
6.	Inventories			
	Inventory H Ltd.	₹ 983		
	S Ltd.	₹ 786	1,769	
	Less: Unrealised profit (₹ 50 x 1/5)		(10)	1,759
7.	Trade receivables			
	H Ltd.		820	
	S Ltd.		778	1,598
8.	Cash and cash equivalents			
	Cash and Bank Balances	H Ltd.	410	
		S Ltd.	102	512
9.	Short term loans and advances			
	Sundry Advances	H Ltd.	260	
		S Ltd.	190	450

Working Notes:

Share holding pattern

	Particulars	Number of Shares	% of holding
a.	S Ltd.		
	(i) Purchased on 01.04.2021	90,000	
	(ii) Bonus Issue (90,000/5 x 3)	54,000	
	Total	1,44,000	60% (1,44,000 /2,40,000*x100)
b.	Minority Interest	96,000	40%

*2,40,000 is after issue of bonus shares as per balance sheet as at 31.3.2022

1. S Ltd. General Reserve

	(₹ in 000)		(₹ in 000)
To Bonus to equity shareholders $\frac{2,400 \times 3}{8}$	900	By Balance b/d By Profit and Loss A/c	1,500
To Balance c/d	690	(Balancing figure)	90
	1,590		1,590

2. S Ltd.'s Profit and Loss Account

	(₹ in 000)		(₹ in 000)
To General Reserve	90	By Balance b/d	633
To Dividend paid on 14.7.2021 $\frac{1,500 X 20}{100}$	300	By Net Profit for the year (Balancing figure)	567*
To Balance c/d	810		
	1,200		1,200

* Out of ₹ 5,67,000 profit for the year, ₹ 90,000 has been transferred to reserves by S Ltd.

3. Distribution of Revenue Profits

	₹ in '000
Revenue Profit as above	567.00
Share of H Ltd. (60%)	340.20
Share of Minority shareholders (567– 340.20)	226.80

4. Computation of Capital Profits

	₹ in 000	₹ in 000
General Reserve on the date of acquisition		1,500

Less: Bonus issue of shares		(900)
		600
Profit and Loss Account balance on the date of acquisition	633	
Less: Dividends paid	(300)	333
		933
Share of H Ltd. (60%)		559.80
Share of Minority shareholders		373.20

5. Computation of Capital Reserve

		₹ in '000
60% of share capital of S Ltd.		1,440
Add: Share of H Ltd. in the capital profits as in working note (4)		559.80
		1,999.80
Less: Investments in S Ltd.	1,500	
Less: Dividends received out of pre- acquisition profits $\frac{₹ 30 \times 60}{100}$	(180)	(1,320)
		679.80

6. Calculation of Minority Interest

	₹ in '000
40% of share capital of S Ltd.	960.00
Add: Share of Revenue Profits (Note 3)	226.80
Share of Capital Profits (Note 4)	373.20
	1,560.00

Question 11

H Ltd acquired 15000 shares in S Ltd. for 1,55,000 on July 1, 2022. The Balance sheet of the two companies as on 31st March, 2023 were as follows:

	H Ltd.₹	S Ltd.₹
Equity and Liabilities:		
Equity Share Capital (Fully paid shares of ₹ 10 each)	9,00,000	2,50,000
General Reserve	1,60,000	40,000
Surplus i.e., Balance in Statement of Profit and Loss	80,000	25,000
Bills payable	40,000	20,000
Trade Creditors	50,000	30,000
Total	12,30,000	3,65,000
Assets:		
Machinery	7,00,000	1,50,000
Furniture	1,00,000	70,000
Investment in Equity Shares of S Ltd.	1,55,000	-
Stock-in Trade	1,00,000	50,000
Trade Debtors	60,000	35,000
Bills Receivable	25,000	20,000
Cash at Bank	90,000	40,000
Total	12,30,000	3,65,000

The following additional information is provided to you:

(i) General reserve appearing in the Balance Sheet of S Ltd. remained unchanged since 31st March, 2022.

(ii) Profit earned by S Ltd. for the year ended 31st March, 2023 amounted to ₹ 20,000.
(iii) H Ltd. sold goods to S Ltd. costing ₹ 8,000 for ₹ 10,000, 25% of these goods remained unsold with S Ltd. on 31st March, 2023.
(iv) Creditors of S Ltd. include ₹ 4000 due to H Ltd. on account of these goods.
(v) Out of Bills payable issued by S Ltd. ₹ 15,000 are those which have been accepted in favour of H Ltd. Out of these, H Ltd. had endorsed by 31st March, 2023, ₹ 8000 worth of bills receivable in favour of its creditors.

You are required to draw a consolidated Balance Sheet as on 31st March, 2023.
(PYP 15 Marks May'23)

Answer 11

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2023

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds	1	9,00,000
(a) Share Capital		
(b) Reserves and Surplus	2	2,73,500
(2) Minority Interest	3	1,26,000
(3) Current Liabilities		
(a) Trade Payables	4	1,29,000
Total		14,28,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	10,20,000
(2) Current assets		
(i) Inventory	6	1,49,500
(ii) Trade Receivables	7	1,29,000
(iii) Cash & cash equivalent	8	1,30,000
Total		14,28,500

Notes to Accounts

				₹
1.	Share capital Authorised, issued, subscribed and paid up capital 90,000 equity shares of ₹ 10 each, fully paid up			9,00,000
2.	Reserves and Surplus General Reserves		1,60,000	
	Profit and Loss Account (W.N.5) Capital Reserve (W.N. 4)		88,500 25,000	2,73,500
3.	Minority interest in S Ltd. (WN 3)			1,26,000
4.	Trade payable			
	Bills Payable			
	H Ltd.	40,000		
	S Ltd.	20,000		
		60,000		
	Less: Mutual payables	(7,000)	53,000	
	Trade Creditors			
	H Ltd.	50,000		
	S Ltd.	30,000		
		80,000		
	Less: Mutual owing	(4,000)	76,000	1,29,000
5.	Property, plant and equipment			

	Machinery H Ltd. 7,00,000 S Ltd. 1,50,000		8,50,000	
	Furniture H Ltd. 1,00,000 S Ltd. 70,000		1,70,000	10,20,000
6.	Inventory			
	H Ltd.		1,00,000	
	S Ltd.		50,000	
	Less: Unrealized profit (2,000x 25%)		500	1,49,500
7.	Trade receivables			
	Bills receivable			
	H Ltd.	25,000		
	S Ltd.	20,000		
		45,000		
	Less: Mutual payables	(7,000)	38,000	
	Debtors			
	H Ltd.	60,000		
	S Ltd.	35,000		
		95,000		
	Less: Mutual owing	(4,000)	91,000	1,29,000
8.	Cash & cash equivalent Cash at Bank H Ltd.		90,000	
	S Ltd.		40,000	1,30,000

Working Notes:

1. **Percentage of holding**

	No. of Shares	Percentage
Holding Co.	15,000	(60%)
Minority shareholders	10,000	(40%)
Total Shares	25,000	

2. **Analysis of Profits**

	Pre-acquisition profits and reserves of S Ltd. (₹)	**Post-acquisition profits of S Ltd. (₹)**
General Reserve	40,000	---
Opening balance of Profit and Loss	5,000	---
Current Year's profit (in 1:3)	5,000	15,000
	50,000	15,000
H Ltd.'s share (60%)	30,000	9,000
Minority Interest (40%)	20,000	6,000

3. **Minority Interest**

Paid up value of 10,000 shares @ ₹ 10 each	₹ 1,00,000
Add: Share in pre-acquisition profits and reserve (40%)	₹ 20,000
Add: Share in post-acquisition profits (40%)	₹ 6,000
	₹ 1,26,000

4. **Capital Reserve for H Ltd.**

(A)	Cost of acquiring 15,000 shares of S Ltd.	₹ 1,55,000
	Paid up value of 15,000 shares of S Ltd. @ ₹ 10 each	₹ 1,50,000
	Add: Share in pre-acquisition profit and reserves of S Ltd.	₹ 30,000

		₹ 1,80,000
(B)	Capital Reserve (B - A)	₹ 25,000

5. Consolidated Balance of Profits of H Ltd.

	₹ 80,000
Balance as per Statement of Profit and Loss	₹ 9,000
Add: Share in post-acquisition profits of S Ltd.	₹ (500)
Less: Unrealised Profit in unsold stock of S Ltd.	₹ 88,500

Exam Insights: Some of the examinees erred in calculation of minority interest and analysis of profits between pre and post-acquisition periods. Consequently, they were unable to prepare the correct consolidated Balance sheet of the company in the format prescribed under Schedule III of the Companies Act, 2013.

Question 12

The Trial Balances of Preet Limited and Shiva Limited as on 31st March, 2023 were as under:

	Preet Limited (₹ In 000)		Shiva Limited (₹ In 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of ₹ 100 each)		2,000		400
7% Preference share capital		-		400
Reserves		600		200
6% Debentures		400		400
Trade Payables/ Trade Receivables	160	180	100	120
Profit & Loss A/c balance		40		30
Purchases /Sales	1,000	1,800	1,200	1.900
Wages and Salaries	200		300	
Debenture Interest	24		24	
General Expenses	160		120	
Preference share dividend up to 30.09.2022		7	14	
Inventory (as on 31.03.2023)	200		100	
Cash at Bank	27		12	
Investment in Shiva Limited	1,056		-	
Fixed Assets	2,200		1,580	
Total	5,027	5,027	3,450	3,450

Investment in Shiva Limited was acquired on 1st July, 2022 and consisted of 80% of Equity Share Capital and 50% of Preference Share Capital.

- After acquiring control over Shiva Limited, Preet Limited supplied to Shiva Limited goods at cost plus 25%, the total invoice value of such goods being ₹ 1,20,000, one fourth of such goods were still lying-in inventory at the end of the year.
- Depreciation to be charged @ 10% in Preet Limited and @ 15% in Shiva Limited on Fixed Assets.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2023. *(RTP May'24) (Same concept Different Figure PYP 15 Marks Jul'21)*

Answer 12

Consolidated Profit and Loss Account of Preet Ltd. and Shiva Ltd. for the year ended 31st March, 2023

	Particulars	Note No.	₹
I.	Revenue from operations	1	35,80,000
II.	Total revenue		35,80,000
III.	Expenses		
	Cost of Material purchased/Consumed	2	20,80,000

	Changes of Inventories of finished goods		-
	Employee benefit expense	3	5,00,000
	Finance cost	4	48,000
	Depreciation and amortization expense	5	4,57,000
	Other expenses	6	2,80,000
	Total expenses		33,65,000
IV.	Profit before Tax (II-III)		2,15,000
Profit transferred to Consolidated Balance Sheet			
Profit After Tax			2,15,000
Preference dividend		7,000	
Preference dividend payable		7,000	(14,000)
			2,01,000
Share in pre-acquisition loss (WN 3)			1,800
Share of Minority interest in losses (WN 1)			1,800
Less: Investment Account-dividend for 3 months (prior to acquisition)			(3,500)
Inventory reserve (WN 2)			(6,000)
Profit to be transferred to consolidated balance sheet			1,95,100

Notes to Accounts

		₹	₹
1	Revenue from Operations		
	Preet Ltd.	18,00,000	
	Shiva Ltd.	19,00,000	
	Total	37,00,000	
	Less: Intra-group sales (Preet sold to Shiva)	(1,20,000)	35,80,000
2	Cost of Materials Purchased/Consumed		
	Preet Ltd.	10,00,000	
	Shiva Ltd.	12,00,000	
	Total	22,00,000	
	Less: Intra-group sales (Preet sold to Shiva)	(1,20,000)	20,80,000
3	Employee benefit and expenses		
	Wages and salaries		
	Preet Ltd.	2,00,000	
	Shiva Ltd.	3,00,000	5,00,000
4	Finance cost		
	Interest		
	Preet Ltd.	24,000	
	Shiva Ltd.	24,000	48,000
5	Depreciation		
	Preet Ltd.	2,20,000	
6	Shiva Ltd.	2,37,000	4,57,000
	Other expenses		
	Preet Ltd.	1,60,000	
	Shiva Ltd.	1,20,000	2,80,000

Working Note

Profit of Subsidiary

Revenue from Operations		19,00,000

Less: Expenses		
Cost of Material purchased/Consumed	12,00,000	
Changes of Inventories of finished goods	-	
Employee benefit expense	3,00,000	
Finance cost	24,000	
Depreciation and amortization expense	2,37,000	
Other expenses	1,20,000	
Total expenses		(18,81,000)
Profit Before Tax		19,000
Less: Preference Dividend	14,000	
Less: Preference Dividend Payable	14,000	(28,000)
Profit available for shareholders		(9,000)
Minority Share (20% of loss ₹ 9,000)		(1,800)

Inventory reserve = $\left[\frac{120000}{4} \times \frac{25}{125}\right]$ = ₹ 6,000

3 Pre-acquisition loss = 80% of 3 month's profit up to 30th June,2022 i.e. 80 % of ¼ of loss ₹ 9,000 Hence, pre-acquisition loss = ₹ 1,800

4 Investment account includes Preference dividend for 3 months prior to acquisition i.e. ₹ 4,00,000 X 50% X7% X1/4 = ₹ 3,500

Exam Insights: Small number of examinees were not able to prepare the statement of consolidated profit and loss from the information provided in the question. Some of them did not prepare notes to accounts.

Question 13

White Ltd. acquired 2,250 shares of Black Ltd. on 1st October,.2020. The summarized balance sheets of both the companies as on 31st March, 2021 are given below:

	White Ltd. (₹)	Black Ltd. (₹)
(I) Equity and Liabilities		
(1) Shareholder's fund		
Share capital (Equity shares of ₹ 100 each fully paid up)	6,50,000	3,00,000
Reserves and Surplus		
General Reserve	60,000	30,000
Profit and loss account	1,50,000	90,000
(2) Current Liabilities		
Trade payables	1,15,000	75,000
Due to White Ltd.	-	30,000
Total	9,75,000	5,25,000
(II) Assets:		
Non-current assets		
Property, Plant and Equipment	5,80,000	3,51,000
Investments		
Shares in Black Ltd. (2,250 shares)	2,70,000	
Current assets		
Inventories	50,000	1,20,000
Due from Black Ltd.	36,000	
Cash and Cash equivalents	39,000	54,000
	9,75,000	5,25,000

Other information:

(i) **During the year, Black Limited fabricated a machine, which is sold to White Ltd. for ₹ 39,000, the transaction being completed on 30th March,2021.**

(ii) **Cash in transit from Black Ltd. to White Ltd. was ₹ 6,000 on 31st March,2021.**

(iii) Profits during the year 2020-2021 were earned evenly.

(iv) The balances of Reserve and Profit and Loss account as on 1st April,2020 were as follows:

	Reserves	Profit and Loss A/c
	₹	₹
White Ltd.	30,000	15,000 Profit
Black Ltd.	30,000	10,000 Loss

You are required to prepare a consolidated Balance Sheet of the group as on 31st March,2021 as per the requirement of Schedule III of the Companies Act, 2013. *(PYP 15 Marks May'22)*

Answer 13

Consolidated Balance Sheet of White Ltd. and its Subsidiary Black Ltd. as at 31st March, 2021

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,50,000
(b) Reserves and Surplus	2	2,55,000
(2) Minority Interest	3	1,05,000
(3) Current Liabilities		
(a) Trade Payables	4	1,90,000
Total		12,00,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	9,31,000
(2) Current assets		
(i) Inventory	6	1,70,000
(ii) Cash & cash equivalent	7	99,000
Total		12,00,000

Notes to Accounts

			₹
1.	**Share capital**		
	6,500 equity shares of ₹ 100 each, fully paid up		6,50,000
	Total		6,50,000
2.	**Reserves and Surplus**		
	General Reserves		60,000
	Profit and Loss Account	1,50,000	
	Add: 75% share of Black Ltd.'s post-acquisition profits (W.N.1)	37,500	1,87,500
	Capital reserve (W.N. 5)		7,500
	Total		2,55,000
3.	**Minority interest in Black Ltd. (WN 4)**		1,05,000
4.	**Trade payables**		
	White Ltd.	1,15,000	
	Black Ltd.	75,000	1,90,000
5.	**Property, plant and equipment**		
	White Ltd.	5,80,000	
	Black Ltd.	3,51,000	9,31,000
6	**Inventory**		
	White Ltd.	50,000	
	Black Ltd.	1,20,000	1,70,000
7	**Cash & cash equivalent**		
	White Ltd.	39,000	
	Black Ltd.	54,000	
	Cash in transit	6,000	99,000

Working Notes:

1. Post-acquisition profits of Black Ltd.		₹
profits earned during the year = ₹ 90,000 + ₹10,000		1,00,000
Pre-acquisition profits (1.4.20 to 30.9.20)		50,000
Post-acquisition profits (1.10.20 to 31.3.21)		50,000
White Ltd.'s share 75% of 50,000		37,500
Minority Interest 25% of 50,000		12,500
2. Pre-acquisition profits and reserves of Black Ltd.		
Reserves as on 1.4.2020		30,000
Profit and Loss Account [10,000 (loss as on 1.4.20) +50,000 (6 month Adjusted pre-acquisition profits)]		40,000
		70,000
White Ltd.'s = (75%) × 70,000		52,500
Minority Interest= (25%) × 70,000		17,500
3. Post-acquisition reserves of Black Ltd.		
Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 30,000 – 30,000)		Nil
4. Minority Interest		
Paid-up value of (3,000 – 2,250) = 750 shares		
held by outsiders i.e. 750 × ₹ 100		75,000
Add: 25% share of pre-acquisition reserves & Profit		17,500
25% share of post-acquisition profit		12,500
		1,05,000
5. Capital Reserve		
Price paid by White Ltd. for 2,250 shares (A)		2,70,000
Intrinsic value of the shares-		
Paid-up value of 2,250 shares held by White Ltd. i.e. 2,250 × ₹ 100	2,25,000	
Add 75% share of pre-acquisition reserves & profit (70,000 x 75%)	52,500 (B)	2,77,500
Capital reserve (A – B)		7,500

Exam Insights: Very few examinees failed to compute the correct amount of pre and post-acquisition profits and reserves, capital reserve and minority interest and hence could not give the correct consolidate ed balance sheet of the group as per the requirements of Schedule III.

Question 14

Vivit Ltd. and its subsidiary Su Ltd. provided the following information for the year ended 31st March, 2023:

Particulars	Vivit Ltd (₹)	Su Ltd. (₹)
Equity Share Capital	20,00,000	6,00,000
Finished Goods Inventory as on 01.04.2022	4,20,000	3,01,000
Finished Goods Inventory as on 31.03.2023	8,57,500	3,76,250
Dividend Income	1,68,000	43,750
Other non-operating Income	35,000	10,500
Raw material consumed	13,93,000	4,72,500
Selling and Distribution Expenses	3,32,500	1,57,500
Production Expenses	3,15,000	1,40,000
Loss on sale of investments	26,250	Nil
Sales and other operating income	33,25,000	19,07,500
Wages and Salaries	13,30,000	2,45,000

General and Administrative Expenses	2,80,000	1,22,500
Royalty paid	Nil	5,000
Depreciation	31,500	14,000
Interest expense	17,500	5,250

Other information

- On 1st September 2020 Vivit Ltd., acquired 5,000 equity shares of ₹ 100 each fully paid up in Su Ltd.
- Su Ltd. paid a dividend of 10% for the year ended 31st March 2022. The dividend was correctly accounted for by Vivit Ltd.
- Vivit Ltd. sold goods of ₹ 1,75,000 to Su Ltd. at a profit of 20% on selling price. Inventory of Su Ltd. includes goods of ₹ 70,000 received from Vivit Ltd.
- Selling and Distribution expenses of Su Ltd. include ₹ 21,250 paid to Vivit Ltd. as brokerage fees.
- General and Administrative expenses of Vivit Ltd. include ₹ 28,000 paid to Su Ltd. as consultancy fees.
- Su Ltd. used some resources of Vivit Ltd., and Su Ltd. paid ₹ 5,000 to Vivit Ltd. as royalty.

Consultancy fees, Royalty and brokerage received is to be considered as operating revenues.

Prepare Consolidated Statement of Profit and Loss of Vivit Ltd. and its subsidiary Su Ltd. for the year ended 31st March, 2023 as per Schedule III to the Companies Act, 2013.

(RTP Nov'23)(Same concepts different figures PYP 15 Marks Dec'21, SM)

Answer 14

Consolidated statement of profit and loss of Vivit Ltd. and its subsidiary Su Ltd. for the year ended on 31st March, 2023

Particulars	Note No.	₹
Revenue from operations	1	50,03,250
Other Income	2	1,81,000
Total revenue (I)		51,84,250
Expenses:		
Cost of material purchased/consumed	3	21,45,500
Changes (Increase) in inventories of finished goods	4	(4,98,750)
Employee benefit expense	5	15,75,000
Finance cost	6	22,750
Depreciation and amortization expense	7	45,500
Other expenses	8	8,43,250
Total expenses (II)		41,33,250
Profit before tax (II-III)		10,51,000

Notes to Accounts:

			₹	₹
1.	Revenue from operations			
	Sales and other operating revenues			
	Vivit Ltd.		33,25,000	
	Su Ltd.		19,07,500	
			52,32,500	
	Less: Inter-company sales		(1,75,000)	
	Consultancy fees received by Su Ltd. from Vivit Ltd.		(28,000)	
	Royalty received by Vivit Ltd. from Su Ltd.		(5,000)	
	Brokage received by Vivit Ltd. from Su Ltd.		(21,250)	50,03,250
2.	Other Income			
	Dividend income:			
	Vivit Ltd.	1,68,000		

	Su Ltd.	43,750	2,11,750	
	Loss on sale of investments Su Ltd.		(26,250)	
	Other Non-operating Income			
	Vivit Ltd.	35,000		
	Su Ltd.	10,500		
	Less: Dividend realized from Su Ltd. (5,00,000 x 10%)	(50,000)	4,500	1,81,000
3.	Cost of material purchased/consumed			
	Vivit Ltd.	13,93,000		
	Su Ltd.	4,72,500		
		18,65,500		
	Less: Purchases by Su Ltd. From Vivit Ltd.	(1,75,000)	16,90,500	
	Direct expenses (Production)			
	Vivit Ltd.	3,15,000		
	Su Ltd.	1,40,000	4,55,000	21,45,500
4.	Changes (Increase) in inventories of finished goods			
	Vivit Ltd.		4,37,500	
	Su Ltd.		75,250	
			5,12,750	
	Less: Unrealized profits ₹ 7,00,00 × 20/100		(14,000)	4,98,750
5.	Employee benefits and expenses			
	Wages and salaries:			
	Vivit Ltd.		13,30,000	
	Su Ltd.		2,45,000	15,75,000
6	Finance cost			
	Interest:			
	Vivit Ltd.		17,500	
	Su Ltd.		5,250	22,750
7.	Depreciation			
	Vivit Ltd.		31,500	
	Su Ltd.		14,000	45,500
8.	Other expenses			
	General & Administrative expenses:			
	Vivit Ltd.	2,80,000		
	Su Ltd.	1,22,500		
		4,02,500		
	Less: Consultancy fees received by Su Ltd. from Vivit Ltd.	(28,000)	3,74,500	
	Royalty:			
	Su Ltd. Less: Received by Vivit Ltd.	5,000 (5,000)	Nil	
	Selling and distribution Expenses:			
	Vivit Ltd.	3,32,500		
	Su Ltd.	1,57,500		
		4,90,000		
	Less: Brokerage received by Vivit Ltd. from Su Ltd.	(21,250)	4,68,750	8,43,250

Exam Insights: Few examinees could not treat the different adjustments, given in the question, in the correct manner. Hence, they could not arrive at the amount of profit to be presented in the consolidated statement of profit and Loss. Few among them were not able to prepare consolidated statement of Profit & Loss as per Schedule III of Companies Act, 2013.

Question 15

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

Particulars	NoteNo	Art Limited (₹)	Craft Limited (₹)
I. Equity and Liabilities			
a. Shareholder's Fund			
i. Share Capital	1	6,50,000	4,00,000
ii. Reserve & Surplus	2	3,12,000	2,48,000
b. Current Liabilities			
i. Trade Payables		1,45,000	92,000
ii. Short term borrowings	3	70,000	-
		11,77,000	7,40,000
II. Assets			
a. Non-current Assets			
i. Property, Plant & Equipment	4	4,21,000	3,60,000
ii. Non-current investment	5	4,32,000	-
b. Current Assets		1,66,000	2,05,000
i. Inventories			
ii. Trade Receivables	6	1,33,500	1,68,300
Cash & Cash equivalent		24,500	6,700
		11,77,000	7,40,000

Notes to Accounts:

		Art Limited (₹)	Craft Limited (₹)
1.	Share capital 6,500 shares of ₹ 100 each fully paid up4,000 shares of ₹ 100 each fully paid-up	6,50,000 -	 4,00,000
	Total	6,50,000	4,00,000
2.	Reserves and Surplus		
	General Reserve Profit and Loss account	1,20,000 1,92,000	40,000 2,08,000
	Total	3,12,000	2,48,000
3.	Short term borrowingsBank Overdraft	70,000	-
4.	Property Plant & EquipmentLand & Building Plant & Machinery	1,90,000 2,31,000	1,35,000 2,25,000
	Total	4,21,000	3,60,000
5.	Non-current investments Investment in Craft Limited (Cost)	4,32,000	-
6.	Cash & Cash equivalentsCash	24,500	6,700

Additional information:

(i) Art Limited acquired 3,200 ordinary shares of Craft Limited on 1st October, 2023. The Reserve & Surplus and Profit & Loss Account of Craft Limitedshowed a credit balance of ₹ 40,000 and ₹ 58,700 respectively as on 1st April, 2023.

(ii) The Plant & Machinery of Craft Limited which stood at ₹ 2,50,000 as on1st April, 2023 was considered worth ₹ 2,20,000 on the date of acquisition. The depreciation on Plant & Machinery is calculated @ 10% p.a. on the basisof useful life. The revaluation of Plant & Machinery is to be considered at the time of consolidation.

(iii) Craft Limited deducts 1% from Trade Receivables as a general provision against doubtful debts. This policy is not followed by Art Limited.

On 31st March 2024, Craft Limited's inventory includes goods which it had purchased from Art Limited for 1,03,500 which made a profit of 15% on cost price.

You are required to prepare a consolidated Balance Sheet as on 31 st March 2024. *(PYP 14 Marks May'24)*

Answer 15

Consolidated Balance Sheet of Art and Craft Ltd As on 31st March, 2024

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

Notes to Accounts

Sr. No.	Particulars		₹
1.	Share Capital		
	Issued, Subscribed & Paid-up Capital		
	a) Equity Share Capital		6,50,000
	6,500 Equity Shares of ₹100 each		
2.	Reserves & Surplus		
	Profit & Loss A/c (WN 5)		2,40,100
	General Reserve (WN 5)		1,20,000
	Capital Reserve (W.N. 3)		13,360
			3,73,460
3.	Minority interest in Craft Ltd. (W.N.4)		1,26,740
4.	Short-term borrowings		
	Bank Overdraft		70,000
5.	Property, Plant & Equipment		
	Land & Building		
	Art Ltd.	1,90,000	
	Craft Ltd.	1,35,000	3,25,000
	Plant & Machinery		
	Art Ltd.	2,31,000	
	Craft Ltd. (2,25,000-17,500+1,500)	2,09,000	4,40,000

6.	Inventories		7,65,000
	Art Ltd.	1,66,000	
	Craft Ltd.	2,05,000	
	Less: unrealized profit	(13,500)	3,57,500
7.	Trade Receivables		
	Art Ltd.	1,33,500	
	Craft Ltd.	1,70,000	3,03,500
8.	Cash & Cash Equivalents		
	Art Ltd.	24,500	
	Craft Ltd.	6,700	31,200

Working Notes:

1. **Shareholding Pattern**

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

2. **Analysis of Profit**

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

Analysis of Profit

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

3. **Cost of Control**

Particulars	**₹**	**₹**
Cost of Investment (Given)		4,32,000
Less: Share in Net Assets:		
a) Share Capital (3,200 shares × ₹100)	3,20,000	
b) Capital Profit (W.N. 2)	1,25,360	(4,45,360)
Capital Reserve		13,360

4. **Minority Interest**

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

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

Particulars	**Profit and loss account ₹**	**General reserve ₹**

Balance as per Balance Sheet	1,92,000	1,20,000
Revenue Profit	61,600	-
Unrealized Profit (Downstream)	(13,500)	
Total	2,40,100	1,20,000

6. Calculation of Revaluation Profit /Loss

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

7. Savings in Depreciation

= Depreciation Provided for 6 months − Depreciation Should be
= 12,500 − (2,20,000 × 10% × 6/12)
= 1,500

8. Calculation of provision reversed

Trade Receivable (Given) =1,68,300 it is after provision i.e 99%
So, 100% will be 1,70,000 therefor provision will be **1,700**

As per para 20 and 21 of AS 21, Consolidated financial statements: Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

Question 16

LDR

H Ltd. and its subsidiary S Ltd. Give the following information as on 31st March, 2021:

	H Ltd. (Rs.)	S Ltd. (Rs.)
Share Capital		
Equity Share Capital (fully paid up shares of Rs. 10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Cr. Balance in Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,22,000	1,23,000
Non-Current Assets		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ Rs. 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2020. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at Rs. 50,000 and Rs. 30,000 respectively.
Machinery (book value Rs. 2,00,000) and Furniture (book value Rs. 40,000) of S Ltd. were revalued at Rs. 3,00,000 and Rs. 30,000 respectively on 1st April,2020 for the purpose of fixing the price of its shares (rates of depreciation on W.D.V basis: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include Rs. 35,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing Rs. 55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. With its subsidiary as at 31st March, 2021. *(MTP 16 Marks Apr'21, MTP 15 Marks Mar'22, RTP Nov'19, PYP 20 Marks May'18, MTP 14 Marks Aug'24)*

Answer 16

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2021

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital (1,20,000 equity shares of ₹ 10 each)		12,00,000
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		25,25,500
II. Assets		
(1) Non-current assets		
(i) Property, plant and equipment	3	13,10,500
(ii) Intangible assets	4	24,000
(2) Current assets		
(i) Inventories	5	3,25,000
(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		25,25,500

Notes to Accounts

				₹
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2.	Trade Payables			
	H Ltd.		3,22,000	
	S Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	4,10,000
3.	Property, plant and equipment			
	Machinery			
	H Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		
	Less: Depreciation	(30,000)	2,70,000	9,10,000
	Furniture			
	H. Ltd.		3,75,000	

	S Ltd.	40,000		
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				13,10,500
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
				3,25,000
6.	Trade Receivables			
	H Ltd.		4,70,000	
	S Ltd.		2,35,000	7,05,000
	Less: Mutual transaction			(35,000)
				6,70,000
7.	Cash and Bank			
	H Ltd.		1,64,000	
	S Ltd.		32,000	1,96,000

Working Notes:

1. **Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2020**

	Rs.
Machinery	
Revaluation as on 1.4.2020	3,00,000
Less: Book value as on 1.4.2020	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2020	30,000
Less: Book value as on 1.4.2020	(40,000)
Loss on revaluation	(10,000)

2. **Calculation of short/excess depreciation**

	Machinery	Furniture
Upward/ (Downward) Revaluation	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. **Analysis of reserves and profits of S Ltd. as on 31.03.2021**

	Pre-acquisition profit up-to 1.4.2020	Post-acquisition profits (1.4.2020 – 31.3.2021)	
	(Capital profits)	General Reserve	Profit and loss account
General reserve as on 31.3.2021	50,000	1,05,000	
Profit and loss account as on 31.3.2021	30,000		35,000
Upward Revaluation of machinery as on 1.4.2020	1,00,000		
Downward Revaluation of Furniture as on 1.4.2020	(10,000)		
Short depreciation on machinery			(10,000)
Excess depreciation on furniture			1,500
Total	1,70,000	1,05,000	26,500

4. **Minority Interest**

	Rs.
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves	
[(20% of (50,000 + 30,000)]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	5,300
	1,00,300
Less: Unrealised Profit on Inventory	
(55,000 x 10/110) x 20%	(1,000)
	99,300

5. **Cost of Control or Goodwill**

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves (Rs. 64,000 + Rs.72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		24,000

Question 17

On 31st March, 2023 H Ltd. and its subsidiary S Ltd. give the following information:

	H Ltd.	S Ltd.
	Rs.	Rs.
Shareholders' Fund:		
Equity shares of Rs. 10 each	**13,40,000**	**2,40,000**
Reserves and Surplus	**4,80,000**	**1,80,000**
Profit & Loss Account	**2,40,000**	**60,000**
Secured Loans:		
12% Debentures	**1,00,000**	-
Current Liabilities:		
Creditors	**2,00,000**	**1,22,000**
Bank Overdraft	**1,00,000**	-
Bills Payable	**60,000**	**14,800**
Property, Plant & Equipment:		
Machinery	**7,20,000**	**2,16,000**
Furniture	**3,60,000**	**40,800**
Investments:		
Investments in S Ltd.	**3,84,000**	-
(19,200 shares at Rs. 20 each)		
Current Assets:		
Inventories	**6,00,000**	**2,00,000**
Trade Receivables	**3,00,000**	**90,000**
Bill Receivables	**1,00,000**	**30,000**
Cash at Bank	**56,000**	**40,000**

The following information is also provided to you:

(a) H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2022, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at Rs. 60,000 and Rs. 36,000 respectively.

(b) Machinery (Book value Rs. 2,40,000) and Furniture (Book value Rs. 48,000) of S Ltd were revalued at Rs. 3,60,000 and Rs. 36,000 respectively on 1st April, 2022, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%).

(c) On 31st March, 2023, Bills payable of Rs. 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favor of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2023. *(MTP 20 Marks Nov'21 & Mar'23 & Apr'23, PYP 20 Marks Jan'21)*

Answer 17

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2023

		Particulars	Note No.	(Rs.)
I.		Equity and Liabilities		
	1	Shareholder's Funds		
		(a) Share Capital	1	13,40,000
		(b) Reserves and Surplus	2	8,27,040
	2	Minority Interest		1,15,560
	3	Non- Current Liabilities		
		(a) 12% Debentures		1,00,000
	4	Current Liabilities		
		(a) Trade Payables	3	3,84,800
		(b) Short term Borrowings (Bank overdraft)		1,00,000
		Total		28,67,400
II.		Assets		
	1	Non-current assets		
		(a)		
		(i) Property, Plant and Equipment	4	14,34,600
		(ii) Intangible assets	5	28,800
	2	Current assets		
		(a) Inventory (6,00,000+2,00,000)		8,00,000
		(b) Trade Receivables	6	5,08,000
		(c) Cash and Cash equivalents		96,000
		Total		28,67,400

Notes to Accounts

				Rs.
1.	Share Capital Equity share capital 1,34,000 shares of Rs. 10 each fully paid up			13,40,000
2.	Reserves and Surplus			
	Reserves		4,80,000	
	Add: 4/5th share of S Ltd.'s post-acquisition reserves (W.N.3)		96,000	5,76,000
	Profit and Loss Account		2,40,000	
	Add: 4/5th share of S Ltd.'s post-acquisition profits (W.N.4)		11,040	2,51,040
				8,27,040
3.	Trade Payables			
	Creditors			
	H Ltd.	2,00,000		
	S Ltd.	1,22,000	3,22,000	
	Bills Payables			
	H Ltd.	60,000		
	S Ltd.	14,800	74,800	
			3,96,800	

	Less: Mutual Owings		(12,000)	3,84,800
4.	Property Plant and Equipment			
	Machinery			
	H. Ltd.		7,20,000	
	S Ltd.	2,40,000		
	Add: Appreciation	1,20,000		
		3,60,000		
	Less: Depreciation (3,60,000 X 10%)	(36,000)	3,24,000	
	Furniture			
	H. Ltd.		3,60,000	
	S Ltd.	48,000		
	Less: Decrease in value	(12,000)		
		36,000		
	Less: Depreciation (36,000 X 15%)	5,400	30,600	14,34,600
5.	Intangible assets			
	Goodwill [WN 6]			28,800
6.	Trade receivables			
	H Ltd.	3,00,000		
	S Ltd.	90,000	3,90,000	
	Bills Receivables			
	H Ltd.	1,00,000		
	S Ltd.	30,000	1,30,000	
			5,20,000	
	Less: Mutual Owings		(12,000)	5,08,000

Working Notes:

1. Pre-acquisition profits and reserves of S Ltd.	Rs.
Reserves	60,000
Profit and Loss Account	36,000
	96,000
H Ltd.'s = 4/5 (or 80%) × 96,000	76,800
Minority Interest= 1/5 (or 20%) × 96,000	19,200
2. Profit on revaluation of assets of S Ltd.	
Profit on Machinery Rs. (3,60,000 – 2,40,000)	1,20,000
Less: Loss on Furniture Rs. (48,000 –36,000)	(12,000)
Net Profit on revaluation	1,08,000
H Ltd.'s share 4/5 × 1,08,000	86,400
Minority Interest 1/5 × 1,08,000	21,600
3. Post-acquisition reserves of S Ltd. Total reserves Less: Pre- acquisition reserves	 1,80,000 (60,000)
Post-acquisition reserves	1,20,000
H Ltd.'s share 4/5 × 1,20,000	96,000
Minority interest 1/5 × 1,20,000	24,000
4. Post -acquisition profits of S Ltd.	
Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = Rs. 60,000 – 36,000)	24,000
Add: Excess depreciation charged on furniture @ 15% on Rs. 12,000 i.e. (48,000 – 36,000)	1,800
	25,800
Less: Under depreciation on machinery @ 10% on Rs. 1,20,000 i.e. (3,60,000 – 2,40,000)	(12,000)
Adjusted post-acquisition profits	13,800

H Ltd.'s share 4/5 × 13,800		11,040
Minority Interest 1/5 × 13,800		2,760
5. Minority Interest		
Paid-up value of (24,000 – 19,200) = 4,800 shares		
held by outsiders i.e. 2,40,000 X 20%		48,000
Add: 1/5th share of pre-acquisition profits and reserves		19,200
1/5th share of profit on revaluation		21,600
1/5th share of post-acquisition reserves		24,000
1/5th share of post-acquisition profit		2,760
		1,15,560
6. Cost of Control or Goodwill		
Price paid by H Ltd. for 19,200 shares *Less:* Intrinsic value of the shares	(A)	3,84,000
Paid-up value of shares held by H Ltd. i.e. 2,40,000 X 80%		1,92,000
Add: 4/5th share of pre-acquisition profits and reserves		76,800
4/5th share of profit on the revaluation		86,400
Intrinsic value of shares on the date of acquisition	(B)	3,55,200
Cost of control or Goodwill	(A – B)	28,800

Question 18

LDR

Consider the following information of subsidiary MNT Ltd.

	2020-21 Amount in ₹	2021-22 Amount in ₹
Share Capital		
Issued and subscribed 7500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000
Non-current assets		
Property, Plant and equipment (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	-	5,30,000
Current Assets		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500

Other Information:

(1) **MNT Ltd. is a subsidiary of LTC Ltd.**

(2) **LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹ 5,000 at the end of 2020-21 and increased by ₹ 12,000 at the end of 2021-22. (Inventory of 2020-21 has been sold out during the year 2021-22)**

(3) **MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.**

(4) **Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹ 25,000 in 2020-21 and ₹ 12,500 in 2021-22 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2020-21, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been**

fully written off in 2020-21.

Restate the balance sheet of MNT Ltd. as on 31st March, 2022 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform. ***(MTP 10 Marks Sep'22, MTP 16 Marks Oct'21 & Oct'23, PYP 10 Marks Nov'19, MTP 14 Marks Nov'24) (Same concept different figures MTP 12 Marks Apr 19)***

Answer 18

Restated Balance Sheet of MNT Ltd. as at 31st March, 2022

Particulars	Note No.	(₹)
I. **Equity and Liabilities**		
(1) Shareholder's Funds		
(a) Share Capital		7,50,000
(b) Reserves and Surplus	1	7,18,500
(2) Current Liabilities		
(a) Short term borrowings	2	1,70,000
(b) Trade Payables		2,46,000
(c) Short-term provision	3	4,30,000
Total		**23,14,500**
II. **Assets**		
(1) Non-current assets		
(a) Property, Plant & Equipment	4	6,37,500
(b) Non-current Investment		5,30,000
(2) Current assets		
(a) Inventories (6,90,000 +12,000)	5	7,02,000
(b) Trade Receivables $\frac{3,43,000}{98} \times 100$		3,50,000
(c) Cash & Cash Equivalents		42,500
(d) Other current assets	6	52,500
Total		**23,14,500**

Notes to Accounts

			₹
1.	Reserves and Surplus		
	Revenue Reserve (refer W.N.)	5,11,500	
	Securities Premium	2,07,000	7,18,500
2.	Short term borrowings		
	Bank overdraft		1,70,000
3.	Short-term provision		
	Provision for taxation		4,30,000
4.	Property, Plant and Equipment		
	Cost	9,20,000	
	Less: Depreciation to date	(2,82,500)	6,37,500
5.	Inventories	6,90,000	
	Increase in value as per FIFO	12,000	7,02,000
6.	Other current assets		
	Prepaid expenses (After adjusting sales promotion expenses to be written off each year) (65,000 -12,500)		52,500

Working Note:

Adjusted revenue reserves of MNT Ltd.:

	₹	₹
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts (3,43,000 X 2/98)	7,000	
Add: Increase in value of inventory	12,000	19,000
		5,24,000
Less: Sales Promotion expenditure to be written off		(12,500)
Adjusted revenue reserve		5,11,500

Question 19

Sun Ltd. acquired 3,200 ordinary shares of ₹ 100 each of Star Ltd. on 1st October, 2021. On 31st March, 2022, the balance sheets of the two companies were as given below:

Balance Sheet of Sun Ltd. and its subsidiary, Star Ltd. as at 31st March, 2022

Particulars	Note No.	Sun Ltd. (₹)	Star Ltd. (₹)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	5,94,400	3,64,000
(2) Current Liabilities			
(a) Trade Payables		94,200	34,800
(b) Short term borrowings	3	1,60,000	-
Total		18,48,600	7,98,800
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment	4	7,80,000	6,30,000
(b) Non-current Investments	5	6,80,000	
(2) Current assets			
(a) Inventories		2,40,000	72,800
(b) Trade receivables		1,19,600	80,000
(c) Cash & Cash equivalents	6	29,000	16,000
Total		18,48,600	7,98,800

Notes to Accounts

		Sun Ltd. ₹	Star Ltd. ₹
1	**Share Capital** 10,000 shares of ₹ 100 each, fully paid up	10,00,000	
	4,000 shares of ₹ 100 each, fully paid up		4,00,000
	Total	10,00,000	4,00,000
2	**Reserves and Surplus** General Reserves	4,80,000	2,00,000
	Profit & loss	1,14,400	1,64,000
	Total	5,94,400	3,64,000
3	**Short term borrowings** Bank overdraft	1,60,000	
4	**Property plant and equipment** Land and building	3,00,000	3,60,000
	Plant & Machinery	4,80,000	2,70,000
	Total	7,80,000	6,30,000
5	**Non-current Investments** Investment in Star Ltd. (at cost)	6,80,000	
6	**Cash & Cash equivalents** Cash	29,000	16,000

The Profit & Loss Account of Star Ltd. showed a credit balance of ₹ 60,000 on 1st April, 2021 out of which a dividend of 10% was paid on 1st November, 2021; Sun Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 3,00,000 on 1st April, 2021 was considered as worth

₹ 3,60,000 on 1st October, 2021; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives). Prepare consolidated Balance Sheet as at 31st March, 2022.
(MTP 20 Marks Oct'22) (Same concept different figures PYP 15 Marks Nov'20, MTP 15 Marks Sep'23, SM)

Answer 19

Consolidated Balance Sheet of Sun Ltd. and its subsidiary, Star Ltd. as at 31st March, 2022

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	10,00,000
(b) Reserves and Surplus	2	6,17,600
(2) Minority Interest		1,67,200
(3) Current Liabilities		
(a) Trade Payables	3	1,29,000
(b) Short term borrowings	4	1,60,000
Total		20,73,800
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	14,82,000
(b) Intangible assets	6	34,400
(2) Current assets		
(a) Inventories	7	3,12,800
(b) Trade receivables	8	1,99,600
(c) Cash & Cash equivalents	9	45,000
Total		20,73,800

Notes to Accounts

1	Share Capital		
	10,000 shares of ₹ 100 each		10,00,000
2	Reserves and Surplus		
	Reserves	4,80,000	
	Profit & loss (Refer to W.N 8)	1,37,600	
	Total		6,17,600
3	Trade Payables		
	Sun Ltd.	94,200	
	Add: Star Ltd.	34,800	1,29,000
	Total		
4	Short term borrowings		
	Bank overdraft		1,60,000
5	Property, plant and equipment		
	Land and building- Sun Ltd.	3,00,000	
	Add: Land and building- Star Ltd.	3,60,000	6,60,000
	Plant & Machinery (Refer to W.N 7)		8,22,000
	Total		14,82,000
6	Intangible assets		-
	Goodwill (refer to W.N 6)		34,400
7	Inventories		
	Sun Ltd.	2,40,000	
	Star Ltd..	72,800	
	Total		3,12,800
8	Trade Receivables		
	Sun Ltd.	1,19,600	
	Star Ltd.	80,000	1,99,600

	Total		
9	Cash & Cash equivalents		
	Cash of Sun Ltd	29,000	
	Add: cash of Star Ltd..	16,000	
	Total	-	45,000

Share holding Pattern

Total Shares of Star Ltd.	4,000 shares
Shares held by Sun Ltd.	3,200 shares i.e 80%
Minority Shareholding	800 shares i.e 20%

Working Notes:

1. The dividend @ 10% on 3,200 shares - ₹32,000 received by Sun Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. Sun Ltd., must pass a rectification entry, viz.

Profit & Loss Account Dr.	₹ 32,000	
To Investment		₹ 32,000

2. The Plant & Machinery of Star Ltd. would stand in the books at ₹ 2,85,000 on 1st Oct, 2021, considering only six months' depreciation on ₹ 3,00,000 total depreciation being ₹ 30,000. The value put on the assets being ₹ 3,60,000, there is an appreciation to the extent of ₹ 75,000 (3,60,000 – 2,85,000).

3. **Capital profits of Star Ltd.**

	₹	₹
Reserve on 1st April, 2021 (Assumed there is no movement in reserves during the year and hence balance as on 1st April 2021 is same as of 31st March, 2022)		2,00,000
Profit & Loss Account Balance on 1st April, 2021	60,000	
Less: Dividend paid	(40,000)	20,000
Profit for 2021-22:		
Total ₹ 1,64,000		
Less: (₹ 20,000)		
₹ 1,44,000		
Proportionate upto 1st Oct, 2021 on time basis (₹ 1,44,000/2)		72,000
Appreciation in value of Plant & Machinery		75,000
		3,67,000
Less: 20% due to outsiders		(73,400)
Holding company's share		2,93,600

4. **Revenue profits of Star Ltd.**:

Profit after 1st Oct, 2021 [(1,64,000 – 20,000) x ½]		72,000
Less: Depreciation		
10% depreciation on ₹ 3,60,000 for 6 months	18,000	
Less: Depreciation already charged for 2nd half year on 3,00,000	(15,000)	(3,000)
		69,000
Less: 1/5 due to outsiders		(13,800)
Share of Sun Ltd.		55,200

5. **Minority interest**:

Par value of 800 shares (4,00,000 X 20%)	80,000
Add: 1/5Capital Profits [WN 3]	73,400
1/5 Revenue Profits [WN 4]	13,800
	1,67,200

6. **Cost of Control**:

Amount paid for 3,200 shares	6,80,000	
Less: Dividend out of pre-acquisition profits	(32,000)	6,48,000
Par value of shares	3,20,000	-
Capital Profits –share of Sun Ltd. [WN 3]	2,93,600	(6,13,600)
Cost of Control or Goodwill		34,400

7. **Value of Plant & Machinery:**

Sun Ltd.		4,80,000
Star Ltd.	2,70,000	
Add: Appreciation on 1st Oct, 2021 [3,60,000 – (3,00,000 – 15,000)]	75,000	
	3,45,000	
Add: Deprecation for 2nd half charged on pre-revalued value	15,000	
Less: Depreciation on ₹3,60,000 for 6 months	(18,000)	3,42,000
		8,22,000

8. **Profit & Loss Account (Consolidated):**

Sun Ltd.as given	1,14,400	
Less: Dividend transferred to Investment A/c	(32,000)	82,400
Share of Sun Ltd.in revenue profits of Star Ltd.(WN 4)		55,200
		1,37,600

Question 20

From the following information of Beta Ltd. and its subsidiary Gamma Ltd. drawn up at 31st March, 2021, prepare a consolidated balance sheet as at that date:

	Beta Ltd.	Gamma Ltd.
	₹	₹
Share Capital:		
Shares of Rs. 100 each	15,00,000	2,50,000
Reserves	5,00,000	1,87,500
Profit and Loss Account	2,50,000	62,500
Trade Payables	3,75,000	1,42,500
Property, plant and Equipment:		
Machinery	7,50,000	2,25,000
Furniture	3,75,000	42,500
Other non-current assets	11,00,000	3,75,000
Non-current Investments:		
Shares in Gamma Ltd.: 2,000 shares at Rs. 200 each	4,00,000	

Other information:

Reserves and Profit and Loss Account of Gamma Ltd. stood at Rs. 62,500 and Rs. 37,500 respectively on the date of acquisition of its 80% shares by Beta Ltd. on 1st April, 2020.

Machinery (Book-value Rs. 2,50,000) and Furniture (Book value Rs. 50,000) of Gamma Ltd. were revalued at Rs. 3,75,000 and Rs. 37,500 respectively on 1st April, 2020 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.] ***(RTP May'22, RTP May'20, SM, MTP 14 Marks Jul'24)***

Answer 20

Consolidated Balance Sheet of Beta Ltd. and its Subsidiary Gamma Ltd. as at 31st March, 2021

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		15,00,000
(b) Reserves and Surplus	1	8,61,500
(2) Minority Interest (W.N.5)		1,20,375
(3) Current Liabilities		
(a) Trade Payables	2	5,17,500
Total		29,99,375
II. Assets		
(1) Non-current assets		
(a) (i) Property, Plant & Equipment	3	14,94,375
(ii) Intangible assets	4	30,000

(b) Other non- current assets		5	14,75,000
	Total		29,99,375

Notes to Accounts

		Rs.		
1.	Reserves and Surplus			
	Reserves		5,00,000	
	Add: 4/5th share of Gamma Ltd.'s post-acquisition reserves (W.N.3)		1,00,000	6,00,000
	Profit and Loss Account		2,50,000	
	Add: 4/5th share of Gamma Ltd.'s post-acquisition profits (W.N.4)		11,500	2,61,500
				8,61,500
2.	Trade Payables			
	Beta Ltd.		3,75,000	
	Gamma Ltd.		1,42,500	5,17,500
3.	Property, Plant & Equipment			
	Machinery			
	Beta Ltd.		7,50,000	
	Gamma Ltd.	2,50,000		
	Add: Appreciation	1,25,000		
		3,75,000		
	Less: Depreciation	(37,500)	3,37,500	
	Furniture			
	Beta Ltd.		3,75,000	
	Gamma Ltd.	50,000		
	Less: Decrease in value	(12,500)		
		37,500		
	Less: Depreciation	(5,625)	31,875	14,94,37
4.	Intangible assets			
	Goodwill [WN 6]			30,000
5.	Other non-current assets			
	Beta Ltd.		11,00,000	
	Gamma Ltd.		3,75,000	14,75,000

Working Notes:

1.	**Pre-acquisition profits and reserves of Gamma Ltd.**	Rs.
	Reserves	62,500
	Profit and Loss Account	37,500
		1,00,000
	Beta Ltd.'s = 4/5 × 1,00,000	80,000
	Minority Interest = 1/5 × 1,00,000	20,000
2.	**Profit on revaluation of assets of Gamma Ltd.**	
	Profit on Machinery Rs. (3,75,000 – 2,50,000)	1,25,000
	Less: Loss on Furniture Rs. (50,000 – 37,500)	12,500
	Net Profit on revaluation	1,12,500
	Beta Ltd.'s share 4/5 × 1,12,500	90,000
	Minority Interest 1/5 × 1,12,500	22,500
3.	**Post-acquisition reserves of Gamma Ltd.**	
	Post-acquisition reserves (Total reserve less pre-acquisition reserve = Rs. 1,87,500-62,500)	1,25,000
	Beta Ltd.'s share 4/5 × 1,25,000	1,00,000
	Minority interest 1/5 × 25,000	25,000

4.	**Post -acquisition profits of Gamma Ltd.**	
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = Rs. 62,500 – 37,500)	25,000
	Add: Excess depreciation charged on furniture @ 15% on Rs. 12,500 i.e. (50,000 – 37,500)	1,875
		26,875
	Less: Under depreciation on machinery @ 10% on Rs. 1,25,000 i.e. (3,75,000 – 2,50,000)	(12,500)
	Adjusted post-acquisition profits	14,375
	Beta Ltd.'s share 4/5 × 14,375	11,500
	Minority Interest 1/5 × 14,375	2,875
5.	**Minority Interest**	
	Paid-up value of (2,500 – 2,000) = 500 shares	
	held by outsiders i.e. 500 × Rs. 100	50,000
	Add: 1/5th share of pre-acquisition profits and reserves	20,000
	1/5th share of profit on revaluation	22,500
	1/5th share of post-acquisition reserves	25,000
	1/5th share of post-acquisition profit	2,875
6.	**Cost of Control or Goodwill**	1,20,375
	Paid-up value of 2,000 shares held by Beta Ltd. i.e. 2,000 × Rs. 100	2,00,000
	Add: 4/5th share of pre-acquisition profits and reserves	80,000
	4/5th share of profit on the revaluation	90,000
	Intrinsic value of shares on the date of acquisition	3,70,000
	Price paid by Beta Ltd. for 2,000 shares	4,00,000
	Less: Intrinsic value of the shares	(3,70,000)
	Cost of control or Goodwill	30,000

Question 21

G Ltd.. and its subsidiary K Ltd. give the following information for the year ended 31stMarch, 2023:

Particulars	G Ltd.	K Ltd
Sales and other Income	3000	750
Increase in Inventory	750	100
Raw material consumed	600	100
Wages and Salaries	600	75
Production expenses	100	50
Administrative expenses	75	50
Selling and Distribution expenses	100	25
Interest	75	30
Depreciation	75	30

The following information is also given:

(i) G sold goods of ₹ 200 crores to K Ltd. at cost plus 25%. (1/5th of such goods were still in inventory of K Ltd. at the end of the year)

(ii) G Ltd. holds 75% of the Equity share capital of K Ltd. and the Equity share capital of K Ltd. is ₹ 800 crores on 01.04.2022 (date of acquisition of shares)

(iii) Administrative expenses of K Ltd. include ₹ 5 crore paid to G Ltd. as consultancy fees. Also, selling and distribution expenses of G Ltd. include ₹ 20 crores paid to K Ltd. as commission.

Prepare a consolidated statement of Profit and Loss of G Ltd. with its subsidiary K. Ltd. for the year ended 31st March, 2023. ***(PYP 15 Marks May'23) (Same concept different figures MTP 15 Marks Mar'21, Apr'22,***

Answer 21

Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2023

Particulars	Note No.	₹ in Crores
I. Revenue from operations	1	3,525
II. Total Income		3,525
III. Expenses		
Cost of material purchased/consumed	2	650
Changes of inventories of finished goods	3	(842)
Employee benefit expense	4	675
Finance cost	5	105
Depreciation and amortization expense	6	105
Other expenses	7	225
Total expenses		918
IV. Profit before tax (II-III)		2,607

Notes to Accounts

		₹ in Crores	₹ in Crores
1.	Revenue from operations Sales and other income		
	G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(200)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,525
2.	Cost of material purchased/consumed		
	G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(200)	500
	Direct expenses (Production)		
	G Ltd.	100	
	K Ltd.	50	150
			650
3.	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits ₹ 40 crores × 25/125	(8)	842
4.	Employee benefits and expenses Wages and salaries:		
	G Ltd.	600	
	K Ltd.	75	675

5.	Finance cost Interest:		
	G Ltd.	75	
	K Ltd.	30	105
6.	Depreciation		
	G Ltd.	75	
	K Ltd.	30	105
7.	Other expenses Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd.	(5)	120
	Selling and distribution Expenses:		
	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

Note:

The information (i) given in the question states that G Ltd. sold goods of ₹ 200 crores to K Ltd. at cost plus 25%. In the above solution it has been considered that the amount of ₹ 200 crores is sale value. Alternatively, ₹ 200 crores may be assumed as the cost of the goods sold. In that case, the solution will differ and will be as follows:

Alternative solution:

Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2023

Particulars	Note No.	₹ in Crores
I. Revenue from operations	1	3,475
II. Total Income		3,475
III. Expenses		
Cost of material purchased/consumed	2	600
Changes of inventories of finished goods	3	(840)
Employee benefit expense	4	675
Finance cost	5	105
Depreciation and amortization expense	6	105
Other expenses	7	225
Total expenses		870
IV. Profit before tax (II-III)		2,605

Notes to Accounts

		₹ in Crores	₹ in Crores
1.	Revenue from operations Sales and other income		
	G Ltd.	3,000	
	K Ltd.	750	
		3,750	

	Less: Inter-company sales	(250)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,475
2.	Cost of material purchased/consumed		
	G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(250)	450
	Direct expenses (Production)		
	G Ltd.	100	
	K Ltd.	50	150
			600
3.	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits ₹ 40 crores × 25/100	(10)	840
4.	Employee benefits and expenses Wages and salaries:		
	G Ltd.	600	
	K Ltd.	75	675
5.	Finance cost Interest:		
	G Ltd.	75	
	K Ltd.	30	105
6.	Depreciation		
	G Ltd.	75	
	K Ltd.	30	105
7.	Other expenses Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd.	(5)	120
	Selling and distribution Expenses:		
	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

Exam Insights: Some of the examinees were not able to compute the correct amount of revenue from operations. Consequently, they did not prepare the consolidation statement of profit and loss of the company in the required manner as per Schedule III of the Companies Act, 2013.

Question 22

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) *(PYP 14 Marks Sep'24)*

Answer 22

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	(3,00,000)	5,60,000
Less: Elimination of inter company owing		
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

Multiple Choice Questions (MCQs)

1. Minority interest should be presented in the consolidated balance sheet *(SM)*

(a) As a part of liabilities.
(b) As a part of equity of the parent's shareholders.
(c) Separately from liabilities and the equity of the parent's shareholders.
(d) As a part of assets.

Ans: (c)

2. Minority of the subsidiary is entitled to *(SM)*

(a) Capital profits of the subsidiary company.
(b) Revenue profits of the subsidiary company.
(c) Both capital and revenue profits of the subsidiary company.
(d) Neither capital nor revenue profits of the subsidiary.

Ans: (c)

3. In consolidation of accounts of holding and subsidiary company _________is eliminated in full. *(SM)*

(a) Current liabilities of subsidiary company.
(b) Reserves and surplus of both holding and subsidiary company.
(c) Mutual indebtedness.
(d) Nothing.

Ans: (c)

4. In consolidated balance sheet, the share of the outsiders in the net assets of the subsidiary must be shown as *(SM)*

(a) Minority interest.
(b) Capital reserve.
(c) Current liability.
(d) Current assets.

Ans: (a)

5. Provision for Tax made by the subsidiary company will appear in the consolidated balance sheet as an item of *(SM)*

(a) Current liability.
(b) Revenue profit.
(c) Capital profit.
(d) Current assets.

Ans: (a)

Chapter 10.2: AS 23 & AS 27- Accounting for Investments in Associate's in Consolidated Financial Statements & Financial Reporting of Interests in Joint Ventures

CONCEPTS OF THIS CHAPTER

- Define terms: joint venture, joint control, control, venturer, investor
- Appreciate different forms of joint ventures
- Examine contractual arrangements for associate vs. joint venture control
- Evaluate and differentiate forms of joint ventures
- Present separate and consolidated financial statements of venturers
- Account for transactions between venturer and joint venture
- Define terms: associates, significant influence, control, equity method
- Use of equity method
- Apply equity method for accounting investments in associates
- Disclose contingencies in consolidated financial statements
- Comply with disclosure requirements in the standard

QUICK REVIEW OF IMPORTANT CONCEPTS

Definitions of the Terms used in the Accounting Standard

1. **An associate is** an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

   Significant influence : Any enterprise having 20% or more of the voting power or any interest directly or indirectly in any other enterprise will be assumed to have significantly influence the other enterprise unless proved otherwise.

2. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.
   - **Two or more parties coming together**
   - **Venturers undertake some economic activity**
   - **Venturers have joint control on the economic activity**
   - **There exists a contractual agreement**

Associates Accounted For Using The Equity Method

The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition.

a. In CFS, investment is to be recorded at cost.
b. Any surplus or deficit in cost and net asset to be recorded as goodwill or capital reserve.
c. Distributions received from an investee reduce the carrying amount of the investment.
d. Any subsequent change in share in net asset is adjusted in cost of investment and goodwill/capital reserve.
e. Consolidated Profit & Loss shows the investor's share in the results of operations of the investee

Application of the Equity Method- Investment in the associate is recorded at cost and any difference in the cost and investor's share in equity on the date of acquisition is shown as goodwill or capital reserve.

Why Is Equity Method Of Accounting Adopted For Investment In Associates?

- Investing 20% to 50% in an associate reflects interest beyond dividends, including decision-making.
- Significant influence means responsibility for the associate's performance, impacting returns.
- The investor includes the associate's results in consolidated financial statements for better analysis and ratio calculation.

Disclosure

- Disclose associates' listing, ownership interest, and voting power in consolidated financial statements.
- Equity-method investments in associates should be classified as long-term and disclosed separately in the balance sheet and profit/loss statement, including extraordinary items.
- Differences in accounting policies should be disclosed if adjustments are impracticable.
- If the equity method is not used, the reason must be stated.
- Goodwill/capital reserve from associate acquisition should be disclosed separately within the investment amount.

Forms Of Joint Ventures

Jointly Controlled Operations (JCO)	Jointly Controlled Assets (JCA)	Jointly Controlled Entities (JCE).

Following are the key features of JCO:

- Each venturer has a separate business.
- No separate entity is formed for the joint venture.
- Venturers create and maintain their own assets.
- Each records only their transactions without separate books for the venture.
- A common agreement governs the venture.
- Venturers use their assets for the joint venture.
- They meet their own liabilities and expenses.
- Revenue or income is shared as per the contract.

Jointly Controlled Assets (JCA)

- No separate legal identity exists.
- Joint assets are under common control.
- Venturers use joint assets for economic benefit.
- Each venturer incurs their own expenses.
- Joint asset expenses are shared as per the contract.
- Venturers report only their share of assets, income, and expenses.
- No consolidation adjustments are needed as items are already in individual financial statements.
- Joint venture financial statements are optional, but internal reports may be prepared.

Jointly Controlled Entities (JCE)

- A new entity is created for the joint venture.
- Joint control is established through a contractual agreement.
- The entity independently owns assets, incurs liabilities, manages expenses, and conducts sales.
- Net results are shared among venturers as per the agreement.
- The agreement defines joint control and venturer contributions.
- Contributions are recorded as an investment in the venturer's financial statements

Transactions between a Venturer and Joint Venture

1. When venturer transfers or sells assets to Joint Venture, the venturer should recognise only that portion of the gain or loss which is attributable to the interests of the other venturers.
2. The venturer should recognise the full amount of any loss only when the contribution or sale provides evidence of a eduction in the net realisable value of current assets or an impairment loss.
3. In case the joint venture is in the form of separate entity (i.e., JCE) then provisions of above the Para will be followed only for consolidated financial statement and not for venturer's own financial statement. In the books of venturer, profit or loss from such transactions are recognised in full.

Question & Answers

Question 1

Describe the cases when AS 23 does not allow the use of equity method of accounting? *(SM)*

Answer 1

Equity method of accounting is to be followed by all the enterprises having significant influence on their associates except in the following cases:

a. Control is intended to be temporary because the investment is acquired and held exclusively with a view to its subsequent disposal in the near future.
The term 'Near Future' is explained with AS 21.

Or:

b. It operates under severe long-term restrictions, which significantly impair its ability to transfer funds to the investor.
In both the above cases, investment of investor in the share of theinvestee is treated as investment according to AS 13.

Question 2

When is an investor required to discontinue the use of the equity method of accounting? *(SM)*

Answer 2

An investor should discontinue the use of the equity method from the date that:

a. It ceases to have significant influence in an associate but retains, either in whole or in part, its investment.
b. The use of the equity method is no longer appropriate because the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.

From the date of discontinuing the use of the equity method, investments in such associates should be accounted for in accordance with AS 13, Accounting for Investments. For this purpose, the carrying amount of the investment at that date should be regarded as cost thereafter.

Question 3

Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-20X1. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-20X1 East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-20X1. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-20X2 (assume profits to accrue evenly) and declared dividends of ₹ 60,000 on 12-06-20X2.
Calculate the carrying amount of investment in:
Separate financial statements of Bright Ltd. as on 31-03-20X2;
Consolidated financial statements of Bright Ltd.; as on 31-03-20X2;
What will be the carrying amount as on 30-06-20X2 in consolidated financial statements? *(SM)*

Answer 3

(i) Carrying amount of investment in Separate Financial Statement of Bright Ltd. as on 31.03.20X2

	₹
Amount paid for investment in Associate (on 1.06.20X1)	2,00,000
Less: Pre-acquisition dividend (₹50,000 x 30%)	(15,000)
Carrying amount as on 31.3.20X2 as per AS 13	1,85,000

(ii) Carrying amountof investment in Consolidated Financial Statements * of Bright Ltd. as on 31.3.20X2 as per AS 23

	₹
Carrying amount as per separate financial statements	1,85,000
Add: Proportionate share of 10-month profit of Investee as per equity method (30% of ₹3,00,000 x 10/12)	75,000
Carrying amount as on 31.3.20X2	2,60,000

(iii) Carrying amountof investment in Consolidated Financial Statement of Bright Ltd. as on 30.6.20X2 as per AS 23

	₹
Carrying amount as on 31.3.20X2	2,60,000
Less: Dividend received (₹60,000 x 30%)	(18,000)
Carrying amount as on 30.6.20X2	2,42,000

Question 4

Wivi Tsu Limited acquired 60% stake in Short Limited for a consideration of Rs. 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was Rs. 100 lakhs, Revenue Reserve was Rs. 40 lakhs and balance in Profit & Loss Account was Rs. 30 lakhs. From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:

(i) On consolidation of Balance Sheet.

(ii) If Wivi Tsu Limited showed the investment in subsidiary at a carrying amount of Rs. 104 lakhs.

(iii) If the consideration paid for acquiring the 60% stake was Rs. 92 lakhs. ***(PYP 5 Marks, Jul'21)***

Answer 4

	Rs.
60% of the Equity Share Capital Rs. 100 Lakhs	60
60% of Accumulated Reserve Rs. 70 Lakhs (40+30) Lakhs	42
Book value of shares of Short Ltd.	102

(i) Goodwill / Capital Reserve computation on consolidation of balance sheet
Long Ltd. paid a positive differential of Rs. 10 Lakhs (112 - 102). This differential Rs. 10 Lakhs is called goodwill and is shown in the balance sheet under the head intangibles

(ii) If Long Ltd. showed the investment in Short Ltd. at carrying amount of Rs. 104 Lakhs, then the goodwill will be Rs. 2 Lakhs.

(iii) If the consideration paid is Rs. 92 lakhs, then there would have been capital reserve amounting Rs. 10 Lakhs (102- 92).

Exam Insights: Few examinees erred in calculation of goodwill / capital reserve in the given situations.

Question 5

A Ltd. invested ₹ 1,00,000 to acquire 10% stake (Investment I) in B Ltd. and later invested ₹ 3,00,000 to acquire additional 20% (Investment II). The net asset value of the B ltd. at the respective investment dates was ₹ 7,50,000 and ₹ 12,50,000 respectively. Determine whether B Ltd. is an associate of A Ltd. Also, calculate goodwill arising on the acquisition of the associate. ***(RTP Jan'25)***

Answer 5

As per para 3 of AS 23 an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiary(ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. In this case, A Ltd. has invested 30 % in B Ltd. so B Ltd. is to be considered as an associate of A Ltd.

The goodwill arising on the acquisition of the associate will be computed as follows:

		₹
Investment I Share of net assets	 (10 percent of ₹ 7,50,000)	1,00,000 (75,000)
Goodwill (A)		25,000
Investment II		3,00,000
Share of net assets	(20 percent of ₹ 12,50,000)	(2,50,000)
Goodwill (B)		50,000
Total goodwill (A + B)		75,000

Question 6

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

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

During the year ended 31.3.20X2 the following are the additional information available:

(i) **A Ltd. received dividend from B Ltd., for the year ended 31.3.20X1 at40% from the Reserves.**

(ii) **B Ltd., made a profit after tax of ₹ 7 lakhs for the year ended 31.3.20X2.**

(iii) **B Ltd., declared a dividend @ 50% for the year ended 31.3.20X2 on 30.4.20X2.**

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

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

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

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

Answer 6

In terms of AS 23, B Ltd. Will be considered as an associate company of A Ltd. as shares acquired represent to more than 20%.

(i) Calculation of Goodwill (₹ in lakhs)

Amount paid towards acquisition of stake in B Ltd.	3.00
Less: Pre-acquisition dividend (₹5,00,000 x 40% x 25%)	0.50
Cost of Investment in B Ltd.	2.50
Less: Share in the value of Equity of B Ltd. as at the date of investment [25% of ₹10 lakhs (₹5 lakhs + ₹5 lakhs -₹ 2 lakhs)]	(2.00)
Goodwill	0.50

(ii) A Ltd.

Consolidated Profit and Loss Account for the year ended 31st March, 20X2 (An extract)

		₹ in lakhs
Other income:		
Share of profits in B Ltd.		1.75
Pre-acquisition Dividend received from		
B Ltd.	0.50	
Transfer to investment A/c	(0.50)	Nil

(iii) A Ltd.

Consolidated Balance Sheet as on 31.3.20X2 (An extract)

		₹ in lakhs
Non-current investments		
Investment in B Ltd.		
Cost of Investment in B Ltd.	2.50	
Share of profit for year 20X1 – 20X2	1.75	
	4.25	
Add: Goodwill	NIL	4.25

Working Notes:

1. Pre-acquisition dividend received from B Ltd. amounting to ₹0.50 lakhs will be reduced from investment value in the booksof A Ltd.
2. B Ltd. made a profit of ₹7 lakhs for the year ended 31st March, 20X2. A Ltd.'s share in the profits of ₹7 lakhs is ₹1.75 lakhs.
   Investment in B Ltd. will be increased by ₹ 1.75 lakhs and consolidated profit and loss account of A Ltd. will be creditedwith ₹ 1.75 lakhs in the consolidated financial statement of A Ltd.
3. Dividend declared on 30th April, 20X2 will not be recognized in the consolidated financial statement of A Ltd.

Question 7

LDR

Hill Ltd. has a share capital of 50,000 shares @ ₹ 100 per share. Sun Ltd. acquired 15% shares in Hill Ltd. on 1.4.2024. It also acquired all the 5,000, 12% convertible debentures of ₹ 100 each of Hill Ltd. These debentures will be converted at par into equity shares of Hill Ltd. after 3 years. State whether, as per AS 23,

Hill Ltd. is an Associate of Sun Ltd. or not with reasons? *(RTP Sep'24)*

Answer 7

As per para 3 of AS 23 'Accounting for Investments in Associates in Consolidated Financial Statements', an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Standard further explains in para 4 that as regards share ownership, if an investor holds, directly or indirectly through subsidiary (ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary (ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

Further as per an explanation to para 4 of the standard, for the purpose of classification of associate, the potential equity shares of the investee held by the investor will not be taken into account for determining the voting power of the investor. In other words, the voting power should be determined on the basis of the current outstanding securities with voting rights.

As per the information given in the question, Sun Ltd. presently holds indirectly 22.7% shares (with and without voting rights) (Refer W.N.) in Hill Ltd. However, the current outstanding securities with voting rights in Hill Ltd. is only 15% and the remaining holding is on account of potential equity shares. Since potential equity shares do not have voting rights they will not be taken into consideration while determining the significant influence of Sun Ltd. on Hill Ltd. Hence, Hill Ltd. is not an associate of Sun Ltd.

Working Note:

Calculation of percentage of holding of shares after conversion

	₹
Current holding is 15% i.e. 7,500 shares of ₹ 100 each	7,50,000
Potential equity shares i.e. 5,000 shares of ₹ 100 each	5,00,000
Total share capital of Hill Ltd. after conversion of debentures into equity shares will be = ₹ 50,00,000 + ₹ 5,00,000 =	55,00,000
Percentage of holding = ₹ (12,50,000/55,00,000) x 100=	22.7% approx.

Multiple Choice Questions (MCQs)

1. Which of the statements are correct.

An enterprise can influence the significant economic decision making bymany ways like:

(iv) Representation on the board of directors or governing body of theinvestee.

(v) Participation in policy-making processes.

(vi) Interchange of managerial personnel.

(vii) Provision of essential technical information. *(SM)*

(a) Statement (i) and (ii) are correct.

(b) Statement (i), (ii) and (iii) are correct.

(c) Statement (i), (ii), (iii) and (iv) are correct.

(d) Statement (ii) and (iii) are correct.

Ans: (c)

2. A Ltd. is holding 90% share in B Ltd. and 10% shares in C Ltd., and B Ltd. is holding 11% shares in C Ltd. Identify which of the statements are incorrect.

(i) In this case, A Ltd. is parent of B Ltd.

(ii) As far as the relationship between A Ltd. and C Ltd. is concerned, A Ltd. has a total of direct and indirect holding of (10% + 90% of 11%) 19.9 %in C Ltd.

(iii) C Ltd. is an associate of A Ltd. *(SM)*

(a) Statement (ii) is incorrect.

(b) Statement (iii) is incorrect.

(c) Statement (ii) and (iii) both are incorrect.

(d) All statements are incorrect.

Ans: (a)

3. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 of the same year. Other information is as follows:

Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,55,000

Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.

What is the amount of goodwill or capital reserve arising on significantinfluence? *(SM)*

(a) Goodwill = ₹ 10,000.

(b) Goodwill = ₹ 20,000.

(c) Capital Reserve = ₹ 10,000.

(d) Capital Reserve = ₹ 20,000.

Ans: (b)

4. Capital Reserve = ₹ 20,000. 4. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 during the same year. Other information is as follow:

Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,45,000

Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.

What is the amount of goodwill or capital reserve arising on significantinfluence? *(SM)*

(a) Goodwill = ₹ 10,000.

(b) Goodwill = ₹ 20,000.

(c) Capital Reserve = ₹ 10,000.

(d) Capital Reserve = ₹ 20,000.

Ans: (a)

5. Identity which of the statements are correct.

(i) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.

(ii) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed after taking into consideration the proposed dividend.

(iii) The potential equity shares of the investee held by the investor shouldnot be taken into account for determining the voting power of the investor.

(iv) The potential equity shares of the investee held by the investor shouldbe taken into account for determining the voting power of the investor. *(SM)*

(a) Statement (i) and (iii).

(b) Statement (ii) and (iv).

(c) Statement (i) only.

(d) Statement (iii) only.

Ans: (a)

CHAPTER 11.1: PREPARATION OF FINANCIAL STATEMENTS

CONCEPTS OF THIS CHAPTER

- Maintain account books for a company
- Statutory books of a company
- Prepare financial statements as per Schedule III of Companies Act, 2013
- Appreciate divisible profits and dividends

LDR

LDR Questions
Q 12 Q 14
Q 16

QUICK REVIEW OF IMPORTANT CONCEPTS

Declaration and Payment of Dividend

a company may declare dividend out of the accumulated profits earned by it in previous years and transferred by it to the reserves, in the event of inadequacy or absence of profits in any year.

- The rate of dividend declared should not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year: provided that this sub-rule should not apply to a company, which has not declared any dividend in each of the three preceding financial years.
- The total amount to be drawn from such accumulated profits should not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.
- The amount so drawn should first be utilised to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.
- The balance of reserves after such withdrawal should not fall below 15% of its paid up share capital as appearing in the latest audited financial statement.
- No company should declare dividend unless carried over previous losses and depreciation not provided in previous year are set off against profit of the company of the current year the loss or depreciation, whichever is less, in previous years is set off against the profit of the company for the year for which dividend is declared or paid.

BALANCE SHEET

			Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
			1	2	3	4
1.			**EQUITY AND LIABILITIES** **Shareholders' funds**			
	a		Share capital		xxx	xxx
	b		Reserves and Surplus		xxx	xxx
	c		Money received against share warrants		xxx	xxx
2.			**Share application money pending allotment**		xxx	xxx
3.			**Non-current liabilities**		xxx	xxx
	a		Long-term borrowings		xxx	xxx
	b		Deferred tax liabilities (Net)		xxx	xxx
	c		Other long-term liabilities		xxx	xxx
	d		Long-term provisions		xxx	xxx
4.			**Current liabilities**		xxx	xxx
	a		Short-term borrowings		xxx	xxx

	b		Trade Payables		xxx	xxx
			(A) total outstanding dues of micro enterprises and small enterprises; and		xxx	xxx
			(B) total outstanding dues of creditors other than micro enterprises and small enterprises.		xxx	xxx
	c		Other current liabilities		xxx	xxx
	d		Short-term provisions		xxx	xxx
			Total		xxx	xxx
			ASSETS		xxx	xxx
1			**Non-current assets**		xxx	xxx
	a	I	Property, plant and Equipment		xxx	xxx
		ii	Intangible assets		xxx	xxx
		iii	Capital Work-in-progress		xxx	xxx
		iv	Intangible assets under development		xxx	xxx
	b		Non-current investments		xxx	xxx
	c		Deferred tax assets (Net)		xxx	xxx
	d		Long-term loans and advances		xxx	xxx
	e		Other non-current assets		xxx	xxx
2			**Current assets**		xxx	xxx
	a		Current investments		xxx	xxx
	b		Inventories		xxx	xxx
	c		Trade receivables		xxx	xxx
	d		Cash and cash equivalents		xxx	xxx
	e		Short-term loans and advances		xxx	xxx
	f		Other current assets		xxx	xxx
			Total		xxx	xxx

STATEMENT OF PROFIT AND LOSS

Particulars		**Note No.**	**Figures for the current reporting period**	**Figures for the previous reporting period**
1		**2**	**3**	**4**
I.	Revenue from operations		xxx	xxx
II.	Other income		xxx	xxx
III.	Total Income (I + II)		xxx	xxx
IV.	Expenses:		xxx	xxx
	Cost of materials consumed		xxx	xxx
	Purchases of Stock-in-Trade		xxx	xxx
	Changes in inventories of finished goods		xxx	xxx
	work-in-progress		xxx	xxx
	and Stock-in-Trade		xxx	xxx
	Employee benefits expense		xxx	xxx
	Finance costs		xxx	xxx
	Depreciation and amortization expense		xxx	xxx
	Other expenses		xxx	xxx
	Total expenses			
V.	Profit before exceptional and extraordinary items and tax (III-IV)		xxx	xxx
VI.	Exceptional items		xxx	xxx
VII.	Profit before extraordinary items and tax (V - VI)		xxx	xxx
VIII.	Extraordinary Items		xxx	xxx
IX.	Profit before tax (VII- VIII)		xxx	xxx
X	Tax expense:		xxx	xxx
	(1) Current tax		xxx	xxx

	(2) Deferred tax		xxx xxx	Xxx xxx
XI	Profit (Loss) for the period from continuing operations (VII-VIII)		xxx	xxx
XII	Profit/(loss) from discontinuing operations		xxx	xxxzZ
XIII	Tax expense of discontinuing operations		xxx	xxx
XIV	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)		xxx	xxx
XV	Profit (Loss) for the period (XI + XIV)		xxx	xxx
XVI	Earnings per equity share:			
	(1) Basic		xxx	xxx
	(2) Diluted		xxx	xxx

Question & Answers

Question 1

State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

(i) Share application money received in excess of issued share capital.
(ii) Share option outstanding account.
(iii) Unpaid matured debenture and interest accrued thereon.
(iv) Uncalled liability on shares and other partly paid investments.
(v) Calls unpaid. ***(RTP Nov'21, SM)***

Answer 1

(i) Current Liabilities/ Other Current Liabilities
(ii) Shareholders Fund / Reserve & Surplus
(iii) Current liabilities/Other Current Liabilities
(iv) Contingent Liabilities and Commitments
(v) Shareholders Fund / Share Capital

Question 2

A company sold 20% of the Goods on Cash Basis and the balance on Credit basis.
Debtors are allowed 1.5 month's credit and their balance as on 31st March, 2021 is ₹ 1,50,000. Assume that sale is evenly spread throughout the year.
Purchases during the year ₹ 9,50,000
Closing stock is ₹ 10,000 less than the Opening Stock. Average stock maintained during the year ₹ 60,000.
Direct Expenses amounted to ₹ 35,000
Calculate Credit sales, Total sales and Gross profit for the year ended 31st March, 2021. ***(PYP 5 Marks, Dec'21)***

Answer 2

Calculation of Credit Sales, Total Sales and Gross Profit

Credit Sales for the year ended 31st March, 2021 = Debtors X $\frac{12\ Months}{1.5\ months}$

$= 1,50,000 \text{ X } \frac{12\ Months}{1.5\ months}$ = Rs. 12,00,000

Total Sales for the year ended 2020-21 = Credit Sales X $\frac{100\%}{80\%}$

= Rs. 12,00,000 X $\frac{100\%}{80\%}$ = Rs. 15,00,000

Trading Account for the year ended 31st March, 2021

	₹		₹
To Opening stock	65,000	By Sales	15,00,000
To Direct expenses	35,000	By Closing Stock	55,000
To Purchases	9,50,000		
To Gross profit	5,05,000		
	15,55,000		15,55,000

Working Note:

Calculation of opening stock and closing stock

If closing stock is x then opening stock is x+10,000

Average stock ₹ 60,000

Average stock = Opening stock + Closing stock /2

Thus, opening stock is ₹ 65,000 and closing stock is ₹ 55,000.

EXAM INSIGHTS: Many did not calculate the correct amount of Opening and Closing Stock. Consequently, they were not able to complete the credit sales, total sales and gross profit for the year.

Question 3

Summarized Balance Sheet of Cloth Trader as on 31.03.2023 is given below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Sundry Debtors	1,00,000
Sundry Creditors	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		6,85,000

Additional Information is as follows :

(1) The remaining life of fixed assets is 8 years. The pattern of use ofthe asset is even. The net realisable value of fixed assets on 31.03.2024 was ₹3,25,000.

(2) Purchases and Sales in 2023-24 amounted to ₹ 22,50,000 and ₹27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2024 were ₹2,00,000 and ₹2,50,000 respectively.

(4) Expenses for the year amounted to ₹78,000.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Sundry Debtors on 31.03.2024 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing Sundry Creditors are ₹ 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2024 is ₹4,22,000.

(9) There is an early repayment penalty for the loan of ₹25,000.

You are required to prepare Profit & Loss Account for the year 2023-24 (Not assuming going concern). *(MTP 4 Marks July'24)*

Answer 3

Profit and Loss Account for the year ended 2023-24 (not assuming going concern)

Particulars	Amount	Particulars	Amount
	₹		₹
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses*	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		
To Deferred cost	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		30,07,500

Question 4

From the following information, prepare extract of Balance Sheet of A Limited along with notes making necessary compliance of Schedule III to the Companies Act, 2013:

	Amount (₹)
Loan Funds	
(a) Secured Loans	18,12,000
(b) Unsecured Loan - Short term from bank	2,25,000
Other information is as under:	
Secured Loans	
Term Loans from:	
Banks	8,95,000
Others	9,17,000
	18,12,000
Current Maturities of long-term loan from Bank	1,24,000
Current Maturities of long- term loan from Others	85,000

There was no interest accrued / due as at the end of the year. Current maturities of long-term loans amounting ₹ 2,09,000 is included in the value of secured loans of ₹ 18,12,000.

(MTP 5 Marks Apr'23 & MTP 5 Marks Nov'21)

Answer 4

Extract of Balance Sheet of A Ltd

Particulars	Note No.	Amount
Non - Current Liabilities		
Long term borrowings	1	16,03,000
Current Liabilities		
Short term borrowings	2	4,34,000
Other current liabilities	3	2,09,000

Notes to Accounts

1.	**Long-Term Borrowings**	
	Term loans — Secured	
	- From banks	8,95,000
	- From other parties	9,17,000
		18,12,000
	Less: Current maturities of long-term debt (Refer Note 3)	(2,09,000)
		16,03,000
2.	**Short-Term Borrowings**	
	(Unsecured loan)	
	- from bank	2,25,000
3.	**Other Current Liabilities**	
	Current maturities of long-term debt	
	- From banks	1,24,000
	- From others	85,000
		2,09,000

Question 5

XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2020.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies Rules, 2014:

	(Rs.)
8,00,000 Equity Shares of Rs. 10 each fully paid up	80,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%.
(MTP 5 Marks Apr'21, MTP 5 Marks Apr'22, RTP May'21, MTP 4 Marks Aug'24)

Answer 5

Amount that can be drawn from reserves for (10% dividend on Rs. 80,00,000 i.e. Rs. 8,00,000)

Profits available

Current year profit	Rs. 1,42,500
Amount which can be utilized from reserves (Rs. 8,00,000 – 1,42,500)	Rs.6,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 2014:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid-up capital plus free reserves ie. Rs. 10,50,000 [10% of (80,00,000 + 25,00,000)]

Condition III

The balance of reserves after drawl Rs. 18,42,500 (Rs. 25,00,000 - Rs. 6,57,500) should not fall below 15 % of its paid-up capital ie. Rs. 12,00,000 (15% of Rs. 80,00,000]

Since all the three conditions are satisfied, the company can withdraw Rs. 6,57,500 from accumulated reserve (as per Declaration and Payment of Dividend Rules, 2014).

Question 6

You are required to prepare a Balance Sheet as at 31st March 2020, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Term Loans (Secured)	40,00,000	Investments (non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Cash and Bank Balances	38,40,000	Trade receivables	49,00,000
Staff Advances	2,20,000	Miscellaneous Expenses	2,32,000
Other advances (given by Co.)	14,88,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Finished Goods	30,00,000
General Reserve	62,00,000	Plant and Machinery (WDV)	2,14,00,000

Additional Information: -

1. **Share Capital consists of -**
   (a) 1,20,000 Equity Shares of Rs. 100 each fully paid up.
   (b) 40,000, 10% Redeemable Preference Shares of Rs. 100 each fully paid up.
2. **Write off the amount of Miscellaneous Expenses in full, amounting Rs. 2,32,000.**

(MTP 14 Marks Apr'22, Apr'21, Oct'23 & Aug'24) (Same concept different figures RTP Nov'18)

Answer 6

Balance Sheet of Mehar Ltd. as at 31st March, 2020

			Note	₹
I	**EQUITY AND LIABILITIES:**			
(1)	(a)	Share Capital	1	1,60,00,000
	(b)	Reserves and Surplus	2	1,10,68,000
(2)	Non-current Liabilities			
		Long term Borrowings- Terms Loans (Secured)		40,00,000
(3)	Current Liabilities			
	(a)	Trade Payables		45,80,000
	(b)	Other current liabilities	3	8,00,000
	(c)	Short-term Provisions (Provision for taxation)		10,20,000
		Total		**3,74,68,000**

II	**ASSETS**			
(1)	Non-current Assets			
	(a)	Property, Plant and Equipment	4	2,14,00,000
	(b)	Non- current Investments		9,00,000
(2)	Current Assets:			
	(a)	Inventories	5	48,00,000
	(b)	Trade Receivables	6	48,20,000
	(c)	Cash and Cash Equivalents		38,40,000
	(d)	Short-term Loans and Advances	7	17,08,000
		Total		**3,74,68,000**

Notes to accounts

				(₹)
1.	**Share Capital**			
	Authorized, issued, subscribed & called up			
	1,20,000, Equity Shares of ₹ 100 each		1,20,00,000	
	40,000 10% Redeemable Preference Shares of 100 each		40,00,000	1,60,00,000
2.	**Reserves and Surplus**			
	Securities Premium Account		19,00,000	
	General reserve		62,00,000	
	Profit & Loss Balance			
	Opening balance	-		
	Profit for the period	32,00,000		
	Less: Miscellaneous Expenditure written off	(2,32,000)	29,68,000	1,10,68,000
3.	**Other current liabilities**			
	Loan from other parties			8,00,000
4.	**Property, plant and equipment**			
	Plant and Machinery (WDV)			2,14,00,000
5.	**Inventories**			
	Finished Goods		30,00,000	
	Stores		16,00,000	
	Loose Tools		2,00,000	48,00,000
6.	**Trade Receivables**			
	Trade receivables		49,00,000	
	Less: Provision for Doubtful Debts		(80,000)	48,20,000
7.	**Short term loans & Advances**			
	Staff Advances*		2,20,000	
	Other Advances*		14,88,000	17,08,000

*Considered to be short term.

Question 7

Shweta Ltd. has the Authorized Capital of Rs. 15,00,000 consisting of 6,000 6% Preference shares of Rs. 100 each and 90,000 equity Shares of Rs.10 each. The following was the Trial Balance of the Company as on 31st March, 2018:

Particulars	Dr.	Cr.
Investment in Shares at cost	1,50,000	
Purchases	14,71,500	
Selling Expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and Wages	1,56,000	
Cash on Hand	36,000	
Interim Preference dividend for the half year to 30th September	18,000	
Bills Receivable	1,24,500	

Interest on Bank overdraft	29,400	
Interest on Debentures up-to 30th Sep (1st half year)	11,250	
Debtors	1,50,300	
Trade payables		2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on Freehold properties		4,50,000
Income tax paid in advance for the current year	30,000	
Dividends		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft secured by hypothecation of stocks and receivables		4,50,000
Technical knowhow fees at cost paid during the year	4,50,000	
Audit fees	18,000	
Total	44,72,850	44,72,850

You are required to prepare the Profit and Loss Statement for the year ended 31st March, 2018 and the Balance Sheet as on 31st March, 2018 as per Schedule III of the Companies Act, 2013 after taking into account the following –

1. Closing Stock was valued at Rs. 4,27,500.
2. Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable include Rs. 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Investment in shares is to be treated as non-current investments.
8. Interest on Debentures for the half year ending on 31st March was due on that date.
9. Provide Provision for taxation Rs.12,000.
10. Technical Knowhow Fees is to be written off over a period of 10 years.
11. Salaries and Wages include Rs. 30,000 being Director's Remuneration.
12. Trade receivables include Rs. 18,000 due for more than six months. (RTP May'19)

(Same concept different figures & lesser adjustments Nov'21)

Answer 7

(a) Statement of Profit and Loss of Shweta Ltd. for the year ended 31st March, 2018

	Particulars	Note	Rs.
I	Revenue from Operations		20,11,050
II	Other income (Divided income)		12,750
III	Total Revenue (I &+ II)		20,23,800
IV	Expenses:		
	(a) Purchases (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work in progress (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	11	3,47,550
	Total Expenses		19,95,150

V	Profit before exceptional, extraordinary items and tax (III-IV)		28,650
VI	Exceptional items		-
VII	Profit before extra ordinary items and tax (V-IV)		28,650
VIII	Extraordinary items		-
IX	Profit before tax (VII-VIII)		28,650
X	Tax expense: Current Tax		 12,000
XI	Profit/Loss for the period (after tax)		16,650

Balance sheet of Shweta Ltd. as on 31st March, 2018

	Particulars as on 31st March	Note	
I			
(1)	**Shareholders' funds:**		
	(a) Share capital	1	12,00,000
	(b) Reserves and surplus	2	66,150
(2)	**Noncurrent liabilities:**		
	Long term borrowings	3	4,50,000
(3)	**Current liabilities:**		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	29,250
	Total		24,58,950
II	**ASSETS**		
(1)	**Non-current Assets**		
	(a) Property, Plant & Equipment		
	(i) Tangible assets	6	11,49,900
	(ii) Intangible assets	7	4,05,000
	(b) Noncurrent investments (Shares at cost)		1,50,000
	Current Assets:		
	(a) Inventories		4,27,500
	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		36,000
	(d) Short term loans and advances –Income tax (paid 30,000-Provision 12,000)		18,000
	Total		24,58,950

Note: There is a Contingent liability for Bills receivable discounted with Bank Rs. 6,000.

Notes to accounts

			(Rs.)
1.	**Share Capital**		
	Authorized	9,00,000	
	90,000 Equity Shares of Rs. 10 each		
	6,000 6% Preference shares of Rs. 100 each	6,00,000	15,00,000
	Issued, subscribed & called up		
	60,000, Equity Shares of Rs. 10 each	6,00,000	
	6,000 6% Redeemable Preference Shares of 100 each	6,00,000	12,00,000
2.	**Reserves and Surplus**		
	Balance as on 1st April, 2017	85,500	
	Add: Surplus for current year	16,650	1,02,150
	Less: Preference Dividend		36,000
	Balance as on 31st March, 2018		66,150
3.	**Long Term Borrowings**		
	5% Mortgage Debentures (Secured against Freehold Properties)		4,50,000

4.	**Short Term Borrowings**			
	Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)			4,50,000
5.	**Other Current liabilities**			
	Interest Accrued and due on Borrowings (5% Debentures)		11,250	
	Unpaid Preference Dividends		18,000	29,250
6.	**Tangible Property, Plant & Equipment**			
	Furniture			
	Furniture at Cost Less depreciation Rs. 45,000 (as given in Trial Balance		1,05,000	
	Add: Depreciation		45,000	
	Cost of Furniture		1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages		6,000	
	Total Gross block of Furniture A/c		1,56,000	
	Accumulated Depreciation Account: Opening Balance-given in Trial Balance	45,000		
	Depreciation for the year: On Opening WDV at 10% i.e. (10% x 1,05,000)	10,500		
	On additional purchase during the year at 10% i.e. (10% x 6,000)	600		
	Less: Accumulated Depreciation		56,100	99,900
	Freehold property (at cost)			10,50,000
				11,49,900
7.	**Intangible Fixed Assets**			
	Technical knowhow		4,50,000	
	Less: Written off		45,000	4,05,000
8.	**Trade Receivables**			
	Sundry Debtors (a) Debt outstanding for more than six months		18,000	
	(b) Other Debts (refer Working Note)		1,34,550	
	Bills Receivable (1,24,500 -4,500)		1,20,000	2,72,550
9.	**Employee benefit expenses**			
	Amount as per Trial Balance		1,56,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised		6,000	
	Less: Directors₹ Remuneration shown separately		30,000	
	Balance amount			1,20,000
10.	**Finance Costs**			
	Interest on bank overdraft		29,400	
	Interest on debentures		22,500	51,900
11.	**Other Expenses**			
	Payment to the auditors		18,000	
	Director₹s remuneration		30,000	
	Selling expenses		2,37,300	
	Technical knowhow written of (4,50,000/10)		45,000	
	Advertisement (Goods and Articles Distributed)		15,000	
	Bad Debts (4,500 x50%)		2,250	3,47,550

Working Note

Calculation of Sundry Debtors-Other Debts	
Sundry Debtors as given in Trial Balance	1,50,300
Add Back: Bills Receivables Dishonored	4,500
	1,54,800
Less: Bad Debts written off – 50% Rs. 4,500	(2,250)
Adjusted Sundry Debtors	1,52,550
Less: Debts due for more than 6 months (as per information given)	(18,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	1,34,550

Question 8

The following is the Trial Balance of Viwit Su Ltd., as on 31st March, 2021:

	Dr.	Cr.
Equity Capital (Shares of ₹ 100 each)		8,05,000
5,000, 6% preference shares of ₹ 100 each		5,00,000
9% Debentures		4,00,000
General Reserve		40,00,000
Profit & Loss A/c (of previous year)		72,000
Sales		60,00,000
Trade Payables		10,40,000
Provision for Depreciation on Plant & Machinery		1,72,000
Suspense Account		40,000
Land at cost	24,00,000	
Plant & Machinery at cost	7,70,000	
Trade Receivables	19,60,000	
Inventories (31-03-2020)	9,50,000	
Bank	2,30,900	
Adjusted Purchases	22,32,100	
Factory Expenses	15,00,000	
Administration Expenses	3,00,000	
Selling Expenses	14,00,000	
Debenture Interest	36,000	
Goodwill	12,50,000	
	1,30,29,000	1,30,29,000

Additional Information:

(i) The authorized share capital of the company is:

5,000, 6% preference shares of ₹ 100 each	5,00,000
10,000, equity shares of ₹ 100 each	10,00,000

Issued equity capital as on 1st April 2020 stood at ₹ 7,20,000, that is 6,000 shares fully paid and 2,000 shares ₹ 60 paid. The directors made a call of ₹40 per share on 1st October 2020. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹ 90 per share as fully paid.

(ii) On 31st March 2021, the Directors declared a dividend of 5% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

(iii) The company on the advice of independent value wishes to revalue the land at ₹ 36,00,000.

(iv) Suspense account of ₹ 40,000 represents 31st March 2021, the Directors declared a dividend of 5% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation. amount received for the sale of some of the machinery on 1-4-2020. The cost of the machinery was ₹ 1,00,000 and the accumulated depreciation thereon being ₹ 30,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Amortize 1/5th of Goodwill.

You are required to prepare H Limited Balance Sheet as on 31-3-2021 and Statement of Profit and Loss with notes to accounts for the year ended 31-3-2021 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures & taxation. *(PYP 20 Marks Jul'21)*

Answer 8

Viwit Su Ltd

Balance Sheet as at 31st March 2021

Particulars	Note No	Amount in ₹
Equity and Liabilities		
I. Shareholders' Funds		
a. Share Capital	1	13,00,000
b. Reserves and Surplus	2	53,91,900
II. Non-Current Liabilities		
a. Long Term Borrowings	3	4,00,000
III. Current Liabilities		
a. Trade Payables	4	10,40,000
b. Other Current Liabilities	5	70,000
Total		82,01,900
Assets		
I. Non-Current Assets		
a. Property, Plant and Equipment	6	40,61,000
b. Intangible Assets	7	10,00,000
II. Current Assets		
a. Inventories		9,50,000
b. Trade Receivables		19,60,000
c. Cash and Cash equivalents		2,30,900
Total		82,01,900

Statement of Profit and Loss for the year ended 31st March 2021

Particulars	Note No	Amount in ₹
I. Revenue from operations		60,00,000
Total Revenue		60,00,000
II. Expenses		
Purchases (adjusted)		22,32,100
Finance Costs	8	36,000
Depreciation and Amortization	9	3,17,000
Other Expenses	10	32,30,000
Total Expenses		58,15,100
III. Profit/(Loss) for the period		1,84,900

Notes to Accounts (Amount in ₹)

1	**Share Capital**		
	a. Authorized Capital		
	5,000, 6% Preference shares of ₹ 100/- each		5,00,000
	10,000 Equity Shares of ₹100/- each		10,00,000
			15,00,000
	b. Issued & Subscribed Capital		
	5,000, 6% Preference shares of ₹100/- each		5,00,000
	8,000, Equity shares of ₹100/- each		8,00,000
	Total		13,00,000
2	**Reserves & Surplus**		
	Capital Reserve (100 X (90-40))		5,000
	Revaluation Reserve (36,00,000-24,00,000)		12,00,000
	General Reserve		40,00,000
	Surplus	1,84,900	
	Add: Balance from previous year	72,000	

	Less: Dividends declared		(70,000)	
	Profit/(Loss) carried forward to Balance Sheet			1,86,900
	Total			53,91,900
3	**Long-Term Borrowings**			
	Secured			
	9% Debentures			4,00,000
4	**Trade Payables**			10,40,000
5	**Other Current Liabilities**			
	Dividend Payable			
	Preference Dividend		30,000	
	Equity Dividend		40,000	
	Total			70,000
6	**Property, Plant and Equipment**			
	Land			
	Opening balance		24,00,000	
	Add: Revaluation Adjustment		12,00,000	
	Closing Balance			36,00,000
	Plant and Machinery			
	Opening Balance		7,70,000	
	Less: Disposed off		(1,00,000)	
	Depreciation		(2,09,000)	
	Closing Balance			4,61,000
	Total			40,61,000
7	**Intangible Assets**			
	Goodwill		12,50,000	
	Less: Amortized (1/5the)		(2,50,000)	
	Total			10,00,000
8	**Finance Costs**			
	Debenture Interest			36,000
9	**Depreciation and Amortization**			
	Plant and Machinery		67,000	
	Goodwill		2,50,000	
	Total			3,17,000
10	**Other Expenses**			
	Factory Expenses		15,00,000	
	Selling Expenses		14,00,000	
	Administrative Expenses		3,00,000	
	Loss on sale of Plant and Machinery			
	Book Value (1,00,000-30,000)	70,000		
	Less: Sale Value	(40,000)	30,000	
	Total			32,30,000

Note

1. The inventories (31.3.20) amounting ₹ 9, 50,000 (given in the trial balance of the Question) should have been as closing inventory i.e. as on 31.3.21. In the above solution, this inventory has been considered as closing inventory i.e. for 31.3.21. If this is considered as inventory of 31.3.20, the closing inventory (as on 31.3.21) will not be available for the balance sheet as on 31.3.21 and in that case, the balance sheet will not tally without using suspense account amounting ₹ 9,50,000.
2. The financial statements given in the above Answer include adjustment for dividend declared on 31st March, 2021, strictly, as per the information given in the Question. However, practically dividends are declared in the annual general meetings which take place after the reporting date.

EXAM INSIGHTS : Large number of examinees were not able to prepare the statement of profit and loss and Balance sheet of the company as per Schedule III of the Companies Act, 2013 from the given ledger balances and additional information provided in the question. Further, notes to accounts prepared by the examinees were also not as per the prescribed format.

Question 9

The following is the Trial Balance of Anmol Ltd as on 31st March 2022

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

Following information is provided:

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

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

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

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

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

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

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

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

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

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

You are required to prepare Balance Sheet as on 31st March 2022 and Statement of Profit and Loss with Note to Accounts for the year ending 31st March, 2022 as per Schedule III of the Companies Act, 2013. Ignore previous years₹ figures. *(PYP 20 Marks Nov'22)*

Answer 9

Balance Sheet of Anmol Ltd. as at 31st March, 2022

	Particulars	Note No	₹
Equity and Liabilities			
1	Shareholders' funds		

	a	Share capital	1	10,00,000
	b	Reserves and Surplus	2	24,76,462
2	Non-current liabilities			
	a	Long-term borrowings	3	85,00,000
3		Current liabilities		
	a	short-term borrowing (Installment of term loan falling due in one year)		17,00,000
	b	Trade Payables	4	56,33,875
	c	Other current liabilities	5	1,76,500
	d	Short term provisions (provision for tax)		1,16,988
		Total		1,96,03,825
ASSETS				
1	Non-current assets			
	a	PPE	6	1,11,70,700
2	Current assets			
	a	Inventories		11,37,500
	b	Trade receivables	7	61,51,250
	c	Cash and bank balances	8	11,06,875
	d	Short term loans & advances (Advance tax paid)		37,500
				1,96,03,825

Statement of Profit and Loss of Anmol Ltd. for the year ended 31st March, 2022

	Particulars	Notes	Amount
I.	Revenue from operations		1,25,87,000
II.	Other income (Commission income)		72,500
III.	Total Income (I + II)		1,26,59,500
IV.	Expenses:		
	Purchases of Inventory-in-Trade		82,95,000
	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	9	(2,12,500)
	Employee benefits expense	10	14,28,500
	Finance costs (interest on term loan)		8,05,000
	Depreciation		7,80,300
	Other operating expenses	11	10,95,250
	Total expenses		1,21,91,550
V.	Profit (Loss) for the period (III - IV)		4,67,950
VI.	(-) Tax (25%)		(1,16,988)
VII.	PAT		3,50,962

Notes to accounts

			₹
1	**Share Capital**		20,00,000
	Equity share capital		
	Authorized		
	2,00,000 equity shares of ₹ 10 each		
	Issued & subscribed		
	1,00,000 equity shares of ₹ 10 each		10,00,000
2	**Reserves and Surplus**		
	General Reserve	10,00,000	
	Add: current year transfer	1,00,000	11,00,000
	Profit & Loss balance		
	Opening balance: Surplus P & L A/c	8,75,500	

	Profit for the year	3,50,962	
	Less: Appropriations:		
	Transfer to General reserve	(1,00,000)	11,26,462
	Securities premium		2,50,000
			24,76,462
3	**Long-term borrowings**		
	Term loan from public sector bank (Secured by hypothecation)		1,02,00,000
	Less: Installment of Term loan falling due within one year		(17,00,000)
	Total		85,00,000
4	**Trade payables**		
	Trade payables	55,08,875	
	Bills payable	1,25,000	56,33,875
5	**Other current liabilities**		
	Rent outstanding	20,000	
	Wages and Salaries Outstanding	1,56,500	1,76,500
6	**PPE (Note 2)**		
	Land		24,00,000
	Factory Buildings		33,21,200
	Plant & Machinery		47,81,250
	Furniture & Fittings		6,68,250
	Total		1,11,70,700
7	**Trade receivables**		
	Debtors Outstanding for period exceeding 6 months	85,600	
	Other debts	63,89,400	
	Less: Provision for doubtful debt	(3,23,750)	61,51,250
8	**Cash and bank balances**		
	Cash and cash equivalents		
	Bank balance	9,75,000	
	Cash on hand	1,31,875	11,06,875
9	**Changes in Inventories**		
	Opening Inventory	9,25,000	
	Less: Closing Inventory	(11,37,500)	
	Change		(2,12,500)
10	**Employee benefit expense**		
	Wages and Salaries	12,72,000	
	Add: Wages and Salaries Outstanding	1,56,500	14,28,500
11	**Other operating expenses**		
	Rent	2,20,000	
	Add: outstanding	20,000	2,40,000
	Rates and Taxes		50,000
	Selling & Distribution expenses		4,36,000
	Bad debts		38,500
	Provision for Doubtful Debts (3,23,750-25,000)		2,98,750
	Director's fee		32,000
	Total		10,95,250

Note:

1. 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, 2022. Such dividends will be disclosed in notes only.
2. Calculation of depreciation:

	Book value	Accumulated depreciation	WDV	Current year Depreciation	Current year WDV
Land	24,00,000	-	24,00,000	-	24,00,000
Factory building	36,80,000	1,84,000	34,96,000	1,74,800	33,21,200
Plant & Machinery	62,50,000	9,37,500	53,12,500	5,31,250	47,81,250
Furniture & Fittings	8,25,000	82,500	7,42,500	74,250	6,68,250
Total				7,80,300	1,11,70,700

Exam Insights: Most of the examinees were not able to classify the various items in the Balance Sheet and Statement of Profit and Loss as per Schedule III format prescribed under the Companies Act, 2013. They also failed to compute the correct amount of depreciation and profit before tax.

Question 10

The following balances are extracted from the books of Travese Limited as on 31st March 2023:

Particulars	Amount (₹)	
	Debit	Credit
7% Debentures		48,45,000
Plant & Machinery (at cost)	37,43,400	
Trade Receivable	35,70,000	
Land	97,37,000	
Debenture Interest	3,39,150	
Bank Interest	13,260	
Sales		47,22,600
Transfer Fees		38,250
Discount received		66,300
Purchases	28,86,600	
Inventories 1.04.2022	4,97,250	
Factory Expenses	2,58,060	
Rates, Taxes and Insurance	65,025	
Repairs	1,49,685	
Sundry Expenses	1,27,500	
Selling Expenses	26,520	
Directors Fees	38,250	
Interest on Investment for the year 2022-2023		55,000
Provision for depreciation		5,96,700
Miscellaneous receipts		1,42,800

Additional information:

(i) Closing inventory on 31.03.2023 is ₹ 4,76,850,

(ii) Miscellaneous receipts represent cash received from the sale of the Plant on 01.04.2022. The cost of the Plant was ₹ 1,65,750 and the accumulated depreciation thereon is ₹ 24865.

(iii) The Land is re-valued at 1,08,63,000.

(iv) Depreciation is to be provided on Plant & Machinery at 10% p.a. on cost.

(v) **Make a provision for income tax @ 25%.**

(vi) **The Board of Directors declared a dividend of 10% on Equity shares on 4th April, 2023.**

You are required to prepare a Statement of Profit and Loss as per Schedule III of the Companies Act, 2013 for the year ended 31.03.2023. (*Ignore previous year figures) (PYP 10 Marks May'23*)

Answer 10

Statement of Profit and Loss of Travese Limited. for the year ended 31st March, 2023

	Particulars	Notes	Amount
I.	Revenue from operations	1	47,22,600
II.	Other income	2	1,61,465
III.	Total Income (I + II)		48,84,065
IV.	Expenses:		
	Purchases of Inventory-in-Trade		28,86,600
	Changes in inventories of finished goods, work-in progress and Inventory-in-Trade	3	20,400
	Finance costs	4	3,52,410
	Depreciation and amortization expenses	5	3,57,765
	Other expenses	6	6,65,040
	Total expenses		42,82,215
V.	Profit (Loss) for the period (III - IV) before tax		6,01,850
VI	Provision for tax		(1,50,463)
VII	Profit for the period		4,51,387

Notes to accounts

			₹
1	Revenue from operations		
	Sale		47,22,600
2	Other Income		
	Transfer fees		38,250
	Discount received		66,300
	Interest on Investment		55,000
	Profit on sale of plant		1,915
	Total		1,61,465
3	Changes in inventories of finished goods, work-in-Progress and Inventory-in-Trade		
	Opening Inventory	4,97,250	
	Less: Closing Inventory	(4,76,850)	20,400
	Total		20,400
4	Finance costs		
	Interest on Debentures		3,39,150
	Bank Interest		13,260
	Total		3,52,410
5	Depreciation and Amortization expenses Depreciation on Plant & Machinery (10% x 37,43,400 - 1,65,750)		3,57,765
6	Other expenses Factory expense		2,58,060

	Rent, Taxes and Insurance		65,025
	Repairs		1,49,685
	Sundry expenses		1,27,500
	Selling expenses		26,520
	Directors fees		38,250
		Total	**6,65,040**

Note:

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 financial statements) as per accounting standards. Hence, it is not recognized in the financial statement for the year ending 31st March 2023. Such dividend will be disclosed in notes only.

Exam Insights: Large number of examinees were not able to prepare the Balance sheet of the company as per Schedule III of the Companies Act, 2013 from the given ledger balances and additional information provided in the question. Moreover, notes to accounts were also not given by them as part of the answer.

Question 11

From the following particulars furnished by Wivitzu Ltd., prepare the Balance Sheet as on 31st March 2023 as required by Division I of Schedule III of the Companies Act, 2013.

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			25,00,000
Call in Arrears		2,500	
Land & Building		13,75,000	
Plant & Machinery		13,12,500	
Furniture		1,25,000	
General Reserve			5,25,000
Loan from State Financial Corporation			3,75,000
Inventories:			
Raw Materials	1,25,000		
Finished Goods	5,00,000	6,25,000	
Provision for Taxation			3,20,000
Trade receivables		5,00,000	
Advances		1,06,750	
Profit & Loss Account			2,16,750
Cash in Hand		75,000	
Cash at Bank		6,17,500	
Unsecured Loan			3,02,500
Trade creditors (for Goods and Expenses)			5,00,000
		47,39,250	47,39,250

The following additional information is also provided:

(i) **5,000 Equity shares were issued for consideration other than cash.**

(ii) **Trade receivables of ₹ 1,30,000 are due for more than 6 months.**

(iii) **The cost of the Assets was:**
Building ₹ 15,00,000, Plant & Machinery ₹ 17,50,000 and Furniture ₹ 1,56,250

(iv) **The balance of ₹ 3,75,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 18,750 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.**

(v) **Balance at Bank includes ₹ 5,000 with Global Bank Ltd., which is not a Scheduled Bank.**

(vi) **Bills Receivable for 1,60,000 maturing on 15th June, 2023 has been discounted.**

(vii) **Provide to doubtful debts @ 5% on trade receivables.** ***(RTP Nov'23) (Same concept different figures MTP 14 Marks Jul'24)***

Answer 11

Wivitzu Ltd.

Balance Sheet as on 31st March, 2023

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholder's funds		
a	Share capital	1	24,97,500
b	Reserves and Surplus	2	7,16,750
2	**Non-current liabilities**		
	Long-term borrowings	3	6,58,750
3	**Current liabilities**		
a	Trade Payables		5,00,000
b	Other current liabilities	4	18,750
c	Short-term provisions	5	3,20,000
		Total	**47,11,750**
	Assets		
1	**Non-current assets**		
	Property, Plant and Equipment	6	28,12,500
2	Current assets		
a	Inventories	7	6,25,000
b	Trade receivables	8	4,75,000
c	Cash and cash equivalents	9	6,92,500
d	Short-term loans and advances		1,06,750
	Total		**47,11,750**
Contingent Liabilities and Commitments (to the extent not provided for) Contingent Liabilities: Bills discounted but not matured			**1,60,000**

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up & paid-up		
	25,000 Equity Shares of ₹ 100 each (of the above 5,000 shares have been issued for consideration other than cash)	**25,00,000**	
	Less: Calls in arrears	**(2,500)**	**24,97,500**
	Total		**24,97,500**
2	**Reserves and Surplus**		
	General Reserve		5,25,000
	Surplus (Profit & Loss A/c	2,16,750	
	Less: provision for debtors	25,000	1,91,750
	Total		**7,16,750**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (3,75,000-18,750)		3,56,250
	(Secured by hypothecation of Plant and Machinery) Unsecured Loan		3,02,500
	Total		**6,58,750**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		**18,750**
5	**Short-term provisions**		
	Provision for taxation		**3,20,000**
6	**Property, Plant and Equipment**		

	Land and Building	15,00,000	
	Less: Depreciation	(1,25,000)	13,75,000
	Plant & Machinery	17,50,000	
	Less: Depreciation	(4,37,500)	13,12,500
	Furniture & Fittings	1,56,250	
	Less: Depreciation	(31,250)	1,25,000
	Total		**28,12,500**
7	**Inventories**		
	Raw Materials		1,25,000
	Finished goods		5,00,000
	Total		**6,25,000**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		1,30,000
	Other Amounts		3,70,000
	Less: Provision for doubtful debts		(25,000)
	Total		**4,75,000**
9	**Cash and cash equivalents**		
	Cash at bank		
	with Scheduled Banks	6,12,500	
	with others (Global Bank Ltd.)	5,000	6,17,500
	Cash in hand		75,000
	Total		**6,92,500**

Question 12

LDR

The following is the Trial Balance of Falgun Ltd., as on 31st March, 2023:

Particulars	Debit Amt. in (₹)	Credit Amt. in (₹)
Equity Share Capital (Fully paid-up shares of ₹ 100 each)		10,00,000
10% Preference Share Capital of Face Value ₹ 100 each		4,00,000
General Reserve		2,85,000
2,000 10% Debentures of ₹ 100 each		2,00,000
Securities Premium Account		50,000
Land (at Cost)	7,00,000	
Plant and Machinery	14,70,000	
Furniture	4,00,000	
Provision for Depreciation - Plant and Machinery		3,00,000
Provision for Depreciation - Furniture		1,90,000
Trade Receivables	3,10,000	
Trade Payables		72,000
Cash-in-Hand	1,34,000	
Cash-at-Bank	3,05,000	
Bank Over Drafts from Nationalized bank (Long Term)		2,00,000
(Secured by Hypothecation of Stocks)		
6% Secured Loan from State Finance Corporation (repayable after 3 years) (Secured by Hypothecation of Plant and Machinery)		4,50,000
Unclaimed Dividend		23,000

Loan from Director (Short Term)		1,00,000
Adjusted Purchases	2,25,000	
Closing Stock	1,12,000	
Sales		8,46,000
Carriage Inward	17,200	
Miscellaneous Expenses	10,200	
Selling and Distribution Expenses	46,600	
Depreciation	1,80,000	
Salaries	72,000	
Director's Fees	40,000	
Travelling Expenses (include ₹ 50,000/- for foreign tour)	1,30,000	
Profit and Loss Account		40,000
Office Expenses	28,000	
Rent Received		24,000
Total	41,80,000	41,80,000

Additional Information:

(i) Authorized Capital - divided into -
   (a) 20,000 equity shares of ₹ 100 each.
   (b) 10,000 10% preference shares or ₹ 100 each
(ii) Equity shares include, 2,500 equity shares issued for consideration other than cash
(iii) The company has land professionally valued and decides to include it in the Balance sheet at its valuation of ₹ 8,50,000.
(iv) It is proposed to capitalize part of the undistributed profits by making bonus issue to the shareholders by allocating one equity share of ₹ 100 each for every 5 shares held.
(v) Trade Receivables of ₹ 46,000 are due for more than six months. There is no doubtful amount.
(vi) Depreciation expenses include depreciation of ₹ 1,10,000 on Plant and Machinery and that of ₹ 70,000 on Furniture.
(vii) Cash-at-Bank include ₹ 55,000 with Desire Bank Ltd., which is not scheduled Bank.
(viii) Miscellaneous expenses included ₹ 5,000 being audit fees paid to auditors.
(ix) Bill Receivables for ₹ 35,000 maturing on 31st July, 2023 has been discounted.
(x) Balance of secured loan from State Finance Corporation is inclusive of ₹ 36,000 for interest accrued but not due.
(xi) Directors declared final dividend @ 8% on 6th April, 2023, transferring any amount that may be required from General Reserve. Ignore Taxation.
(xii) Interest on debenture for the year is outstanding as on 31st March, 2023. You are required to prepare Balance Sheet as on 31st March, 2023 and Statement of Profit and Loss with Notes to Accounts for the year ending 31st March, 2023 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures. (Ignore taxation). (All workings should form part of the answer) *(PYP 20 Marks Nov'23)*

Answer 12

Statement of Profit and Loss of Falgun Ltd. for the year ended 31st March, 2023

	Particulars	Notes	₹
I.	Revenue from operations		8,46,000
II.	Other income (Rent income)		24,000
III.	Total Income (I + II)		8,70,000
IV.	Expenses:		
	Cost of materials consumed / Cost of purchases	9	2,42,200
	Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade		-
	Employee benefits expense	10	72,000

	Finance costs (Interest on debentures)	11	20,000
	Depreciation and amortization expenses	12	1,80,000
	Other expenses	13	2,54,800
	Total expenses		7,69,000
V.	Profit (Loss) for the period (III - IV)		1,01,000

Balance Sheet of Falgun Ltd. as at 31st March, 2023

Particulars		Note No	₹
Equity and Liabilities			
1 Shareholders' funds			
a Share capital		1	14,00,000
b Reserves and Surplus		2	6,26,000
2 Non-current liabilities			
a Long-term borrowings		3	8,14,000
3 Current liabilities			
a Short term borrowings		4	1,00,000
b Trade Payables			72,000
c Other current liabilities		5	79,000
d Short term provisions			
	Total		30,91,000
ASSETS			
1 Non-current assets			
a Property, plant and equipment		6	22,30,000
2 Current assets			
a Inventories			1,12,000
b Trade receivables		7	3,10,000
c Cash and bank equivalents		8	4,39,000
d Short term loans & advances			
	Total		30,91,000

Note: There is a Contingent Liability for bills discounted but not yet matured amounting ₹ 35,000.

Notes to accounts:

			₹
	Share Capital		
1.	Authorised capital:		
	10,000, 10% preference shares of ₹ 100		10,00,000
	20,000 Equity shares of ₹ 100 each		20,00,000
			30,00,000
	Issued and subscribed capital:		
	4,000, 10% preference shares of ₹ 100 each fully paid		4,00,000
	10,000 Equity shares of ₹ 100 each, fully paid		10,00,000
	(of the above 2,500* shares have been issued for consideration other than cash)		14,00,000
2.	Reserves and Surplus		
	Securities premium	50,000	
	Revaluation reserve	1,50,000	
	General Reserve	2,85,000	4,85,000
	Surplus (Profit & Loss balance)		
	Opening balance	40,000	
	Profit for the year	1,01,000	1,41,000
	Total		6,26,000
3.	Long-term borrowings		
	Debentures		
	2,000 10% Debentures of ₹ 100 each	2,00,000	
	Secured: Term Loans		

	6% Loan from State Finance Corporation [repayable after 3years (₹ 4,50,000 - ₹ 36,000 for interest accrued but not due)] (secured by hypothecation of Plant and machinery)	4,14,000	
	Others Bank overdraft from Nationalized bank (secured by hypothecation of stocks)	2,00,000	
	Total		8,14,000
4.	Short-term borrowings Loan from Directors		1,00,000
5.	Other current liabilities		
	Unclaimed dividend	23,000	
	Interest on Debentures	20,000	
	Interest accrued but not due on loans (SFC)	36,000	79,000
6.	Property, plant and equipment		
	Land	7,00,000	
	Add: Revaluation Adjustment	1,50,000	8,50,000
	Plant & Machinery	14,70,000	
	Less: Provision for depreciation	(3,00,000)	11,70,000
	Furniture	4,00,000	
	Less: Provision for depreciation	(1,90,000)	2,10,000
		Total	22,30,000
7.	Trade receivables		
	Debts outstanding for a period exceeding six months		46,000
	Other Debts		2,64,000
			3,10,000
1.	Cash and cash equivalents		
	Cash at bank with Scheduled Banks (3,05,000-55,000)	2,50,000	
	with others	55,000	
	Cash in hand	1,34,000	4,39,000
9.	Cost of materials consumed/Cost of purchases Adjusted purchases	2,25,000	
	Carriage inward	17,200	2,42,200
10.	Employee benefit expense Salaries		72,000
11.	Finance cost		
	Debenture interest		20,000
12.	Depreciation and amortization expenses		
	Plant and Machinery	1,10,000	
	Furniture	70,000	1,80,000
13.	Other expenses		
	Misc. expenses (10,200-5,000)	5,200	
	Audit fee	5,000	
	Selling & Distribution expenses	46,600	
	Director's fee	40,000	
	Travelling expenses (including foreign tour)	1,30,000	
	Office expenses	28,000	2,54,800

Notes:

1. 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, 2023. Such dividends will be disclosed in notes only.

2. Since Bonus issue is in proposal state, no adjustment has been made in the given answer.

Exam insights: A large number of examinees were not able to prepare the Balance sheet of the company as per Schedule III of the Companies Act, 2013 from the given ledger balances and additional information provided in the question. Further, notes to accounts prepared by the examinees were also not as per the prescribed format.

Question 13

From the following particulars furnished by Hello Ltd., prepare the Balance Sheet as on 31st March 2022 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,55,000		
Finished Goods	10,00,000	12,55,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			10,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:
Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer ₹ 20,000 to general reserve as proposed by Board of directors.

(MTP 15 Marks , Sep 22) (MTP Mar'19,20 Marks, MTP Aug'18 16 Marks, MTP Apr'19 16 Marks, MTP Mar'18 15 Marks, MTP Oct'18 15 Marks, MTP March 21, 15 Marks, SM, MTP 14 Marks Dec'24) (Same concept different figures and fewer adjustments RTP May'20, RTP May'23, PYP Nov'19 10 Marks)

Answer 13

Hello Ltd.
Balance Sheet as at 31st March, 2022

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	50,00,000
b	Reserves and Surplus	2	14,83,500
2	Non-current liabilities		
	Long-term borrowings	3	13,55,000
3	Current liabilities		
a	Trade Payables		10,00,000
b	Short-term provisions	4	6,40,000

		Total		94,78,500
		Assets		
1		Non-current assets		
		Property, Plant & equipment	5	56,25,000
2		Current assets		
	a	Inventories	6	12,55,000
	b	Trade receivables	7	10,00,000
	c	Cash and Cash Equivalents	8	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		94,78,500

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of ₹ 100 each (of the above 10,000 shares have been issued for consideration other than cash)		50,00,000
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	4,13,500
			14,83,500
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (Secured by hypothecation of Plant and Machinery)		7,50,000
	Unsecured Loan		6,05,000
	Total		13,55,000
4	**Short-term provisions**		
	Provision for taxation		6,40,000
5	**Property, plant and Equipment**		
	Building	30,00,000	
	Less: Depreciation	(2,50,000) (b.f.)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500) (b.f.)	2,50,000
	Total		56,25,000
6	**Inventories**		
	Raw Materials		2,55,000
	Finished goods		10,00,000
	Total		12,55,000
7	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000

	Total		10,00,000
8	Cash and Cash Equivalents		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand Other bank balances		1,50,000 Nil
	Total		13,85,000

Question 14

LDR

On 31st March, 2020, SR Ltd. provides the following ledger balances after preparing its Profit &Loss Account for the year ended 31st March, 2020.

Particulars	Amount (Rs.)	
	Debit	Credit
Equity Share Capital, fully paid shares of Rs. 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture &Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Dividend payable		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
Total	1,76,24,000	1,76,24,000

The following additional information was also provided in respect of the above balances:

(1) **50,000 fully paid equity shares were allotted as consideration for land.**

(2) **The cost of assets was:**

Building	Rs. 32,00,000
Plant and Machinery	Rs. 30,00,000
Furniture and Fixture	Rs. 16,50,000

(3) **Trade Receivables for Rs. 4,86,000 due for more than 6 months.**

(4) **Balances with banks include Rs. 56,000, the Naya bank, which is not a scheduled bank.**

(5) **Loan from Public Finance Corporation repayable after 3 years.**

(6) **The balance of Rs. 26,30,000 in the loan account with Public Finance Corporation is inclusive of Rs. 1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.**

(7) **Other long-term loans (unsecured) include:**

Loan Taken from Nixes Bank	Rs 13,80,000
(Amount repayable within 1 year	Rs 4,80,000)
Loan taken from Directors	Rs. 8,50,000

(8) Bills Receivable for Rs. 1,60,000 maturing on 15th June, 2020 has been discounted.

(9) Short term borrowings include:

Loan Taken from Naya Bank	Rs 1,16,000 (Secured)
Loan taken from Directors	Rs. 48,000

(10) Transfer of Rs. 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.

(11) Inventory of finished goods includes loose tools costing Rs. 5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)

You are required to prepare the Balance Sheet of the Company as on March 31st 2020 as required under Part – I of Schedule III of the Companies Act, 2013. Ignore previous year figures.

(MTP 20 Marks May'20, MTP 16 Marks Oct'21,SM)

Answer 14

SR Ltd. Balance Sheet as on 31st March, 2020

Particulars	Notes	Figures at the end of current reporting period (Rs.)
Equity and Liabilities		
1 **Shareholders' funds**		
a Share capital	1	79,85,000
b Reserves and Surplus	2	30,21,000
2 **non-current liabilities**		
a Long-term borrowing	3	42,66,000
3. **Current liabilities**		
a Short-term borrowing	4	4,60,000
b Trade Payables		8,13,000
c Other current liabilities	5	6,84,000
d Short-term provisions	6	3,80,000
Total		1,76,09,000
Assets		
1. **Non-current assets**		
A PPE	7	92,00,000
2 Current assets		
a Inventories	8	58,00,000
b Trade receivables	9	17,50,000
C Cash and cash equivalents	10	4,84,000
d Short-term loans and advances		3,75,000
Total		**1,76,09,000**

Notes to accounts

			Rs.
1.	**Share Capital** Equity share capital Issued, subscribed and called up 1,60,000 Equity Shares of Rs. 50 each (Out of the above 50,000 shares have been issued for consideration other than cash)	80,00,000	
	Less: Calls in arrears	(15,000)	79,85,000
2.	**Reserves and Surplus**		
	General Reserve	9,41,000	
	Add: Transferred from Profit and loss account	35,000	9,76,000
	Securities premium		15,00,000

	Surplus (Profit & Loss A/c)	5,80,000	
	Less: Appropriation to General Reserve (proposed)	(35,000)	5,45,000
			30,21,000
3.	**Long-term borrowings**		
	Secured: Term Loans		
	Loan from Public Finance Corporation [repayable after 3 years (Rs. 26,30,000 - Rs. 1,34,000 for interest accrued but not due)]		24,96,000
	Secured by hypothecation of land Unsecured		
	Bank Loan (Nixes bank)	9,00,000	
	(Rs. 13,80,000 - Rs. 4,80,000 repayable within 1 year)		
	Loan from Directors	8,50,000	
	Others	20,000	17,70,000
	Total		**42,66,000**
4.	**Short-term borrowings**		
	Loan from Naya bank (Secured)	1,16,000	
	Loan from Directors	48,000	
	Others	2,96,000	**4,60,000**
5.	**Other current liabilities**		
	Loan from Nixes bank repayable within one year	4,80,000	
	Dividend payable	70,000	
	Interest accrued but not due on borrowings	1,34,000	**6,84,000**
6.	**Short-term provisions**		
	Provision for taxation		**3,80,000**
7.	**PPE**		
	Land		25,00,000
	Buildings	32,00,000	
	Less: Depreciation	(2,00,000)	30,00,000
	Plant & Machinery	30,00,000	
	Less: Depreciation	(6,00,000)	24,00,000
	Furniture & Fittings	16,50,000	
	Less: Depreciation	(3,50,000)	13,00,000
	Total		**92,00,000**
8.	**Inventories**		
	Raw Material	13,00,000	
	Finished goods	40,00,000	
	Loose tools	5,00,000	58,00,000
9.	**Trade receivables**		
	Outstanding for a period exceeding six months		4,86,000
	Others		12,64,000
	Total		**17,50,000**
10	**Cash and cash equivalents**		
	Balances with banks		
	with Scheduled Banks	3,58,000	
	with others banks	56,000	**4,14,000**
	Cash in hand		70,000
	Total		**4,84,000**

Note: There is a Contingent Liability amounting Rs. 1,60,000

Question 15

Wave ltd. has authorized capital of ₹ 50 lakhs divided into 5,00,000 equity shares of ₹ 10 each. Their books show the following ledger balances as on 31st March, 2023:

	₹		₹
Inventory 1.4.2022	6,65,000	Bank Current Account (Dr. balance)	20,000
Discounts & Rebates allowed	30,000	Cash in hand	11,000
Carriage Inwards	57,500		
Purchases	12,32,500	Calls in Arrear @ ₹ 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of ₹ 10 each)	
Business Expenses	56,000	Trade Payables	2,40,500
Wages	14,79,000	Sales	36,17,000
Freehold Land	7,30,000	Rent (Cr.)	30,000
Plant & Machinery	7,50,000	Transfer fees received	6,500
Engineering Tools	1,50,000	Profit & Loss A/c (Cr.)	67,000
Trade Receivables	4,00,500	Repairs to Building	56,500
Advertisement Expenses	15,000	Bad debts	25,500
Commission & Brokerage Expenses	67,500		

The inventory (valued at cost or market value, which is lower) as on 31st March, 2023 was ₹ 7,05,000. Outstanding liabilities for wages₹ 25,000 and business expenses ₹ 36,500.

Charge depreciation on written down values of Plant & Machinery @ 5%, Engineering Tools @ 20% and Furniture & Fixtures @10%. Provide ₹ 25,000 as doubtful debts for trade receivables. Provide for income tax @ 30%. It was decided to transfer ₹ 10,000 to reserves.

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2023 and Balance Sheet as at that date. ***(RTP May'24) (Same concept different figures lesser adjustments RTP May'21,MTP 16 Marks Oct'20, MTP 16 Marks Mar'22 ,RTP May'18)***

Answer 15

Balance Sheet of Wave ltd. as at 31st March, 2023

		Particulars	Note No.	(₹)
I		**Equity and Liabilities**		
	(1)	**Shareholders' Funds**		
		(a) Share Capital	1	19,90,000
		(b) Reserves and Surplus	2	3,82,000
	(2)	**Current Liabilities**		
		(a) Trade Payables		2,40,500
		(b) Other Current Liabilities	3	61,500
		(c) Short-Term Provisions	4	1,35,000
		Total		28,09,000
II		**ASSETS**		
	(1)	**Non-Current Assets**		
		(a) Property, Plant and Equipment	5	16,97,500
	(2)	**Current Assets**		
		(a) Inventories		7,05,000
		(b) Trade Receivables	6	3,75,500
		(c) Cash and Cash Equivalents	7	31,000
		Total		28,09,000

Statement of Profit and Loss of Wave Ltd. for the year ended 31st March, 2023

	Particulars	Note No.	(₹)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	**Total Revenue [I + II]**		36,53,500
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,05,000]		(40,000)
	Employee Benefits Expenses	9	15,04,000
	Depreciation and Amortization Expenses		82,500
	Other Expenses	10	4,24,500
	Total Expenses		**32,03,500**
V	**Profit before Tax (III-IV)**		4,50,000
VI	**Tax Expenses @ 30%**		(1,35,000)
VII	**Profit for the period**		3,15,000

Notes to Accounts:

1. **Share Capital**

Authorized Capital	
5,00,000 Equity Shares of ₹ 10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of ₹10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of ₹10 each ₹ 8 paid	40,000
(Call unpaid ₹10,000)	19,90,000

2. **Reserves and Surplus**

General Reserve		10,000
Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	3,15,000	
Less: Transfer to Reserve	(10,000)	3,72,000
		3,82,000

3. **Other Current Liabilities**

Outstanding Expenses [25,000+36,500]	61,500

4. **Short-term Provisions**

Provision for Tax	1,35,000

5. **Property, Plant and Equipment**

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	7,30,000		-	7,30,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Engineering Tools	1,50,000	20%	30,000	1,20,000
	17,80,000		82,500	16,97,500

6. **Trade Receivables**

Trade receivables	4,00,500
Less: Provision for doubtful debts	(25,000)
	3,75,500

7. **Cash & Cash Equivalent**

Cash Balance	11,000

Bank Balance in current A/c	20,000
	31,000

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

9. Employee benefits expenses

Wages	14,79,000
Add: Outstanding wages	25,000
	15,04,000

10. Other Expenses

Carriage Inwards	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,500] (Business Expenses)	92,500
Bad Debts	25,500
Provision for Doubtful Debts	25,000
	4,24,500

Question 16

LDR

(a) Following is the trial balance of Delta limited as on 31.3.2021. (Figures in ₹ ₹000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share capital (shares of ₹ 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (balance on 1.4.20)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-21)	96	Sales	1200
Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		2455

Additional Information:

(i) The authorized share capital of the company is 80,000 shares of ₹ 10 each.

(ii) The company revalued the land at ₹ 9,60,000.

(iii) Equity share capital includes shares of ₹ 50,000 issued for consideration other than cash.

(iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2020. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Balance at bank includes ₹ 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.

(vii) Make provision for income tax @30%.

(viii) Trade receivables of ₹ 50,000 are due for more than six months.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.2021 and Statement of Profit and Loss with notes to accounts for the year ended 31.3. 2021 as per Schedule III. Ignore previous year's figures &

taxation.

(b) "Current maturities of long-term borrowing are disclosed separately under the head Other current liabilities in the balance sheet of a company." You are required to comment in line with schedule III to the Companies Act 2013. *(RTP May'22) (Same concept different figures- Old & New SM) (MTP 14 Marks Mar'24)*

Answer 16

(a)

Delta Limited

Balance Sheet as at 31st March 2021

	Particulars		**Note No.**	**(₹ in ₹000)**
A.	**Equity and Liabilities**			
1.	**Shareholders₹ funds**			
	(a)	Share Capital	1	495.00
	(b)	Reserves and Surplus	2	807.20
2.	Non-Current Liabilities			
	(a)	Long Term Borrowings	3	300.00
3.	Current Liabilities			
	(a)	Trade Payables		30.00
	(b)	Short- term provision	4	163.80
		Total		1,796.00
B.	**Assets**			
1.	Non-Current Assets			
	(a)	Property, Plant and Equipment	5	1,550.00
2.	**Current Assets**			
	(a)	Inventories		96.00
	(b)	Trade Receivables	6	120.00
	(c)	Cash and Cash equivalents	7	30.00
		Total		1,796.00

Statement of Profit and Loss for the year ended 31st March 2021

	Particulars	**Note No.**	**(₹ in ₹000)**
I.	Revenue from Operations		1200.00
II.	Other Income	8	6.00
III.	Total Income (I +II)		1,206.00
IV.	Expenses:		
	Purchases (adjusted)		400.00
	Finance Costs	9	30.00
	Depreciation (10% of 800)		80.00
	Other expenses	10	150.00
	Total Expenses		660.00
V.	Profit / (Loss) for the period before tax (III – IV)		546.00
VI.	Tax expenses @30%		163.80
VII	Profit for the period		382.20

Notes to Accounts

	Particulars		**(₹ in ₹000)**
1	**Share Capital**		
	Equity Share Capital		
	Authorised		
	80,000 Shares of ₹ 10/- each		800
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		

	Less: Calls in arrears	(5)	**495**
2	**Reserves and Surplus**		
	Securities Premium		40.00
	Revaluation Reserve ₹ (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	382.20	457.20
			807.20
3	**Long-Term Borrowings**		
	10% Debentures		300
4.	**Short – term provision**		
	Provision for tax		163.80
5	**Property, plant & equipment**		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	160	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	(24)	
		800	
	Less: Depreciation ₹ (150 – 20 + 80)	(210)	
	Closing Balance		590
	Total		1,550
6	**Trade receivables**		
	Debits outstanding for a period exceeding six months	50	
	Other debts	70	120
7	**Cash and Cash Equivalents**		
	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	2	30
8	**Other Income**		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	(4)	6
9	**Finance Costs**		
	Debenture Interest		30
10	**Other Expenses:**		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	45	150

(b) Current maturities of loan term borrowing are shown under 'short term borrowings' and not under 'Other current liabilities' as per the amendment to Schedule III vide MCA notification dated 24th March, 2021. Hence the statement given in the question is not valid.

Question 17

The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2024.

Particulars		₹	Particulars		₹
Inventory 01-04-2023			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	46,500	76,500	Profit and Loss A/c		48,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secure Loans:		
			Short–term	4,500	
			Long-term	21,000	25,500
Salaries and wages		40,200	Deposits (unsecured):		
General Charges		16,500	Short -Term	1,500	
Interim Dividend paid		27,000	Long-term	3,300	4,800
Building		1,01,000	Trade payables		3,27,000
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments:					
Current	4,500				
Non Current	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,34,200			24,34,200

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2024 and Company's Balance Sheet as on that date:

1. Inventory on 31st March,2024 Raw material ₹ 25,800 & finished goods ₹ 60,000.
2. Outstanding Expenses: Manufacturing Expenses ₹ 67,500 & Salaries & Wages ₹ 4,500.
3. Interest accrued on Securities ₹ 300.
4. General Charges prepaid ₹ 2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. The Taxation provision of 40% on net profit is considered. *(MTP 14 Marks Apr'24). (Similar Concept Different Figure RTP Nov'19, Nov'22)*

Answer 17

Oliva Company Ltd.

Statement of Profit and loss for the year ended 31.03.2024

	Particulars	Note	Amount (₹)
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	**Total Revenue (I +II)**		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050

VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

Oliva Company Ltd.

Balance Sheet for the year ended 31.03.2024

	Particulars	Note	Amount
(1)	**Equity and Liabilities**		
	(i) Shareholders' funds		
	(a) Share Capital		3,15,000
	(b) Reserves and surplus	1	50,430
(2)	**Non-current liabilities**		
	(a) Long-term borrowings	2	24,300
(3)	**Current Liabilities**		
	(a) Short -term borrowings	3	6,000
	(b) Trade payables		3,27,000
	(c) Other current liability	4	72,000
	(d) Short term provision	5	19,620
II	**ASSETS**		8,14,350
(1)	**Non current assets**		
	(a) Property, Plant & equipment	6	2,04,160
	(b) Non-current investments		7,500
(2)	**Current assets**		
	(a) Current investments		4,500
	(b) Inventories	7	85,800
	(c) Trade receivables		2,38,500
	(d) Cash and cash equivalents		2,71,100
	(e) Short-term loans and advances	8	2,490
	(f) Other current assets	9	300
			8,14,350

Notes to accounts

No.	Particulars		Amount	Amount
1.	**Reserve & Surplus**			
	Profit & Loss Account: Balance b/f		48,000	
	Net Profit for the year		29,430	
	Less: Interim Dividend		(27,000)	50,430
2.	**Long term borrowings**			
	Secured loans		21,000	
	Fixed Deposits: Unsecured		3,300	24,300
3.	**Short term borrowings**			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4.	**Other current liabilities**			
	Expenses Payable (67,500 + 4,500)			72,000
5.	**Short term provisions**			
	Provision for Income tax			19,620
6.	**PPE**			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	

	Plant & Machinery	70,400		
	Less: Depreciation @ 10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @ 10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @ 20%	(8,160)	32,640	2,04,160
7	**Inventory**			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8.	**Short term Loans & Advances**			
	General Charges prepaid			2,490
9.	**Other Current Assets**			
	Interest accrued			300
10.	**Cost of material consumed**			
	Opening inventory of raw material	30,000		
	Add: Purchases	12,15,000		
	Stores & spare parts consumed	45,000	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
11.	**Changes in inventory of Finished Goods & WIP**			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		46,500	13,500
12.	**Employee Benefit expenses**			
	Salary & Wages (40,200 + 4,500)			44,700
13.	**Other Expenses**			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 –2,490)		14,010	3,51,510

Question 18

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. *(PYP 14 Marks Sep'24) (Similar concepts different figures MTP 14 Marks Nov'24)*

Answer 18

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 borrowing	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
	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

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

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

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.

> **Exam Insights**: 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.

Multiple Choice Questions (MCQs)

1. Trade payables as per Schedule III will include: *(SM)*

(a) Dues payable in respect to statutory obligation
(b) Interest accrued on trade payables
(c) Bills payables.
(d) Bills receivables

Ans: (c)

2. Securities Premium Account is shown on the liabilities side in the Balance Sheet under the heading: *(SM)*

(a) Reserves and Surplus.
(b) Current Liabilities.
(c) Share Capital.
(d) Share application money pending allotment

Ans: (a)

3. "Fixed assets held for sale" will be classified in the company's balance sheet as *(SM)*

(a) Current asset
(b) Non-current asset
(c) Capital work- in- progress
(d) Deferred tax assets

Ans: (a)

4. Current maturities of long term debt will come under *(SM)*

(a) Current Liabilities.
(b) Short term borrowings.
(c) Long term borrowings.
(d) Short term Provisions

Ans: (b)

5. Declaration of dividends for current year is made after providing for *(SM)*

(a) Depreciation of past years only.
(b) Depreciation on assets for the current year and arrears of depreciation of past years (if any).
(c) Depreciation on current year only and by forgoing arrears of depreciation of past years.
(d) Excluding current year depreciation

Ans: (b)

A

CHAPTER 11.2: CASH FLOW STATEMENTS

CONCEPTS OF THIS CHAPTER

- Define cash flow statement as per AS 3
- Prepare cash flow statement
- Differentiate operating, investing, and financing activities
- Learn elements of cash and cash equivalents

LDR Questions
Q 10
Q 11

QUICK REVIEW OF IMPORTANT CONCEPTS

Calculation of Cash Flows from Operating Activities

(a) **Direct Method:** The direct method, whereby major classes of gross cash receipts and gross cash payments are considered; or

(b) **Indirect Method:** The indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing activities.

'Cash Flow from Operating Activities' by indirect method

		₹
Net Profit for the year		-
Add: Non-Cash and Non-Operating Expenses:	-	
Depreciation	-	
Loss on Sale of Assets	-	
Provision for taxation, etc.	-	
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Assets	-	
Net Profit after Adjustment for Non-Cash Items		(-)

Cash from operation	=	Net Profit (after adjustment for Non-cash Items)
	-	Increase in Current Assets
	+	Decrease in Current Assets
	+	Increase in Current Liabilities
	-	Decrease in Current Liabilities

For other points refer to Chapter 4.2- AS 3 Cash Flow Statement

Question & Answers

Question 1

The following are the extracts of Balance Sheet and Statement of Profit and Loss of Supriya Ltd.:

Extract of Balance Sheet

		Particulars	Notes	2021(Rs.'000)	2020(Rs.'000)
		Equity and Liabilities			
1		**Shareholder's funds**			
	(a)	Share capital	1	500	200
2		**Non- current liabilities**			

	(a)	Long term loan from bank		---	250
3		**Current liabilities**			
	(a)	Trade Payables		1,000	3,047
		Assets			
1		**Non-current assets**			
2	(a)	Property, Plant and Equipment		230	128
		Current assets			
	(a)	Trade receivables		2,000	4,783
	(b)	Cash & cash equivalents (Cash balance)		212	35

Extract of Statement of Profit and Loss

	Particulars	Notes	2021 (Rs.'000)	2020 (Rs.'000)
I	Expenses:			
	Employee benefits expense		69	25
	Other expenses	2	115	110
II	Tax expense:			
	Current tax (paid during year)		243	140

Notes to accounts

		2021 (Rs.'000)	2020 (Rs.'000)
1	**Share Capital** Equity Shares of Rs.10 each, fully paid up	500	200
2	**Other expenses** Overheads	115	110

Prepare Cash Flow Statement of Supriya Ltd. for the year ended 31st March, 2021 in accordance with AS-3 (Revised) using direct method. All transactions were done in cash only. There were no outstanding/prepaid expenses as on 31st March, 2020 and on 31st March, 2021. Ignore depreciation. Dividend amounting Rs. 80,000 was paid during the year ended 31st March, 2021. (*RTP May'21*)

Answer 1

Supriya Ltd.
Cash Flow Statement for the year ended 31st March, 2021
(Using direct method)

		(Rs. '000)
Cash flows from operating activities		
Cash receipts from customers	2,783	
Cash payments to suppliers	(2,047)	
Cash paid to employees	(69)	
Other cash payments (for overheads)	(115)	
Cash generated from operations	552	
Income taxes paid	(243)	
Net cash from operating activities		309
Cash flows from investing activities		
Payments for purchase of Property, Plant and Equipment	(102)	
Net cash used in investing activities		(102)
Cash flows from financing activities		
Proceeds from issuance of share capital	300	
Bank loan repaid	(250)	
Dividend paid	(80)	
Net cash used in financing activities		(30)
Net increase in cash and cash equivalents		177
Cash and cash equivalents at beginning of period		35
Cash and cash equivalents at end of period		212

Question 2

From the following information, calculate cash flow from operating activities:

Summary of Cash Account
for the year ended March 31, 2023

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Cash Purchases	1,20,000
To Cash sales	1,40,000	By Trade payables	1,57,000
To Trade receivables	1,75,000	By Office & Selling Expenses	75,000
To Trade Commission	50,000	By Income Tax	30,000
To Sale of Investment	30,000	By Investment	25,000
To Loan from Bank	1,00,000	By Repayment of Loan	75,000
To Interest & Dividend	1,000	By Interest on loan	10,000
		By Balance c/d	1,04,000
	5,96,000		5,96,000

(MTP 4 Marks Mar'24, New SM)

Answer 2

Cash Flow Statement of ......
for the year ended March 31, 2023(Direct Method)

Particulars	₹	₹
Operating Activities:		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	
Trade Commission received	50,000	3,65,000
Less: Payment for Cash Purchases	1,20,000	
Payment to Trade payables	1,57,000	
Office and Selling Expenses	75,000	
Payment for Income Tax	30,000	(3,82,000)
Net Cash Flow used in Operating Activities		(17,000)

Question 3

The following information is provided for Wiwitsu Limited:

Particulars	31st March 2023 (₹)	31st March 2024 (₹)
Profit and Loss a/c	5,400 (Dr.)	37,800
Provision for Taxation	2,21,400	1,35,000
General Reserve	54,000	81,000
12% Debentures	1,18,000	2,91,600
Trade Payables	1,29,600	1,18,800
8% Current Investments	54,000	1,08,000
Property, plant and equipment (Gross)	3,99,600	3,99,600
Accumulated Depreciation	1,29,600	1,62,000
Trade Receivables (Gross)	81,000	2,61,360
Provision for Doubtful Debts	27,000	54,000
Inventories	1,35,000	81,000
Cash and Cash Equivalents	54,00	30,240

Additional information:

(i) Income tax provided during the year ₹ 1,62,000.

(ii) New debentures have been issued at the end of current financial year.

(iii) New investments have been acquired at the end of the current financial year.

You are required to calculate net Cash Flow from Operating Activities. *(PYP 7 Marks May'24)*

Answer 3

Cash Flow from Operating Activities

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

Working Note:

Provision for taxation account

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

Question 4

From the following details relating to the accounts of Omega Ltd. prepare Cash Flow Statement for the year ended 31st March, 2021:

	31.03.2021(₹)	31.03.2020 (₹)
Share Capital	14,00,000	11,20,000
General Reserve	5,60,000	3,50,000
Profit and Loss Account	1,40,000	84,000
Debentures	2,80,000	-
Provision for taxation	1,40,000	98,000
Trade payables	9,80,000	11,48,000
Plant and Machinery	9,80,000	7,00,000
Land and Building	8,40,000	5,60,000
Investments	1,40,000	-
Trade receivables	7,00,000	9,80,000
Inventories	5,60,000	2,80,000
Cash in hand and at Bank	2,80,000	2,80,000

(i) Depreciation @ 20% was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing 70,000 (WDV 28,000) was sold for ₹ 49,000. Purchase of machinery was also made at the year end.

(iii) ₹ 70,000 was paid towards Income tax during the year.

(iv) Land & Building is not subject to any depreciation. Expenses on renovation of building amount ₹ 2,80,000 were incurred during the year. Prepare Cash Flow Statement. *(RTP May'22)*

Answer 4

Omega Ltd.

Cash Flow Statement for the year ended 31st March, 2021

Cash Flow from Operating Activities		
Increase in balance of Profit and Loss Account	56,000	

Provision for taxation	1,12,000	
Transfer to General Reserve	2,10,000	
Depreciation	1,40,000	
Profit on sale of Plant and Machinery	(21,000)	
Operating Profit before Working Capital changes	4,97,000	
Increase in Inventories	(2,80,000)	
Decrease in Trade receivables	2,80,000	
Decrease in Trade payables	(1,68,000)	
Cash generated from operations	3,29,000	
Income tax paid	(70,000)	
Net Cash from operating activities		2,59,000
Cash Flow from Investing Activities		
Purchase of plant & machinery	(4,48,000)	
Expenses on building	(2,80,000)	
Increase in investments	(1,40,000)	
Sale of old machine	49,000	
Net Cash used in investing activities		(8,19,000)
Cash Flow from Financing activities		
Proceeds from issue of shares	2,80,000	
Proceeds from issue of debentures	2,80,000	
Net cash from financing activities		5,60,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,80,000
Cash and Cash equivalents at the end of the year		2,80,000

Working Notes: Provision for taxation account

	₹		₹
To Cash (Tax Paid)	70,000	By Balance b/d	98,000
To Balance c/d	1,40,000	By Profit and Loss A/c (Balancing figure)	1,12,000
	2,10,000		2,10,000

Plant and Machinery account

	₹		₹
To Balance b/d	7,00,000	By Depreciation	1,40,000
To Profit and Loss A/c (profit on sale of machine)	21,000	By Cash(sale of machine)	49,000
To Cash (Balancing figure)	4,48,000	By Balance c/d	9,80,000
	11,69,000		11,69,000

Question 5

Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2024:

Cash Flow (Abstract)

Inflows	₹	Outflows	₹
Opening cash and bank balance	80,000	Payment for Account Payables	90,000
Share capital –shares issued	5,00,000	Salaries and wages	25,000
Collection fromTrade		Payment of overheads	15,000
Receivables	3,50,000	Machinery acquired	4,00,000
		Debentures redeemed	50,000
Sale of Machinery	70,000	Bank loan repaid	2,50,000
		Tax paid	1,55,000
		Closing cash and bank balance	15,000
	10,00,000		10,00,000

Prepare Cash Flow Statement for the year ended 31st March, 2024 in accordance with AS 3. (*MTP 5 Marks Aug'24)*

Answer 5

Cash Flow Statement for the year ended 31.3.2024

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	
Income tax paid	(1,55,000)	
Net cash generated from operating activities		65,000
Cash flow from investing activities		
Payment for purchase of machinery	(4,00,000)	
Proceeds from sale of machinery	70,000	
Net cash used in investment activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	(50,000)	
Net cash used in financing activities		2,00,000
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginningof the year		80,000
Cash and cash equivalents at the end of the year		15,000

Question 6

A company provides you the following information:

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

(ii) Receipts from credit customers during the year, aggregated Rs. 134 crores.

(iii) Purchases for the year amounted to Rs. 220 crores out of which credit purchase was 80%.
Balance in creditors as on

1.4.2020	₹ 84 crores
31.3.2021	₹ 92 crores

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

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

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

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

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

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

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

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

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

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

On the basis of the above information, you are required to prepare a Cash Flow Statement for the year ended 31st March, 2017 (Using direct method). *(RTP May'18) (Same concepts fewer adjustments RTP Nov'21)*

Answer 6

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

	(Rs. in crores)	(Rs. in crores)
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers	134	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(251)	
Cash from operations	145	
Less: Income tax paid	(26)	
Net cash generated from operating activities		119
Cash flow from investing activities		
Net Payment for purchase of Machine (25 – 15)	(10)	
Proceeds from sale of investments	16	
Net cash used in investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	(15)	
Net cash used in financing activities		(25)
Net increase in cash and cash equivalents		100
Add: Cash and cash equivalents as on 1.04.2016		2
Cash and cash equivalents as on 31.3.2017		102

Working Note:

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

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

Question 7

J Ltd. presents you the following information for the year ended 31st March 2019:

		(Rs. in lacs)
(i)	Net profit before tax provision	36,000
(ii)	Dividend paid	10,202
(iii)	Income-tax paid	5,100
(iv)	Book value of assets sold	222
	Loss on sale of asset	48
(v)	Depreciation debited to P & L account	24,000
(vi)	Capital grant received - amortized to P & L A/c	10
(vii)	Book value of investment sold	33,318
	Profit on sale of investment	120
(viii)	Interest income from investment credited to P & L A/c	3,000

(ix)	Interest expenditure debited to P & L A/c	12,000
(x)	Interest actually paid (Financing activity)	13,042
(xi)	Increase in working capital	67,290
	[Excluding cash and bank balance]	
(xii)	Purchase of Property, Plant & Equipment	22,092
(xiii)	Expenditure on construction work	41,688
(xiv)	Grant received for capital projects	18
(xv)	Long term borrowings from banks	55,866
(xvi)	Provision for Income-tax debited to P & L A/c	6,000
	Cash and bank balance on 1.4.2018	6,000
	Cash and bank balance on 31.3.2019	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised). *(MTP Oct'19 12 Marks, RTP May'19) (Same concept lesser adjustments MTP 12 Marks Oct'22)*

Answer 7

Cash Flow Statement as per AS 3

			Rs. in lacs
Cash flows from operating activities:			36,000
Net profit before tax provision			
Add:	Non cash expenditures:		
	Depreciation	24,000	
	Loss on sale of assets	48	
	Interest expenditure (non operating activity)	12,000	36,048
			72,048
Less:	Non cash income		
	Amortization of capital grant received	(10)	
	Profit on sale of investments (non operating income)	(120)	
	Interest income from investments (non operating income)	(3,000)	3,130
Operating profit			68,918
Less: Increase in working capital			(67,290)
Cash from operations			1,628
Less: Income tax paid			(5,100)
Net cash generated from operating activities			(3,472)
Cash flows from investing activities:			
	Sale of assets (222 . 48)	174	
	Sale of investments (33,318+120)	33,438	
	Interest income from investments	3,000	
	Purchase of Property, Plant & Equipment	(22,092)	
	Expenditure on construction work	(41,688)	
	Net cash used in investing activities		(27,168)
Cash flows from financing activities:			
	Grants for capital projects	18	
	Long term borrowings	55,866	
	Interest paid	(13,042)	
	Dividend paid	(10,202)	
Net cash from financing activities			32,640
Net increase in cash			2,000
Add: Cash and bank balance as on 1.4.2018			6,000
Cash and bank balance as on 31.3.2019			8,000

Question 8

The following information was provided by VIVTSU Ltd. for the year ended 31st March, 2024 :

(1) Gross Profit Ratio was 25% for the year, which amounts to ₹3,75,000.
(2) Company sold goods for cash only.
(3) Opening inventory was lesser than closing inventory by ₹ 25,000.
(4) Wages paid during the year ₹5,55,000.
(5) Office expenses paid during the year ₹ 35,000.
(6) Selling expenses paid during the year ₹ 15,000.
(7) Dividend paid during the year ₹ 40,000.
(8) Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹5,000)
(9) Trade Payables on 31st March, 2023 were ₹ 50,000 and on31st March, 2024 were ₹35,000.
(10) Amount paid to Trade payables during the year ₹ 6,10,000
(11) Income Tax paid during the year amounts to ₹ 55,000

(Provision for taxation as on 31st March, 2024 ₹ 30,000)

(12) Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.
(13) Depreciation on furniture amounts to ₹ 40,000.
(14) Depreciation on other PPE amounts to ₹ 20,000.
(15) Plant and Machinery purchased on 15th November, 2023 for ₹ 3,50,000.
(16) On 31st March, 2024 ₹ 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.
(17) Cash and Cash equivalents on 31st March, 2023 ₹ 2,25,000.

(i) Prepare cash flow statement for the year ended 31st March, 2024,using direct method.
(ii) Calculate cash flow from operating activities, using indirect method. *(MTP 10 Marks July'24)*

Answer 8

(i) VIVTSU Ltd.

Cash Flow Statement for the year ended 31st March, 2024
(Using direct method)

Particulars	₹	₹
Cash flows from Operating Activities		
Cash sales (₹ 3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses ₹ (35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments ₹ (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

(ii) 'Cash Flow from Operating Activities' by indirect method

		₹
Net Profit for the year before tax and extraordinary items		2,80,000

Add: Non-Cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Investments		(20,000)
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	25,000	(40,000)
Cash generated from operations before taxes		2,85,000

Working Note:

Calculation of net profit earned during the year

	₹	₹
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	
Depreciation	60,000	
Interest paid	5,000	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

Question 9

From the following Balance Sheets and information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31st March, 20X1:

		Particulars	Notes	31st March 20X1 ₹	31st March 20X0 ₹
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	6,00,000	7,00,000
	B	Reserves and Surplus	2	4,20,000	3,00,000
2		**Non-current liabilities**			
		Long term borrowings	3	2,00,000	-
3		**Current liabilities**			
	A	Trade Payables		1,15,000	1,10,000
	B	Other current liabilities	4	30,000	80,000
	C	Short term provision (provision for tax)		95,000	60,000
		Total		14,60,000	12,50,000
		Assets			
1		**Non-current assets**			
	A	Property, plant and Equipment	5	9,15,000	7,00,000
	B	Non-Current Investments		50,000	80,000
2		**Current assets**			
	A	Inventories		95,000	90,000
	B	Trade receivables		2,50,000	2,25,000
	C	Cash and Cash equivalents		50,000	90,000
	D	Other Current assets		1,00,000	65,000
		Total		14,60,000	12,50,000

Notes to accounts

No.		31st March, 20X1	31st March, 20X0
1.	Share capital		
	Equity share capital	6,00,000	5,00,000

	10% Redeemable Preference sharecapital	--	2,00,000
	Total	6,00,000	7,00,000
2	Reserves and Surplus		
	Capital redemption reserve	1,00,000	-
	Capital reserve	70,000	-
	General reserve	1,50,000	2,50,000
	Profit and Loss account	1,00,000	50,000
	Total	4,20,000	3,00,000
3	Long term borrowings		
	9% Debentures	2,00,000	--
4.	Other current liabilities		
	Dividend payable	-	60,000
	Liabilities for expenses	30,000	20,000
	Total	30,000	80,000
5	Property, plant and equipment		
	Plant and machinery	7,65,000	5,00,000
	Land and building	1,50,000	2,00,000
	Net carrying value	9,15,000	7,00,000

Additional Information:

(i) A piece of land has been sold out for ₹1,50,000 (Cost – ₹1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on revaluation of land.

(ii) On 1st April, 20X0 a plant was sold for Rs.90,000 (Original Cost – ₹70,000 and W.D.V. – ₹ 50,000) and Debentures worth Rs.1 lakh were issued at par as part consideration for plant of Rs.4.5 lakhs acquired.

(iii) Part of the investments (Cost – ₹50,000) was sold for ₹70,000.

(iv) Pre-acquisition dividend received ₹5,000 was adjusted against cost of investment.

(v) Interim dividend was declared and paid @ 15% during the current year.

(vi) Income-tax liability for the current year was estimated at ₹1,35,000.

(vii) Depreciation @ 15% has been charged on Plant and Machinery but nodepreciation has been charged on Building. *(SM)*

Answer 9

Cash Flow Statement of Ryan Limited For the year ended 31st March, 20X1

	₹	₹
Cash flow from operating activities		
Net Profit before taxation (W.N.1)	2,75,000	
Adjustment for		
Depreciation (W.N.3)	1,35,000	
Profit on sale of land	(30,000)	
Profit on sale of plant (W.N.3)	(40,000)	
Profit on sale of investments (W.N.4)	(20,000)	
Interest on debentures (2,00,000 X 9%)	18,000	
Operating profit before working capital changes	3,38,000	
Increase in inventory	(5,000)	
Increase in trade receivables	(25,000)	
Increase in Other current assets (W.N.9)	(35,000)	
Increase in Trade payables	5,000	
Increase in liabilities for expenses	10,000	
Cash generated from operations	2,88,000	
Income taxes paid (W.N.8)	(1,00,000)	
Net cash generated from operating activities		1,88,000
Cash flow from investing activities		

Proceeds from sale of land (W.N.2)	1,50,000	
Proceeds from sale of plant (W.N.3)	90,000	
Proceeds from sale of investments (W.N.4)	70,000	
Purchase of plant (W.N.3)	(3,50,000)	
Purchase of investments (W.N.4)	(25,000)	
Pre-acquisition dividend received (W.N.4)	5,000	
Net cash used in investing activities		(60,000)
Cash flow from financing activities		
Proceeds from issue of equity shares (6,00,000 – 5,00,000)	1,00,000	
Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000	
Redemption of preference shares	(2,00,000)	
Dividends paid	(1,50,000)	
Interest paid on debentures	(18,000)	
Net cash used in financing activities		(1,68,000)
Net decrease in cash and cash equivalents		(40,000)
Cash and cash equivalents at the beginning of the year		90,000
Cash and Cash equivalents at the end of the year		50,000

Significant Non-cash Items:

Debentures amounting to ₹1,00,000 have been issued as part consideration for acquisition of plant of ₹4,50,000.

Working Notes:

1.

	₹
Net profit before taxation	
Retained profit	1,00,000
Less: Balance as on 31.3.20X0	(50,000)
	50,000
Provision for taxation	1,35,000
Dividend	90,000
	2,75,000

2. Land and Building Account

	₹		₹
To Balance b/d	2,00,000	By Cash (Sale)	1,50,000
To Profit and Loss A/c (Profiton sale)	30,000	By Balance c/d	1,50,000
To Capital reserve (Revaluation profit)	70,000		
	3,00,000		3,00,000

3. Plant and Machinery Account

	₹		₹
To Balance b/d	5,00,000	By Cash (Sale)	90,000
To Profit and loss account	40,000	By Depreciation	1,35,000
To Debentures	1,00,000	By Balance c/d	7,65,000
To Bank	3,50,000		
	9,90,000		9,90,000

4. Investments Account

	₹		₹
To Balance b/d	80,000	By Cash (Sale)	70,000
To Profit and loss account	20,000	By Dividend (Pre-acquisition)	5,000
To Bank (Balancing figure)	25,000	By Balance c/d	50,000
	1,25,000		1,25,000

5. Capital Reserve Account

	₹		₹
To Balance c/d	70,000	By Profit on revaluation of land	70,000
	70,000		70,000

6. General Reserve Account

	₹		₹
To Capital redemption reserve	1,00,000	By Balance b/d	2,50,000
To Balance c/d	1,50,000		
	2,50,000		2,50,000

7. Dividend payable Account

	₹		₹
To Bank (Balancing figure)	1,50,000	By Balance b/d	60,000
To Balance c/d	-	By Profit and loss account	90,000
	1,50,000		1,50,000

8. Provision for Taxation Account

	₹		₹
To Bank (Balancing figure)	1,00,000	By Balance b/d	60,000
To Balance c/d	95,000	By Profit and loss account	1,35,000
	1,95,000		1,95,000

9. Other Current Assets Account

	₹		₹
To Balance b/d	65,000	By Balance c/d	1,00,000
To Bank (Balancing figure)	35,000		
	1,00,000		1,00,000

Question 10

LDR

Following is the Balance Sheet of Fox Ltd. You are required to prepare cash flow statement using Indirect Method.

Particulars	Note No.	31st March,2021 (₹)	31st March,2020 (₹)
(I) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share capital	1	5,60,000	3,00,000
(b) Reserve and Surplus	2	35,000	25,000
2. Current Liabilities			
(a) Trade payables		1,50,000	60,000
(b) Short-term provisions (Provision for taxation)		8,000	5,000
Total		7,53,000	3,90,000
(II) Assets			
1. Non-current assets			
(a) Property, Plant and Equipment		3,50,000	1,80,000
2. Current assets			
(a) Inventories		1,20,000	50,000
(b) Trade receivables		1,00,000	25,000
(c) Cash and cash equivalents		1,05,000	90,000
(d) Other current assets		78,000	45,000

Total		7,53,000	3,90,000

Notes to Accounts

Particulars	31st March,2021 (₹)	31st March,2020 (₹)
1. Share capital		
(a) Equity share capital	4,10,000	2,00,000
(b) Preference share capital	1,50,000	1,00,000
	5,60,000	3,00,000
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	25,000	
Add: Profit of the year	20,000	
Less: Dividend	(10,000)	
Surplus in statement of profit and loss at the end of the year	35,000	25,000

Additional Information:

1. Dividend paid during the year ₹ 10,000
2. Depreciation charges during the year ₹ 40,000. *(RTP May'23, SM)*

Answer 10

Fox Ltd.

Cash Flow Statement for the year ended 31st March 2021

	₹	₹
Cash flows from operating activities		
Net Profit (35,000 less 25,000)	10,000	
Add: Dividend	10,000	
Provision for tax	8,000	
Net profit before taxation and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in trade payables	90,000	(88,000)
Cash used in operating activities		(20,000)
Less: Tax paid*		(5,000)
Net cash used in operating activities		(25,000)
Cash flows from investing activities		
Purchase of PPE	(2,10,000)	
Net cash used in investing activities		(2,10,000)
Cash flows from financing activities		
Issue of equity shares for cash	2,10,000	
Issue of preference shares	50,000	
Dividends paid	(10,000)	
Net cash generated from financing activities		2,50,000
Net increase in cash and cash equivalents		15,000
Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

*Provision for tax of last year considered to be paid in the current year.

Working Note:

	₹
Property, plant and equipment acquisitions	

W.D.V. at 31.3.2021	3,50,000
Add back:	
Depreciation for the year	40,000
	3,90,000
Less: W.D.V. at 31.12.2020	1,80,000
Acquisitions during 2020-2021	2,10,000

Question 11

LDR

The Balance Sheet of Harry Ltd. for the year ending 31st March, 2018 and 31st March, 2017 were summarized as follows:

	2018 (₹)	2017 (₹)
Equity share capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000
Current Liabilities:		
Trade Payables	8,000	5,000
Income tax payable	3,000	2,000
Declared Dividends	4,000	2,000
Property, Plant & Equipment (at W.D.V) :	1,44,000	1,17,000
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000
Current Assets:		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	1,17,000

The Profit and Loss account for the year ended 31st March, 2018 disclosed:

	₹
Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Declared Dividends	(4,000)
Retained Profit	1,000

Further Information is available:

1. **Depreciation on Building ₹ 1,000.**
2. **Depreciation on Furniture & Fixtures for the year ₹ 2,000.**
3. **Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹ 2,000.**
4. **Purchase investments for ₹ 6,000.**
5. **Sold investments for ₹ 10,000, these investments cost ₹ 2,000.**
6. **You are required to prepare Cash Flow Statement as per AS-3 (revised) using indirect method.**

(RTP Nov'18) (Same concept fewer adjustments MTP 15 Marks Mar'23, RTP Nov'22, Old & New SM)

Answer 11

Harry Ltd.

Cash Flow Statement for the year ended 31st March, 2018

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	

Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	(2,000)	
Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

* Dividend declared for the year ended 31st March, 2017 amounting ₹ 2,000 must have been paid in the year 2017-18. Hence, it has been considered as cash outflow for preparation of cash flow statement of 2017-18.

Working Notes:

1. **Calculation of Income taxes paid**

	₹
Income tax expense for the year	3,000
Add: Income tax liability at the beginning of the year	2,000
	5,000
Less: Income tax liability at the end of the year	(3,000)
	2,000

2. **Calculation of Fixed assets acquisitions**

	Furniture & Fixtures (₹)	Car (₹)
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	–	2,000
	36,000	32,000
Less: W.D.V. at 31. 3. 2017	(22,000)	(16,000)
Acquisitions during 2016-2018	14,000	16,000

Question 12

The following figures have been extracted from the books of Manan Limited for the year ended on 31.3.2022. You are required to prepare the Cash Flow statement as per AS 3 using indirect method.

(i) **Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 30 lakhs:**

- (a) **Depreciation on Property, Plant & Equipment ₹ 7.50 lakhs.**
- (b) **Discount on issue of Debentures written off ₹ 45,000.**
- (c) **Interest on Debentures paid ₹ 5,25,000.**
- (d) **Book value of investments ₹ 4.50 lakhs (Sale of Investments for ₹ 4,80,000).**
- (e) **Interest received on investments ₹ 90,000.**

(ii) **Compensation received ₹ 1,35,000 by the company in a suit filed.**

(iii) Income tax paid during the year ₹ 15,75,000.
(iv) 22,500, 10% preference shares of ₹ 100 each were redeemed on 02-04-2021 at a premium of 5%.
(v) Further the company issued 75,000 equity shares of ₹ 10 each at a premium of 20% on 30.3.2022 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)
(vi) Dividend for FY 2020-21 on preference shares were paid at the time of redemption.
(vii) Dividend on Equity shares paid on 31.01.2022 for the year 2020-2021 ₹ 7.50 lakhs and interim dividend paid ₹ 2.50 lakhs for the year 2021-2022.
(viii) Land was purchased on 02.4.2021 for ₹ 3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration.
(ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 01.04.2021	As on 31.3.2022
	₹	₹
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650
Cash in hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

(MTP 10 Marks Apr'23 & Nov'21 & Sep'23 , PYP 10 Marks Nov'20, RTP May'20)(Similar to Jan'21 but different figures)

Answer 12

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

	Rs.	Rs.
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		30,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	7,50,000	
Discount on issue of debentures	45,000	
Interest on debentures paid	5,25,000	
Interest on investments received	(90,000)	
Profit on sale of investments	(30,000)	12,00,000
Operating profit before working capital changes		42,00,000
Adjustments for:		
Increase in inventory	(1,77,000)	
Decrease in trade receivable	7,350	
Increase in trade payables	450	
Increase in outstanding expenses	10,200	(1,59,000)
Cash generated from operations		40,41,000
Income tax paid		(15,75,000)
Cash flow from ordinary items		24,66,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		1,35,000
Net cash flow from operating activities		26,01,000
Cash flow from Investing Activities;		
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	

Purchase of land (3,00,000 less 2,64,000)	36,000	
Net cash flow from investing activities		5,34,000
Cash flow from Financing Activities		
Proceeds of issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(23,62,500)	
Preference dividend paid	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000 + 2,50,000)	(10,00,000)	
Net cash used in financing activities		(35,12,500)
Net decrease in cash and cash equivalents during the year		(3,77,500)
Add: Cash and cash equivalents as on 31.3.2021		3,94,450
Cash and cash equivalents as on 31.3.2022		16,950

Question 13

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.** ***(PYP 7 Marks Sep'24)***

Answer 13

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

Multiple Choice Questions (MCQs)

1. While preparing cash flow statement, conversion of debt to equity *(SM)*

(a) Should be shown as a financing activity.
(b) Should be shown as an investing activity.
(c) Should not be shown as it is a non-cash transaction.
(d) Should not be shown as operating activity

Ans: (c)

2. Which of the following would be considered a 'cash-flow item from an "investing" activity'? *(SM)*

(a) Cash outflow to the government for payment taxes.
(b) Cash outflow to purchase bonds issued by another company.
(c) Cash outflow to shareholders as dividends.
(d) Cash outflow to make payment to trade payables.

Ans: (b)

3. All of the following would be included in a company's operating activities except: *(SM)*

(a) Income tax payments
(b) Collections from customers or Cash payments to suppliers
(c) Dividend payments.
(d) Office and selling expenses.

Ans: (c)

4. Hari Uttam, a stock broking firm, received Rs. 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm? *(SM)*

(a) Operating Activities.
(b) Investing Activities.
(c) Financing Activities.
(d) Non-cash transactions

Ans: (a)

5. As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. should be classified as *(SM)*

(a) Operating activity.
(b) Financing activity.
(c) Investing activity.
(d) Non-cash transactions

Ans: (c)

CHAPTER 12: BUY-BACK OF SECURITIES

CONCEPTS OF THIS CHAPTER	LDR Questions
• Meaning of buy-back of securities • Accounting treatment of buy-back of securities • Provisions of Companies Act regarding buy-back of securities	Q 11 Q 15 Q 17

QUICK REVIEW OF IMPORTANT CONCEPTS

Shares outstanding shares

Particulars	(Shares in crores)
Number of shares outstanding	xx
25% of the shares outstanding	xx

Resources Test

Particulars	(Shares in crores)
Paid up capital (₹ in crores)	xx
25% of the shares outstanding	xx
Free reserves (₹ in crores)	xx
Shareholders' funds (₹ in crores)	xx
25% of Shareholders fund (₹ in crores)	xx
Buy Back price per share	xx
Number of shares that can be bought back (shares in crores)	xx

Debt Equity Ratio Test

	Particulars		When loan fund is	
(a)	Loan funds (₹ in crores)	-	-	-
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores)	-	-	-
(c)	Present equity shareholders funds (₹ in crores)	-	-	-
(d)	Future equity shareholder fund (₹ in crores)	-	-	-
(e)	Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)]	-	(Simultaneous Equation)	-
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores)	-	(Simultaneous Equation)	-

Buy-back of shares can be made out of:

(i) its free reserves; or (ii) the securities premium account; or
(iii) the proceeds of any shares or other specified securities.

No company shall purchase its own shares or other specified securities unless—

- The buy-back is authorized by the Articles of Association and by a special resolution passed at a general meeting. However, in case the buy-back is for a sum less than or equal to ten percent of the paid-up equity shares + free reserves the same may be authorized by the resolution of the directors passed at a duly convened Board

Meeting.

- the buy-back is or less than or equal to twenty-five per cent of the total paid-up capital and free reserves of the company:
- Partly paid shares cannot be bought back by a company;
- the buy-back of equity shares in any financial year shall not exceed twenty-five per cent of its total paid-up equity capital in that financial year.
- No offer of buy-back will be made within a period of one year from the date of closing of the previous buy-back if any. Hence, there can be a maximum of one buy-back in one year.
- the ratio of the debt owed by the company (both secured and unsecured) is not more than twice the paid-up capital and its free reserves after such buy-back:

Question & Answers

Question 1

What are the conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares as per Companies Act, 2013? Explain in brief. ***(SM) (PYP 5 Marks May'23)***

Answer 1

As per the Companies Act, 2013 a joint stock company has to fulfill the following conditions to buy-back its own equity shares:

1.
   (a) the buy-back is authorised by its articles;
   (b) a special resolution has been passed in general meeting of the company authorising the buy-back; However, the above provisions do not apply where the buy-back is 10% or less of the paid-up equity capital + free reserves and is authorized by a board resolution passed at a duly convened meeting of the directors.
   (c) the buy-back must be equal or less than 25% of the total paid-up capital and free reserves of the company: (Resource Test)
   (d) Further, the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves: (Share Outstanding Test)
   (e) the ratio of the debt owed by the company (both secured and unsecured) after such buy-back is not more than twice the total of its paid-up capital and its free reserves: (Debt-Equity Ratio Test)
   (f) all the shares or other specified securities for buy-back are fully paid-up;
   (g) the buy-back of the shares or other specified securities listed on any recognised stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf; Provided that no offer of the buy-back under this sub section shall be made within a period of one year reckoned from the date of closure of a previous offer of buy-back if any. This means that there cannot be more than one buy-back in one year.
2. Every buy-back shall be completed within twelve months from the date of passing the special resolution, or the resolution passed by the board of directors.
3. Where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such account shall be disclosed in the Balance Sheet.
4. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against free reserves and/or securities premium account.

Exam Insights: Majority of examinees failed to explain the conditions to be fulfilled by a Joint Stock Company to buy -back its equity shares as per Companies Act, 2013.

Question 2

Mukti Ltd. (a non-listed company) provide the following information as on 31.3.2023:

	(₹)
Land and Building	**21,50,000**

Plant & Machinery	15,00,000
Non-current Investment	2,00,000
Trade Receivables	5,50,000
Inventories	1,80,000
Cash and Cash Equivalents	40,000
Share capital:1,00,000 Equity Shares of ₹ 10 each fully paid up	10,00,000
Securities Premium	3,00,000
General Reserve	2,50,000
Profit & Loss Account (Surplus)	1,50,000
10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
Trade Payables	1,20,000

On 21st April, 2023 the Company announced the buy back of 15,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 2.50 lakhs.

On 25th April, 2023, the company achieved the target of buy back. On 1st May, 2023 the company issued one fully paid up share of ₹ 10 each by way of bonus for every eight equity shares held by the equity shareholders. You are required to pass necessary Journal Entries for the above transactions. *(RTP May'24)*

Answer 2

In the books of Mukti Ltd. Journal Entries

Date	Particulars		Dr.	Cr.
2023			₹	₹
April 21	Bank A/c	Dr.	2,50,000	
	To Investment A/c			2,00,000
	To Profit on sale of investment			50,000
	(Being investment sold on profit)			
April 25	Equity share capital A/c	Dr.	1,50,000	
	Securities premium A/c	Dr.	75,000	
	To Equity shares buy back A/c			2,25,000
	(Being the amount due to equity shareholders on buy back)			
May 1	Equity shares buy back A/c	Dr.	2,25,000	
	To Bank A/c			2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares)			
	General Reserve A/c OR P&L A/c	Dr.	1,50,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of buy back shares transferred from free reserves to capital redemption reserve account as per the law)			
	Capital redemption reserve A/c	Dr.	1,06,250	
	To Bonus to equity shareholder A/c (W.N.1)			1,06,250
	(Being the utilization of capital redemption reserve to issue bonus shares)			
	Bonus to equity shareholder A/c	Dr.	1,06,250	
	To Equity share capital A/c			1,06,250
	(Being issue of one bonus equity share for every ten equity shares held)			

Working Note:

Amount of bonus shares = $[(1,00,000 - 15,000) \times \frac{1}{8}] \times 10 =$ ₹ 1,06,250

Question 3

The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of ₹ 10 each at ₹ 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013.

For this purpose, the company

(i) Sold its investments of ₹ 30,00,000 for ₹ 25,00,000.

(ii) Issued 20,000, 12% preference shares of ₹ 100 each at par, the entire amount being payable with application.

(iii) Used ₹ 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.

(iv) The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding buy- back of shares in the books of Umang Ltd. *(PYP 5 Marks Jan'21)*

Answer 3

Journal Entries in the books of Umang Ltd.

			Dr. ₹	Cr. ₹
1.	Bank A/c	Dr.	25,00,000	
	Profit and Loss A/c	Dr.	5,00,000	
	To Investment A/c (Being investment sold for the purpose of buy-back of Equity Shares)			30,00,000
2.	Bank A/c	Dr.	20,00,000	
	To 12% Pref. Share capital A/c (Being 12% Pref. Shares issued for ₹ 20,00,000)			20,00,000
3.	Equity share capital A/c	Dr.	50,00,000	
	Premium payable on buy-back	Dr.	25,00,000	
	To Equity shares buy-back A/c Equity shareholders A/c (Being the amount due on buy-back of equity shares)			75,00,000
4.	Equity shares buy-back A/c/ Equity shareholders A/c	Dr.	75,00,000	
	To Bank A/c (Being payment made for buy-back of equity shares)			75,00,000
5.	Securities Premium A/c	Dr.	15,00,000	
	General Reserve A/c	Dr.	10,00,000	
	To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)			25,00,000
6.	General Reserve A/c	Dr.	30,00,000	
	To Capital Redemption Reserve A/c (Being creation of capital redemption reserve to the extent of the equity shares bought back after deducting fresh pref. shares issued)			30,00,000

Question 4

The following is the extract of Balance Sheet of Yellow Limited as on 31.03.2023:

	₹
4,00,000 Equity shares of ₹ 10 each	40,00,000
General Reserve	48,00,000
Profit & Loss Account	10,00,000
Securities Premium	18,00,000
Secured Loans	60,00,000
Unsecured Loans	32,00,000
Current Liabilities	28,00,000
	2,36,00,000
Property, Plant and Equipment	90,00,000

Investments	18,00,000
Current Assets	1,28,00,000
	2,36,00,000

The company intends to buy-back 80,000 equity shares of ₹ 10 each at a premium of 150%.
You are required to state whether the company can buy back equity shares. (PYP 5 Marks Nov'23)

Answer 4

Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

1. **Shares Outstanding Test**

Particulars	**(Shares)**
Number of shares outstanding	4,00,000
25% of the shares outstanding	1,00,000

2. **Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves**

Particulars	
Paid up capital (₹)	40,00,000
Free reserves (₹) (48,00,000 + 18,00,000 + 10,00,000)	76,00,000
Shareholders' funds (₹)	1,16,00,000
25% of Shareholders fund (₹)	29,00,000
Buy-back price per share	₹ 25
Number of shares that can be bought back (shares)	1,16,000
Actual Number of shares for buy-back	80,000

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

   Debt Equity ratio of the company should not exceed 2:1 after such buy-back. In this case, the debt is ₹ 92,00,000 (60,00,000 + 32,00,000)* and equity after such buy back will be ₹ 96,00,000 (1,16,00,000 – 20,00,000). Thus, the debt equity ratio is 0.96:1, which is less than 2:1.

   Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy 80,000 equity shares @ ₹ 25.

Exam Insights: A small number of examinees made mistakes in calculating the number of equity shares to be bought back as per the debt-equity test.

Question 5

Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2022:

Particulars	**₹**	**₹**
Equity Share Capital (shares of ₹ 10 each fully paid		**30,00,000**
Reserves & Surplus		
General Reserve	**32,50,000**	
Security Premium Account	**6,00,000**	
Profit & Loss Account	**4,30,000**	
Revaluation Reserve	**6,20,000**	**49,00,000**
Loan Funds		**42,00,000**

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share.(MTP 15 Marks Mar'23,SM, RTP Nov'20)(MTP 10 Marks Sep'23)

Answer 5

Debt Equity Ratio Test

	Particulars	**₹**
(a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹ in crores)	21,00,000
(c)	Present equity shareholders fund (₹ in crores)	72,80,000

(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000 (72,80,000-12,95,000)
(e)	Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

Working Note:

1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 +6,00,000+4,30,000)	42,80,000
	72,80,000

2. As per section 68 of the Companies Act, 2013, amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Equation 1 :(Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

(72,80,000 –x)-21,00,000 = y (1)

Since 51,80,000 – x = y

Equation 2: $\left(\frac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \text{ X Nominal Value}\right)$

= Nominal value of the shares bought –back to be transferred to CRR

X = $\left(\frac{y}{30}\text{X}10\right)$ = X   3x = y (2)

x = ₹ 12,95,000 crores and y = ₹ 38,85,000 crores

Question 6

Pay Limited provides you with the following information as at 31st March, 2022:

	(₹ in Lakhs)	
Share Capital:		**300**
Authorized		
Issued:		
11% Redeemable preference shares of ₹ 100 each fully paid	**125**	
Equity shares of ₹ 10 each fully paid	**175**	**300**
Reserves and surplus:		
Capital reserve	**35**	
Securities premium	**105**	
Revenue reserves	**460**	
Profit and loss account	**50**	**650**
Current liabilities and provisions		**50**
Fixed assets: cost	**100**	
Less: Accumulated depreciation	**(90)**	**10**
Non-current investments at cost (Market value₹ 400 Lakhs)		**200**
Current assets		**790**

(i) The company redeemed preference shares at a premium of 4% on 1st April, 2022.

(ii) It also bought back 2.5 lakhs equity shares of ₹ 10 each at ₹ 40 per share. The payments for the above were made out of the bank balances, which appeared as a part of current assets.

You are asked to:

(1) Pass journal entries to record the above.

(2) Prepare balance sheet as at 01.04.2022. *(RTP May'23)*

Answer 6

(i) **Journal entries in the books of Pay Ltd.** **₹ in lakhs**

	Particulars		Debit	Credit
1st	11% Preference share capital A/c	Dr.	125	
April, 2022	Premium payable on Redemption of Preference Shares	Dr.	5	
	To Preference shareholders A/c (Being preference share capital account transferred to shareholders account)			130
	Preference shareholders A/c	Dr.	130	
	To Bank A/c (Being payment made to shareholders)			130
	Shares buy back A/c	Dr.	100	
	To Bank A/c			100
	(Being 2.5 lakhs equity shares bought back @ ₹ 40 per share)			
	Equity share capital A/c (2.5 lakh x ₹ 10)	Dr.	25	
	Premium payable on buy- back A/c (2.5 lakh x₹ 30)	Dr.	75	
	To Shares buy back A/c (Being cancellation of shares bought back)			100
	Revenue reserve A/c	Dr.	150	
	To Capital Redemption Reserve A/c (125 + 25)			150
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			
	Securities Premium	Dr.	80	
	To Premium payable on Redemption of Pref. Shares			5
	To Premium payable on buy- back A/c			75
	(Being premium on preference shares redeemed* and equity shares bought back charged to securities premium account)			

*Securities premium utilized for premium on preference shares redeemed assuming that the company is not governed under section 133 of the Companies Act. Alternatively, it may not be utilized assuming otherwise.

(ii) Balance Sheet of Pay Ltd as at 1.4.2022

(iii) Particulars	**Note No**	**₹ In lakhs**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	150
(b) Reserves and Surplus	2	570
(2) Current Liabilities		50
Total		770
II. Assets		
(1) Non-current assets		
(a) Property, plant and Equipment	3	10
(b) Non-current investments -Investment at cost Market value ₹ 400 crores)		200
(2) Current assets	4	560
Total		770

Notes to Accounts

				₹ In lakhs
1.	**Share Capital**			
	Authorised, Issued and Subscribed:			
	Equity shares of ₹ 10 each			150
2.	**Reserves and Surplus**			
	Capital reserve		35	
	Capital redemption reserve		150	

	Securities premium	105		
	Less: Utilisation for buy back and redemption of shares	(80)	25	
	Revenue Reserve	460		
	Less: transfer to Capital redemption reserve	(150)	310	
	Profit and Loss Account balance		50	570
3.	**Property, plant and equipment**			
	Cost		100	
	Less: Provision for depreciation		(90)	10
4.	**Current assets**			
	Current assets as on 31.3.2022		790	
	Less: Bank payment for redemption and buy back		(230)	560

Question 7

SM Limited gives the following information as on 31st March, 2023:

		Rs
Share capital		
(60,000 Equity Shares of Rs 10 Each)		6,00,000
Reserve & Surplus:		
Security premium	Rs 70,000	
General reserve	Rs 63,000	
Profit and Loss	Rs 1,40,000	2,73,000
Non-current liability:		
9% debentures (secured)		3,00,000
Current Liabilities:		
Term loan		40,000
Creditors		65,000
Provision for taxation		15,000
Property plant and equipment		6,00,000
Non-current investment		1,50,000
Current assets:		
Stock	Rs 2,00,000	
Debtors	Rs 2,60,000	
Bank	Rs 83,000	5,43,000

The shareholders adopted the resolution on 31st March, 2020 to:

(i) **Buy back 25% of the paid up capital @ Rs 15 each.**

(ii) **Issue 10% debentures of Rs 60,000 at a premium of 10% to finance the buyback of shares.**

(iii) **Maintain a balance of Rs 20,000 in General Reserve.**

(iv) **Sell investments worth Rs 1,00,000 for Rs 80,000.**

(v) **Buy back expenses were Rs 2,000.**

You are required to pass necessary journal entries to record the above transactions and prepare Ledger account of Bank. (MTP 8 Marks Nov'21 & Apr'23)

Answer 7

In the books of SM Limited Journal Entries

	Particulars		Dr.	Cr.
			Rs	**Rs**
1.	Equity share capital A/c (15,000 x Rs10)	Dr.	1,50,000	
	Premium on buyback A/c (15,000 x Rs5)	Dr.	75,000	
	To Equity shares buy back or Equity Shareholders A/c (15,000 x Rs15) (Being the amount due to equity shareholders on buy back)			2,25,000

2.	Equity shares buy back/Equity shareholders A/c Dr.	Dr.	2,25,000	
	To Bank A/c (Being the payment made on account of buy back of 15,000 Equity Shares as per the Companies Act)			2,25,000
3.	Bank A/c	Dr.	66,000	
	To 10 % Debentures A/c			60,000
	To Securities Premium A/c (Being 14 % debentures issued to finance buy back)			6,000
4.	Buyback Expenses A/c	Dr.	2,000	
	To Bank A/c			2,000
	(Buyback expenses paid)			
5.	Bank A/c	Dr.	80,000	
	Profit and Loss A/c (Loss on sale of investment)		20,000	
	To Investment A/c			1,00,000
	(Being investment sold at loss)			
6.	General reserve	Dr.	43,000	
	Profit and Loss A/c	Dr.	1,07,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			
7.	Securities Premium	Dr.	75,000	
	Profit and Loss A/c	Dr.	2,000	
	To Premium on buyback			75,000
	To Buyback Expenses A/c (Being premium on buyback and buyback expenses charged to securities premium and profit and loss account)			2,000

Bank Account

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance b/d	83,000	By Equity Shareholders A/c	2,25,000
To Investment A/c	80,000	By Expenses on buy back of share	2,000
To 10% Debentures and Securities premium	66,000	By Balance c/d	2,000
Total	2,29,000	Total	2,29,000

Note: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. Issue of debentures has been excluded for the purpose of "specified securities" and the entire amount of Rs 1,50,000 has been credited to CRR while solving the Question.

Question 8

Wivi Tsu Ltd. gives the following information as on 31st March, 2022.

Liabilities	**In ₹**
Equity Shares of ₹ 10 each fully paid up	**17,00,000**
Revenue Reserve	**23,50,000**
Securities Premium	**2,50,000**
Profit & Loss Account	**2,00,000**
Infrastructure Development Reserve	**1,50,000**
9% Debentures	**38,00,000**
Unsecured Loan	**8,50,000**
Property, plant & equipment	**58,50,000**
Current Assets	**34,50,000**

Super Limited wants to buy back 35,000 equity shares of ₹ 10 each fully paid up on 1st April, 2022 at ₹ 30 per share.

Buy Back of shares is fully authorised by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets. Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

(MTP 10 Marks Oct'22, PYP 10 Marks May'19)

Answer 8

Determination of maximum no. of shares that can be bought back as per the Companies Act, 2013

1.Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,70,000
25% of the shares outstanding	42,500

2.Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (₹)	17,00,000
Free reserves (₹) (23,50,000 + 2,50,000 + 2,00,000)	28,00,000
Shareholders' funds (₹)	45,00,000
25% of Shareholders fund (₹)	11,25,000
Buy back price per share	₹ 30
Number of shares that can be bought back (shares) Actual	37,500
Number of shares proposed for buy back	35,000

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

	Particulars	₹
(a)	Loan funds (₹) (38,00,000+8,50,000)	46,50,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	23,25,000
(c)	Present equity/shareholders fund (₹)	45,00,000
(d)	Future equity/shareholders fund (₹) (see W.N.) (45,00,000 – 5,43,750)	39,56,250
(e)	Maximum permitted buy back of Equity (₹) [(d) – (b)]	16,31,250
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	54,375 shares
(g)	Actual Buy Back Proposed	35,000 Shares

Summary statement determining the maximum number of shares to be bought back

Particulars	Number of shares
Shares Outstanding Test	42,500
Resources Test	37,500
Debt Equity Ratio Test	54,375
Maximum number of shares that can be bought back [least of the above]	37,500

Company qualifies all tests for buy-back of shares and it can buy back maximum 37,500 shares on 1st April, 2022. However, company wants to buy-back only 35,000 equity shares @ ₹ 30. Therefore, buy-back of 35,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Working Note:

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

$(45,00,000 - x) - 23,25,000 = y$ (1)

$(\frac{y}{30} \times 10) = x$ or $3x = y$ (2)

by solving the above equation, we get

$x = ₹\ 5,43,750$

$y = ₹\ 16,31,250$

Question 9

The following was the summarized balance sheet of Bhoomi Ltd. as on 31st March, 2020:

Equity & liability	Rs (in lakhs)	Assets	Rs (in lakhs)
Authorised Capital:		Property, plant and equipment	1,12,000
Equity shares of Rs 10 each	80,000	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of Rs10 each Fully Paid up	64,000	Trade Receivables	66,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		
9% Debentures	40,000		
Trade Payables	26,400		
	2,15,200		2,15,200

On 1st April,2020 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at Rs20 per Share. In order to make Cash available, the Company sold all the Investments for Rs25,000 Lakhs and raised a Bank Loan amounting to Rs16,000 lakh on the Security of the Company's Plant. Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium may be utilized to the maximum extent allowed by law.

(MTP 8 Marks Oct'20, Oct'21 & Oct'23, MTP 12 Marks Oct'19) (Same concept different figures RTP May'20)

Answer 9

Journal entries In the books of Bhoomi Ltd.

			Dr.	Cr.
			Rs in lakhs	
1	Bank A/c	Dr.	25,000	
	To Investments A/c			24,000
	To Profit and Loss A/c			1,000
	(Being Investments sold and, profit being credited to Profit and Loss Account)			
2	10% Redeemable Preference Share Capital A/c	Dr.	20,000	
	Premium payable on Redemption of Preference Shares A/c	Dr.	2,000	
	To Preference Shareholders A/c			22,000
	(Being amount payable on redemption of Preference shares, at a Premium of 10%)			
3	Securities Premium A/c	Dr.	2,000	
	To Premium payable on Redemption of Preference Shares A/c			2,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)			
4	Equity Share Capital A/c	Dr.	16,000	
	Premium payable on Buyback A/c	Dr.	16,000	
	To Equity Share buy back A/c			32,000
	(Being the amount due on buy-back)			
5	Securities Premium A/c (6,400 – 2,000)	Dr.	4,400	
	General Reserve A/c (balancing figure)	Dr.	11,600	
	To Premium payable on Buyback A/c			16,000

	(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)			
6	Bank A/c	Dr.	16,000	
	To Bank Loan A/c			16,000
	(Being Loan taken from Bank to finance Buyback)			
7	Preference Shareholders A/c	Dr.	22,000	
	Equity Shares buy back A/c	Dr.	32,000	
	To Bank A/c			54,000
	(Being payment made to Preference Shareholders and Equity Shareholders)			
8	General Reserve Account	Dr.	36,000	
	To Capital Redemption Reserve Account			36,000
	(Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)			

Question 10

Purpose Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions. (RTP Sep'24) RTP Nov'19, Nov'22)

Answer 10

Journal Entries in the books of Purpose Ltd.

			₹	₹
1.	Bank A/c	Dr.	10,00,000	
	To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)			10,00,000
2.	11% Preference share application & allotment A/c	Dr.	10,00,000	
	To 11% Preference share capital A/c (Being allotment of 1 lakh preference shares)			10,00,000
3.	General reserve A/c	Dr.	30,00,000	
	To Capital redemption reserve A/c (Being creation of capital redemption reserve for buy back of shares)			30,00,000
4.	Equity share capital A/c	Dr.	40,00,000	
	Premium payable on buyback A/c	Dr.	48,00,000	
	To Equity shareholders/Equity shares buy back A/c (Amount payable to equity shareholder on buy back)			88,00,000
5.	Equity shareholders/ Equity shares buy back A/c	Dr.	88,00,000	
	To Bank A/c (Being payment made for buy back of shares)			88,00,000
6.	Securities Premium A/c	Dr.	16,00,000	
	General reserve A/c		32,00,000	
	To Premium payable on buyback A/c (Being premium on buyback charged from securities premium and general reserve)			48,00,000

Working Notes:

1. Calculation of amount used from General Reserve Account

		₹
Amount paid for buy back of shares (4,00,000 shares x ₹ 22)		88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹10)		(10,00,000)
Less: Utilization of Securities Premium Account		(16,00,000)
Balance used from General Reserve Account		62,00,000
* Used under Section 68 for buy back	32,00,000	
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000	
62,00,000		

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹ 10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹ 10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

Question 11

LDR

Mohan Ltd. furnishes the following summarised Balance Sheet on 31st March 2021. (₹ in Lakhs)

	Amount
Equity and Liabilities:	
Shareholders' fund	
Share Capital	
Equity Shares of ₹ 10 each fully paid up	780
6% Redeemable Preference shares of ₹ 50 each fully Paid up	240
Reserves and Surplus	
Capital Reserves	58
General Reserve	625
Securities Premium	52
Profit & Loss	148
Revaluation Reserve	34
Infrastructure Development Reserve	16
Non-current liabilities	
7% Debentures	268
Unsecured Loans	36
Current Liabilities	395
	2652
Assets:	
Non-current Assets	
Plant and Equipment less depreciation	725
Investment at cost	720
Current Assets	1207
	2652

Other Information:

(1) The company redeemed preference shares at a premium of 10% on 1st April,2021.

(2) It also offered to buy back the maximum permissible number of equity shares of ₹ 10 each at ₹ 30 per share on 2nd April 2021.

(3) The payment for the above was made out of available bank balance, which appeared as a part of the current assets.

(4) The company had investment in own debentures costing ₹ 60 lakhs (face value ₹ 75 lakhs). These debentures were cancelled on 2nd April 2021.

(5) On 4th April 2021 company issued one fully paid-up equity share of ₹ 10 each by way of bonus for every five equity shares held by the shareholders.

You are required to:

(a) Calculate maximum possible number of equity shares that can be bought back as per the Companies

Act, 2013 and

(b) Record the Journal Entries for the above-mentioned information. (PYP 10 Marks Dec'21)

Answer 11

Statement determining the maximum number of shares to be bought backNumber of shares (in lakhs)

Particulars	When loan fund is ₹ 304 lakhs
Shares Outstanding Test (W.N.1)	19.5
Resources Test (W.N.2)	11.175
Debt Equity Ratio Test (W.N.3)	29.725
Maximum number of shares that can be bought back [least of the above]	11.175

Thus, the company can buy 11,17,500 Equity shares at ₹ 30 each.

Working Notes:

1. **Shares Outstanding Test**

Particulars	(Shares in lakh)
Number of shares outstanding	78
25% of the shares outstanding	19.5

2. **Resources Test**

Particulars	
Paid up capital (₹ in lakh)	780
Free reserves (₹ in lakh) (625+52+148-24-240*)	561
Shareholders' funds (₹ in lakh)	1341
25% of Shareholders fund (₹ in lakh)	335.25
Buy-back price per share	30
Number of shares that can be bought back	11.175
*Amount transferred to CRR is excluded from free reserves. Premium on redemption also reduced.	

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

	Particulars	₹ In lakh
(a)	Loan funds (₹)	304
(b)	Minimum equity to be maintained after buy- back in the ratio of 2:1 (₹) (a/2)	152
(c)	Present equity shareholders fund (₹)	1341
(d)	Future equity shareholders fund (₹) (see W.N.4)	1043.75 (1341-297.25)
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	891.75
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	29.725
	As per the provisions of the Companies Act, 2013, company	Qualifies

Alternatively, when current liabilities are considered as part of loan funds, in that case Debt Equity Ratio Test will be done as follows:

	Particulars	₹ in lakh
(a)	Loan funds (₹)	699
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	349.5
(c)	Present equity shareholders fund (₹)	1341
(d)	Future equity shareholders fund (₹) (see W.N.4)	1093.125 (1341-247.875)
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	743.625
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	24.7875
	As per the provisions of the Companies Act, 2013, company	Qualifies

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

= (1341 – x) – 152 = y

= 1189 – x =y (1)

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

y/30 x 10 = x or 3x = y (2)

by solving the above two equations we get

x = ₹ 297.25 and y = ₹ 891.75

Alternatively, when current liabilities are considered as part of loan funds, in that case

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

= (1341 – x) – 349.5 = y

= 991.5 – x =y (1)

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

y/30 x 10 = x or 3x = y (2)

by solving the above two equations we get x = 247.875 and y = 743.625

(ii) Journal Entries for Buy Back (₹ in lakhs)

Date	Particulars		Debit	Credit
2021 1st April	6% Redeemable preference share capital A/c	Dr.	240	
	Premium on redemption of preference shares A/c	Dr.	24	
	To Preference shareholders A/c (Being preference share capital transferred to shareholders account)			264
	Preference shareholders A/c	Dr.	264	
	To Bank A/c (Being payment made to shareholders)			264
	General Reserve or P&L A/c*	Dr.	24	
	To Premium on redemption of preference shares A/c (Being premium on redemption of preference shares adjusted through securities premium)			24
2nd April	Equity shares buy-back A/c	Dr.	335.25	
	To Bank A/c (Being 11.175 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)			335.25
	Equity share capital A/c	Dr.	111.75	
	Securities Premium A/c	Dr.	52	
	General Reserve or P&L A/c	Dr.	171.50	
	To Equity Shares buy-back A/c (Being cancellation of shares bought back)			335.25
	General reserve A/c	Dr.	351.75	
	To Capital redemption reserve A/c (Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law ie. 240+ 111.75 lakhs)			351.75
2nd April	7% Debentures A/c	Dr.	75	
	To Investment (own debentures) A/c			60

	To Profit on cancellation of own debentures A/c (Being cancellation of own debentures costing ₹ 60 lakhs, face value being ₹ 75 lakhs and the balance being profit on cancellation of debentures)			15
4th April	Capital Redemption Reserve	Dr.	133.65	
	To Bonus Shares A/c (Being issue of one bonus equity share for every five equity shares held)			133.65
	Bonus shares A/c	Dr.	133.65	
	To Equity share capital A/c (Being bonus shares issued)			133.65

Working Note: Bonus Share to be issued =66.825 (78 - 11.175) lakh shares divided by 5 = 13.365 lakh shares.

Note: *Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and complies with the Accounting Standards prescribed for them. Alternative entry considering otherwise is also possible by utilizing securities premium amount.

Exam Insights: Most of the examinees failed to calculate the maximum permissible number of equity shares that can be bought back as per share outstanding, resources and debt equity ratio test in accordance with the provisions of the Companies Act, 2013. Consequently, they were not able to provide necessary journal entries at the time of buy back.

Question 12

Quick Ltd. has the following capital structure as on 31st March, 2021:

		₹ in Crores	
(1)	**Share Capital:**		462
	(Equity Shares of ₹ 10 each, fully paid)		
(2)	**Reserves and Surplus:**		
	General Reserve	336	
	Securities Premium Account	126	
	Profit and Loss Account	126	
	Statutory Reserve	180	
	Capital Redemption Reserve	87	
	Plant Revaluation Reserve	33	888
(3)	**Loan Funds:**		
	Secured	2,200	
	Unsecured	320	2,520

On the recommendations of the Board of Directors, on 16th September, 2021, the shareholders of the company have approved a proposal to buy-back of equity shares. The prevailing market value of the company's share is ₹ 20 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 50% over market value. The company had sufficient balance in its bank account for the buy-back of shares.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,680 Crores or ₹ 2,100 Crores.

Assuming that the entire buy-back is completed by 31st December,2021, Pass the necessary accounting entries (narrations not required) in the books of the company in each situation

(PYP 10 Marks May'22)

Answer 12

Statement determining the maximum number of shares to be bought back

Number of shares

Particulars	**When loan fund is**		
	₹ 2,520 crores	**₹ 1,680 crores**	**₹ 2,100 crores**
Shares Outstanding Test (W.N.1)	11.55	11.55	11.55
Resources Test (W.N.2)	8.75	8.75	8.75
Debt Equity Ratio Test (W.N.3)	Nil	5.25	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	5.25	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is ₹ 1,680 crores)

₹ in crores

	Particulars		**Debit**	**Credit**
(a)	Equity share buy-back account	Dr.	157.5	
	To Bank account			157.5
(b)	Equity share capital account (5.25 x ₹ 10)	Dr.	52.5	
	Securities premium account (5.25 x ₹ 20)	Dr.	105	
	To Equity share buy-back account			157.5
(c)	General reserve account	Dr.	52.5	
	To Capital redemption reserve account			52.5

Working Notes:

1. **Shares Outstanding Test**

Particulars	**(Shares in crores)**
Number of shares outstanding	46.2
25% of the shares outstanding	11.55

2. **Resources Test**

Particulars	
Paid up capital (₹ in crores)	462
Free reserves (₹ in crores) (336+126+126)	588
Shareholders' funds (₹ in crores)	1,050
25% of Shareholders fund (₹ in crores)	₹ 262.5 crores
Buy-back price per share	₹ 30
Number of shares that can be bought back (shares in crores)	8.75 crores shares

3. **Debt Equity Ratio Test**

	Particulars	**When loan fund is**		
		₹ 2,520 crores	**₹ 1,680 crores**	**₹ 2,100 crores**
(a)	Loan funds (₹ in crores)	2,520	1,680	2,100
(b)	Minimum equity to be maintained after buy- back in the ratio of 2:1 (₹ in crores)	1,260	840	1,050
(c)	Present equity shareholders fund (₹ in crores)	1,050	1,050	1,050
(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	N.A.	997.5 (1,050-52.5)	N.A.
(e)	Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	Nil	157.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	Nil	5.25 (by simultaneous equation)	Nil

Note:

1. Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.
2. As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such buy-back.
   Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.
   Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.
   Then
   Equation 1: (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained= Maximum permissible buy-back of equity
   (1,050 –x)-840 = y
   Since 210 – x = y
   Equation 2=$\left[\frac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \text{x Nominal Value}\right]$
   = Nominal value of the shares bought –back to be transferred to CRR
   $= \frac{y}{30} \times 10 = x$
   Or 3x = y
   (2)
   by solving the above two equations we get
   x = ₹ 52.5 crores y = ₹ 157.5 crores
3. Statutory reserves, capital redemption reserve and plant revaluation reserves are not free reserves.
4. For calculation of debt -equity ratio both secured and unsecured loans have been considered.

Exam insights: Few examinees were not able to compute the maximum number of shares that can be bought back in the light of the information given in the question under situations where the loan funds of the company were different.

Question 13

The following information from Balance Sheet of Z Ltd. as on 31st March ,2023:

	₹ Lakhs
Share Capital:	
Equity shares of ₹ 10 each Fully Paid Up	16,000
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	5,000
Reserves & Surplus	
Capital Redemption Reserve	2,000
Securities Premium	1,600
General Reserve	12,000
Profit & Loss Account	600
Secured Loans:	
9% Debentures	10,000
Current Liabilities:	
Trade payables	4,600
Sundry Provisions	2,000
Fixed Assets	28,000
Investments	4,700
Cash at Bank	4,600
Other Current Assets	16,500

On 1st April, 2023 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 5,000 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately

after buyback of equity shares and redemption of preference shares. (RTP Nov'23, New SM)

Answer 13

(i) Journal Entries in the books of Z Ltd. (₹ in lakhs)

	Particulars			
1	Bank A/c To Investments A/c To Profit and Loss A/c (Being investment sold on profit for the purpose of buy- back)	Dr.	5,000	 4,700 300
2	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being redemption of preference share capital at premium of 10%)	Dr. Dr.	5,000 500	 5,500
3	Profit and Loss A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	500	 500
4	Equity Share Capital A/c Premium on buyback A/c To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	Dr. Dr.	1,600 1,600	 3,200
5	Securities Premium A/c (1,600) To Premium on Buyback A/c (Being premium on buyback provided out of securities premium)	Dr.	1,600	 1,600
6	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)		5,500 3,200	 8,700
7	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)		6,600	 6,600

(ii) Balance Sheet of C Ltd. (after Redemption and Buyback)

	Particulars	Note No	Amount
	EQUITY AND LIABILITIES		₹
(I)	**Shareholders' Funds:**		
	(a) Share Capital	1	14,400
	(b) Reserves and Surplus	2	14,400
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	10,000
(3)	Current Liabilities:		
	(a) Trade payables		4,600
	(b) Short Term Provisions		2,000
	Total		45,400
(II)	**ASSETS**		
(1)	Non-Current Assets		
	PPE		28,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		900

	(b) Other Current Assets		16,500
			45,400

Notes to Accounts

		₹ in Lakhs		
1.	Share Capital			
	1,440 lakh Equity Shares of ₹ 10 each Fully Paid up (160 lakh Equity Shares bought back)			14,400
2.	Reserves and Surplus			
	General Reserve	12,000		
	Less: Transfer to CRR	(6,600)	5,400	
	Capital Redemption Reserve	2,000		
	Add: Transfer due to buy-back of shares from Gen. res.	6,600	8,600	
	Securities premium	1,600		
	Less: Adjustment for premium paid on buy back	(1,600)		
	Profit & Loss A/c	600		
	Add: Profit on sale of investment	300		
	Less: Adjustment for premium paid on redemption of preference shares	(500)	400	14,400
3.	Long-term borrowings			
	Secured			
	9 % Debentures			10,000

Working Note:

	Amount (₹ Lakhs)		Amount (₹ Lakhs)
To balance b/d	4,600	By Preference Shareholders A/c	5,500
To Investment A/c (sale Proceeds)	5,000	By Equity buy back A/c	3,200
	9,600	By Balance c/d (Balancing figure)	900
			9,600

Question 14

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

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

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

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

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

As an accountant of the company, you are required to suggest whether the recommendation of the management is justified? If, you do not agree, then suggest the rate of dividend. (PYP 4 Marks May'24)

Answer 14

In case of declaration of dividend out of free reserves, there are 3conditions:

(1) Dividend Rate < Average Rate of last 3 years
10% < 12% [(12+14+10)/3]
Condition is Satisfied

(2) Dividend Distributed < 10% of PUSC + Reserve and Surplus
50,00,000 < 59,50,000 [(5,00,00,000 + 1,00,00,000 – 5,00,000) × 10%]
Condition is Satisfied

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

Condition is Not Satisfied

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

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

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

Alternatively

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

(1) Condition I

The proposed dividend of 10% is less than the average rate of dividend being 12% (i.e.) (12+14+10) /5 =12 %.

Hence, this condition is satisfied.

(2) Condition II

Amount to be withdrawn.

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

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

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

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

(3) Condition III

Balance of reserves after withdrawal (100-55)	₹45,00,000
15% of paid-up capital	₹75,00,000

As the balance of reserves should not be less than 15% of its paid-upshare capital, but here the balance of reserves after withdrawal is less than 15% of paid-up share capital, hence this condition is not satisfied,hence, 10% dividend cannot be declared.

Maximum withdrawal of Reserve if condition II is satisfied.

Opening balance of Reserves in the beginning of the year	= ₹ 1,00,00,000
- Closing balance of reserves being 15% of paid-up capital	= ₹ 75,00,000
Reserves available =	₹ 25,00,000
Maximum permissible Divisible Profits	
Permissible withdrawal as above	= ₹ 25,00,000
Less: Current Year's Loss	= ₹ 5,00,000
Maximum permissible Divisible profit	= ₹ 20,00,000

Actual permissible rate of Dividend =

(₹20,00,000 / ₹5,00,00,000) x 100 = 4%

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

Question 15

LDR

KG Limited furnishes the following Balance Sheet as at 31st March, 20X1:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,200
	B	Reserves and Surplus	2	810
2		**Non-current liabilities**		
		Long term borrowings	3	750
3		**Current liabilities**		
	A	Trade Payables		745
	B	Other Current Liabilities		195

		Total		3,700
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	2,026
	B	Non-current Investments		74
2		**Current assets**		
	A	Inventories		600
	B	Trade receivables		260
	C	Cash and Cash equivalents		740
		Total		3,700

Notes to accounts

No.	Particulars	₹
1	**Share Capital**	
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid up shares of ₹10 each)	1,200
2	**Reserves and Surplus**	
	Securities premium	175
	General reserve	265
	Capital redemption reserve	200
	Profit & loss A/c	170
	Total	810
3	**Long term borrowings**	
	12% Debentures	750
4	**Property, plant and equipment**	
	Land and Building	1,800
	Plant and machinery	226
	Net carrying value	2,026

On 1st April, 20X1, the company announced the buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 75 lakhs.

On 5th April, 20X1, the company achieved the target of buy-back. On 30th April, 20X1 the company issued one fully paid up equity share of ₹ 10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to:

(1) Pass necessary journal entries for the above transactions.

(2) Prepare Balance Sheet of KG Limited after bonus issue of the shares. *(SM) (Similar concept* different figures MTP 12 Marks Mar'22, PYP 10 Marks May'18) (Same concept different figures RTP May'21, RTP May'19, PYP 5 Marks Nov'22)

Answer 15

In the books of KG Limited Journal Entries

Date 20X1	Particulars		Dr. (₹ in lakhs)	Cr.
April 1	Bank A/c	Dr.	75	
	To Investment A/c			74
	To Profit on sale of investment (Being investment sold on profit)			1
April 5	Equity share capital A/c	Dr.	300	
	Securities premium A/c	Dr.	150	
	To Equity shares buy-back A/c (Being the amount due to equity shareholders on buy-back)			450
	Equity shares buy-back A/c	Dr.	450	
	To Bank A/c (Being the payment made on account of buy-back of 30 Lakh Equity Shares)			450
April 5	General reserve A/c	Dr.	265	

	Profit and Loss A/c	Dr.	35	
	To Capital redemption reserve A/c (Being amount equal to nominal value of buy-backshares from free reserves transferred to capital redemption reserve account as per the law)			300
April 30	Capital redemption reserve A/c	Dr.	225	
	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)			225
	Bonus shares A/c	Dr.	225	
	To Equity share capital A/c (Being issue of one bonus equity share for every four equity shares held)			225

Balance Sheet (After buy-back and issue of bonus shares)

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,125
	B	Reserves and Surplus	2	436
2		**Non-current liabilities**		
		Long term borrowings	3	750
3		**Current liabilities**		
	A	Trade Payables		745
	B	Other Current Liabilities		195
		Total		3,251
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	2,026
2		**Current assets**		
	A	Inventories		600
	B	Trade receivables		260
	C	Cash and Cash equivalents		365
		Total		3,251

Notes to accounts

No.	Particulars		₹
1	**Share Capital**		
	Authorized, issued and subscribed capital:		
	Equity share capital (fully paid up shares of ₹10 each)		1,125
2	**Reserves and Surplus**		
	General Reserve	265	
	Less: Transfer to CR	(265)	-
	Capital Redemption Reserve	200	
	Add: Transfer due to buy-back of shares from P/L	35	
	Add: Transfer due to buy-back of shares from General Reserve	265	
	Less: Utilisation for issue of bonus shares	(225)	275
	Securities premium	175	
	Less: Adjustment for premium paid on buy-back	(150)	25
	Profit & Loss A/c	170	
	Add: Profit on sale of investment	1	
	Less: Transfer to CRR	(35)	136
	Total		436
3	**Long term borrowings**		
	12% Debentures		750

4	Property, Plant and Equipment		
	Land and Building		1,800
	Plant and machinery		226
	Net carrying value		2,026

Working Notes:

1. Amount of bonus shares = 25% of (1,200 – 300) lakhs = ₹225 lakhs
2. Cash at bank after issue of bonus shares

Particulars	₹ in lakhs
Cash balance as on 1st April, 20X1	740
Add: Sale of investments	75
	815
Less: Payment for buy-back of shares	(450)
	365

Note: In the given solution, it is possible to adjust transfer to capital redemption reserve account or capitalization of bonus shares from any other free reserves or securities premium (to the extent available) also.

Question 16

Viwitzu Ltd. has the following capital structure as on 31st March, 2017: Rs. in crore

Particulars	Situation	Situation
(i) Equity share capital (shares of Rs. 10 each)	1,200	1,200
(ii) Reserves:		
General Reserves	1,080	1,080
Securities Premium	400	400
Profit & Loss	200	200
Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii) Loan Funds	3,200	6,000

The company has offered buy back price of Rs. 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries. (MTP 10 Marks, Apr'19 & Mar'18, MTP 12 Marks Aug'18, Mar'19) (Same concept different figures PYP 15 Marks Jul'21)(SM)

Answer 16

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	Rs.3,200 crores	Rs. 6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back
(applicable only when loan fund is Rs. 3,200 crores)

		Rs. in crores	
		Debit	**Credit**
(a) Equity Share buyback account	Dr.	**720**	
To Bank Account (Being payment for buy back of 24 crores equity shares of 10 each @ Rs. 30 per share)			**720**
(b) Equity share capital account	Dr.	**240**	
Premium Payable on buyback account	Dr.	**480**	
To Equity Share buyback account			**720**

(Being cancellation of shares bought back)			
Securities Premium account		**400**	
General Reserve / Profit & Loss A/c	Dr.	**80**	
To Premium Payable on buyback account (Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c			**480**
(C). General Reserve / Profit & Loss A/c	Dr.	**240**	
To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			**240**

Working Notes:

1. Shares Outstanding Test

Particulars	**(Shares in crores)**
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	**(Rs. in crores)**
Paid up capital (Rs. in crores)	1,200
Free reserves (Rs. in crores) (1,080 + 400 +200)	1,680
Shareholders' funds (Rs. in crores)	2,880
25% of Shareholders fund (Rs. in crores)	Rs. 720 crores
Buy back price per share	Rs. 30
Number of shares that can be bought back	24 crores shares

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

Particulars	**When loan fund is**	
	Rs. 3,200 crores	**Rs. 6,000 crores**
(a) Loan funds (Rs.)	3,200	6,000
(b) Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	1,600	3,000
(c) Present equity shareholders fund (Rs.)	2,880	2,880
(d) Future equity shareholders fund (Rs.) (see W.N.4)	2,560 (2,880-320)	N.A.
(e) Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	960	Nil
(f) Maximum number of shares that can be bought back @ Rs. 30 per share	32 crore shares	Nil
As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

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

$= (2{,}880 - x) - 1{,}600 = y$

$= 1280 - x = y$ (1)

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

$= \left(\frac{y}{30} \times 10\right) = X$ or $3x = y$ (2)

by solving the above two equations we get

x= Rs. 320 y = Rs. 960

<u>**Exam insights:**</u> Majority examinees erred in calculation of 'maximum permissible number of equity shares that can be bought back' while applying Debt Equity Ratio test. Consequently, they were unable to compute the maximum permitted buyback and failed to give the necessary journal entries for buy back.

Question 17 | LDR

Following is the Balance Sheet of Competent Limited as at 31st March, 20X1:

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	12,50,000
	B	Reserves and Surplus	2	18,75,000
2		Non-current liabilities		
		Long term borrowings	3	28,75,000
3		Current liabilities		
	A	Other Current Liabilities		16,50,000
		Total	4	76,50,000
		Assets		
1		Non-current assets		
	A	Property, plant and Equipment		46,50,000
2		Current assets		
	A	Other Current Assets		30,00,000
		Total		76,50,000

Notes to accounts

No.	Particulars	₹
1	Share Capital	
	Authorized, issued and subscribed capital:	
	Equity share capital (fully paid up shares of ₹10 each)	12,50,000
2	Reserves and Surplus	
	Securities premium	2,50,000
	Profit and loss account	1,25.000
	Revenue reserve	15,00,000
	Total	18,75,000
3	Long term borrowings	
	14% Debentures	18,75,000
	Unsecured Loans	10,00,000
	Total	28,75,000
4	Property, plant and equipment	
	Land and Building	19,30,000
	Plant and machinery	18,00,000
	Furniture and fitting	9,20,000
	Net carrying value	46,50,000

The company wants to buy-back 25,000 equity shares of ₹ 10 each, on 1st April, 20X1 at ₹ 20 per share. Buy-back of shares is duly authorized by its articles and necessary resolution has been passed by the company towards this. The payment for buy-back of shares will be made by the company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether buy-back of shares by company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy-back of shares and prepare the Balance Sheet after buy-back of shares. (SM) (Same concept different figures MTP 15 Marks Oct'18, RTP May'18, May'22)

Answer 17

Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

2. **Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves**

Particulars	
Paid up capital (₹)	12,50,000
Free reserves (₹) (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (₹)	31,25,000
25% of Shareholders fund (₹)	7,81,250
Buy-back price per share	₹ 20
Number of shares that can be bought back (shares)	39,062
Actual Number of shares for buy-back	25,000

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

	Particulars	₹
(a)	Loan funds (₹) (18,75,000+10,00,000+16,50,000)	45,25,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	22,62,500
(c)	Present equity/shareholders fund (₹)	31,25,000
(d)	Future equity/shareholders fund (₹) (see W.N.) (31,25,000 – 2,87,500)	28,37,500.*
(e)	Maximum permitted buy-back of Equity (₹)[(d) – (b)]	5,75,000
(f)	Maximum number of shares that can be boughtback @ ₹20 per share	28,750 shares
(g)	Actual Buy-Back Proposed	25,000 Shares

*As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

Summary statement determining the maximum number of shares to be bought back

Particulars	**Number of shares**
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	28,750
Maximum number of shares that can be boughtback [least of the above]	28,750

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 28,750 shares on 1st April, 20X1.

However, company wants to buy-back only 25,000 equity shares @ ₹ 20. Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

	Particulars		**Debit (₹)**	**Credit (₹)**
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account (Being buy-back of 25,000 equity shares of ₹ 10 each @ ₹20 per share)			5,00,000
(b)	Equity share capital account	Dr.	2,50,000	
	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account (Being cancellation of shares bought back)			5,00,000
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			2,50,000

Balance Sheet of M/s. Competent Ltd.as at 31st March, 20X1

Particulars			Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	10,00,000
	B	Reserves and Surplus	2	16,25,000
2		**Non-current liabilities**		
		Long term borrowings	3	28,75,000
3		**Current liabilities**		
	A	Other Current Liabilities		16,50,000
		Total		71,50,000
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	46,50,000
2		**Current assets**		
	A	Other Current Assets (30,00,000 – 5,00,000)		25,00,000
		Total		71,50,000

Notes to accounts

No.	Particulars		₹
1	**Share Capital**		
	Authorized, issued and subscribed capital:		
	Equity share capital (fully paid up shares of ₹10 each)		10,00,000
2	**Reserves and Surplus**		
	Profit and Loss A/c		1,25,000
	Revenue reserves	15,00,000	
	Less: Transfer to CRR	(2,50,000)	12,50,000
	Securities premium	2,50,000	
	Less: Utilization for share buy-back	(2,50,000)	-
	Capital Redemption Reserves		2,50,000
	Total		16,25,000
3	**Long term borrowings**		
	14% Debentures		18,75,000
	Unsecured Loans		10,00,000
	Total		28,75,000
4	**Property, plant and equipment**		
	Land and Building		19,30,000
	Plant and machinery		18,00,000
	Furniture and fitting		9,20,000
	Net carrying value		46,50,000

Working Note

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

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

Then

$(31,25,000 - x) - 22,62,500 = y$	(1)
$(\frac{y}{20} X10) = X$ or $2x = y$	(2)
by solving the above equation, we get	
x = ₹2,87,500	
y = ₹5,75,000	

Question 18

Wiwitsu Ltd. furnishes the following summarized Balance Sheet as at 31-03-2018.

Liabilities	(in ₹)	(in ₹)
Share Capital		
Equity Share Capital of ₹ 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of ₹ 100 each fully paid up	10,00,000	60,00,000
Reserves & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	20,00,000	
Dividend Equalization Fund	5,50,000	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		5,50,000
Total		1,21,50,000
Assets		
Fixed Assets		
Tangible Assets		1,00,75,000
Current Assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000
Total		1,21,50,000

The shareholders adopted the resolution on the date of the above mentioned Balance Sheet to:

(1) Buy back 25% of the paid up capital and i was decided to offer a price of 20% over market price. Theprevailing market value of the company's share is Rs. 30 per share.

(2) To finance the buy back of share company :

(3) Issue 3000, 14 % debenture of 100 each at a premium of 20%

(4) Issue 2500, 10 % preference share of Rs. 100 each

(5) Sell investment worth Rs. 1,00,000 for Rs. 1,50,000.

(6) Maintain a balance of Rs. 2,00,000 in Revenue Reserve.

Later the company issue three fully paid up equity share of Rs. 20 each by way of bonus share for every 15 equity share held by the equity shareholder.

You are required to pass the necessary journal entries to record the above transactions and prepare Balance Sheet after buy back. *(PYP 15 Marks, Nov'19, RTP Nov'21)*

Answer 18

In the books of Wiwitsu Limited Journal Entries

	Particulars		Dr.	Cr.
			₹	₹
1.	Bank A/c	Dr.	3,60,000	
	To 14 % Debenture A/c			3,00,000
	To Securities Premium A/c			60,000
	(Being 14 % debentures issued to finance buy back)			
2.	Bank A/c	Dr.	2,50,000	
	To 10% preference share capital A/c (Being 10% preference share issued to finance buy back)			2,50,000
3.	Bank A/c	Dr.	1,50,000	
	To Investment A/c			1,00,000
	To Profit on sale of investment (Being investment sold on profit)			50,000

4.	Equity share capital A/c (62,500 x ₹20)	Dr.	12,50,000	
	Securities premium A/c (62,500 x ₹16)	Dr.	10,00,000	
	To Equity shares buy back A/c (62,500 x ₹36)			22,50,000
	(Being the amount due to equity shareholders on buy back)			
5.	Equity shares buy back A/c	Dr.	22,50,000	
	To Bank A/c			22,50,000
	(Being the payment made on account of buy back of 62,500 Equity Shares as per the Companies Act)			
6.	Revenue reserve	Dr.	3,00,000	
	Securities premium	Dr.	2,60,000	
	Profit and Loss A/c	Dr.	4,40,000	
	To Capital redemption reserve A/c*			10,00,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) [12,50,000 less 2,50,000]			
7.	Capital redemption reserve A/c	Dr.	7,50,000	
	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue 37,500 bonus shares)			7,50,000
8.	Bonus shares A/c	Dr.	7,50,000	
	To Equity share capital A/c			7,50,000
	(Being issue of 3 bonus equity share for every 15 equity shares held)			

*Alternatively, entry for combination of different amounts (from Revenue reserve, Securities premium and profit and Loss account.) may be passed for transferring the required amount to CRR.

Note: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other **specified securities**. Issue of debentures has been excluded for the purpose of "**specified securities**" and the entire amount of Rs. 10,00,000 (after deducting only pref. share capital) has been credited to CRR while solving the question.

Balance Sheet (After buy back and issue of bonus shares)

Particulars	Note No	Amount ₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	57,50,000
(b) Reserves and Surplus	2	27,10,000
(2) Non-Current Liabilities	3	
(a) Long-term borrowings		15,50,000
(3) Current Liabilities		
(a) Trade payables		-
(b) current liabilities & Provisions		5,50,000
Total		1,05,60,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		1,00,75,000
(2) Current assets		
(a) Investments		2,00,000
(b) Inventory		2,00,000
(c) Cash and cash equivalents (W.N. 2)		85,000
Total		1,05,60,000

Notes to Accounts

				₹
1.	Share Capital			
	Equity share capital (Fully paid up shares of ₹ 20 each)			
	(2,50,000-62,500+37,500 shares)		45,00,000	
	10% preference shares @ ₹ 100 each (10,00,000 + 2,50,000)		12,50,000	57,50,000
2.	Reserves and Surplus			
	Capital Reserve		1,00,000	
	Revenue reserve		2,00,000	
	Securities premium	12,00,000		
	Add: Premium on debenture	60,000		
	Less: Adjustment for premium paid on buy back	(10,00,000)		
	Less: Transfer to CRR	(2,60,000)	Nil	
	Capital Redemption Reserve			
	Transfer due to buy-back of shares from P&L			
		10,00,000		
	Less: Utilisation for issue of bonus shares	(7,50,000)	2,50,000	
	Profit & Loss A/c	20,00,000		
	Add: Profit on sale of investment	50,000		
	Less: Transfer to CRR	(4,40,000)	16,10,000	
	Dividend equalization reserve	(5,50,000)	5,50,000	27,10,000
	Long-term borrowings - 12% Debentures	12,50,000		
3	- 14% Debentures	3,00,000		15,50,000

Working Notes:

1. Amount of bonus shares = [(2,50,000 -25%)3/15] x 20 = 37,500 x 20=7,50,000
2. Cash at bank after issue of bonus shares

	Rs.
Cash balance as on 30.3.2018	15,75,000
Add: Issue of debenture	3,60,000
Add: issue of preference shares	2,50,000
Add: Sale of investments	1,50,000
	23,35,000
Less: Payment for buy back of shares	(22,50,000)
	85,000

Question 19

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.

(PYP 7 Marks Sep'24)

Answer 19

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 (1)

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

y/30 x 10 = x

or

3x = y (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.

Multiple Choice Questions (MCQs)

1. As per section 68(1) of the Companies Act, buy-back of own shares by the company, shall not exceed *(SM)*
   (a) 25% of the total paid-up capital and free reserves of the company.
   (b) 20% of the total paid-up capital and free reserves of the company.
   (c) 15% of the total paid-up capital and free reserves of the company.
   (d) 10% of the total paid-up capital and free reserves of the company

Ans: (a)

2. The companies are permitted to buy-back their own shares out of (SM)
   (a) Free reserves and Securities premium
   (b) Proceeds of the issue of any shares.
   (c) Both (a) and (b)
   (d) Neither (a) and (b)

Ans: (c)

3. When a company purchases its own shares out of free reserves; a sum equal to nominal value of shares so purchased shall be transferred to (SM)
   (a) Revenue redemption reserve.
   (b) Capital redemption reserve.
   (c) Buy-back reserve
   (d) Special reserve

Ans: (b)

4. State which of the following statements is true? (SM)
   (a) Buy-back is for more than twenty-five per cent of the total paid-up capital and free reserves of the company.
   (b) Partly paid shares cannot be bought back by a company.
   (c) Buy-back of equity shares in any financial year shall exceed twenty-five per cent of its total paid-up equity capital in that financial year.
   (d) Partly paid shares can be bought back by a company.

Ans: (b)

5. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against (SM)
   (a) Free reserves.
   (b) Securities premium.
   (c) Both (a) and (b).
   (d) Neither (a) nor (b).

Ans: (c)

6. Advantages of Buy-back of shares include to (SM)
   (a) Encourage others to make hostile bid to take over the company.
   (b) Decrease promoters holding as the shares which are bought back are cancelled.
   (c) Discourage others to make hostile bid to take over the company as the buy-back will increase the promoters holding.
   (d) All of the above.

Ans: (c)

A

CHAPTER 13: AMALGAMATION OF COMPANIES

CONCEPTS OF THIS CHAPTER

- Meaning of amalgamation and accounting methods
- Concept of transferee and transferor companies
- Meaning and calculation of purchase consideration
- Pass entries to close books of vendor company
- Journal entries in purchasing company's books for assets, liabilities, and adjustments
- Prepare balance sheet of transferee company post-amalgamation

LDR Questions
Q 22 Q 23
Q 25

QUICK REVIEW OF IMPORTANT CONCEPTS

Amalgamation	Absorption	External Reconstruction
Two or more companies are wound up and a **new company is** formed to take over their business.	In this case **an existing company** takes over the business of **one or more** existing companies.	In this case, **a newly formed company** takes over the business of an **existing company**.

Difference between amalgamation in the nature of merger and amalgamation in the nature of purchase

Best of Distinction	Amalgamation in the Nature of Merger	Amalgamation in the Nature of Purchase
(a) Transfer of Assets and Liabilities	There is transfer of all assets & liabilities.	Not all assets & liabilities need to be transferred.
(b) Shareholders of transferor company	90% equity shareholders become shareholders of the transferee company..	Equity shareholders need not become shareholders of transferee company.
(c) Purchase Consideration	Discharged wholly by equity shares (except cash for fractional shares).	Need not be wholly in equity shares.
(d) Same Business	Transferee company continues the same business.	Business need not be continued.
(e) Recording of Assets & Liabilities	Recorded at carrying amounts, adjusted for accounting policy uniformity.	Recorded at carrying amounts or fair values.
(f) Method of Accounting	Recorded at carrying amounts with adjustments for uniformity.	Purchase method is used with journal entries

PURCHASE CONSIDERATION

<u>**Can be computed in the following methods-**</u>

- **Lumpsum method :**Under this method, the transferee company agrees to pay a lumpsum/fixed amount to shareholders of the transferor company.
- **Net payment method**- Under this method the transferee company makes individual payments to the equity shareholders and preference shareholders either by way of cash, issue of shares and debentures.
- **Net assets method**- Purchase consideration = Value of assets – Outside liabilities (excluding share capital & reserves). As per AS 14, assets & liabilities are valued as agreed; if not, book value applies.
- **Intrinsic Value/Share Exchange Method**: Purchase consideration = Intrinsic value of shares × Share exchange ratio. Share capital of the transferor company is divided by the total number of shares.

METHODS OF ACCOUNTING FOR AMALGAMATIONS

Feature	Pooling of Interest Method	Purchase Method
Asset & Liability Valuation	Taken over at carrying amounts (book value)	Taken over at carrying or fair values
Consideration	No goodwill or capital reserve	Goodwill or capital reserve is recorded
Reserves	Transferor's reserves are carried forward	Transferor's reserves are not carried forward
Financial Impact	Reflects continuity of business	Reflects an acquisition

JOURNAL ENTRIES TO CLOSE THE BOOKS OF VENDOR COMPANY

Steps to close the Books of the Vendor Company

1. Open Realization Account and transfer all assets at book value.
Exception: If cash is not taken over by the purchasing company, it should not be transferred.
Note: Profit and Loss Account (Dr.) and expenses not written off are not assets and should not be transferred to the Realization Account.

2. Transfer to the Realization Account the liabilities which the purchasing company is to take over. In case of the provisions, the portion which represents liability expected to arise in future should be so transferred and the portion which is not required (*i.e.,* the reserve portion) should be treated as profit.

3. Debit purchasing company and credit Realization Account with the purchase consideration.

4. On receipt of the purchase consideration debit what is received (cash, debentures, shares etc.) and credit the purchasing company.

5. Expenses of liquidation have to be dealt with according to the circumstances of each case.
   (a) If the vendor company has to bear and pay them:
   Realization Account should be debited and Cash Account credited.
   (b) If the expenses are to be borne by the purchasing company, the question may be dealt within one of the two ways mentioned below:
      (i) It may be ignored in the books of the vendor company.
      (ii) If the expenses are to be paid first by the vendor company and afterwards reimbursed by the purchasing company, the following two entries will be passed:
         a. Debit Purchasing company and credit Cash Account when expenses are paid by the vendor company; and
         b. Debit Cash Account and credit purchasing company (on the expenses being reimbursed).

6. Liabilities not assumed by the purchasing company, have to be paid off. On payment, debit the liability concerned and credit cash. Any difference between the amount actually paid and the book figure must be transferred to the Realization Account.

7. Credit the preference shareholders with the amount payable to them, debiting Preference Share Capital with the amount shown in the books, transferring the difference between the two, if any, to the Realization Account.

8. Pay off preference shareholders by debiting them and crediting whatever is given to them.

9. Transfer equity share capital and account representing profit or loss (including the balance in Realization Account) to Equity Shareholders Account. This will determine the amount receivable by the equity shareholders.

10. On satisfaction of the claims of the equity shareholders, debit their account and credit whatever is given to them.

ENTRIES IN THE BOOKS OF PURCHASING COMPANY

1. Debit Business Purchase Account and Credit Liquidator of the vendor company with the account of the purchase consideration.

2. (i) Debit assets acquired (except goodwill) at the value placed on them by the purchasing company;

(ii) Credit liabilities taken over at agreed values and credit Business Purchase Account with the amount of purchase consideration; and

(iii) If the credits as per (ii) above exceed debits as per (i) above, the difference should be debited to Goodwill Account, in the reverse case, the difference should be credited to Capital Reserve.

3. If the purchasing company is required to pay the expenses of liquidation of the vendor company, the amount should be debited to the Goodwill or Capital Reserve Account, as the case may be. In the instant case, the entry shall be:

Typical adjustments which shall be noted while working out the problems

Entries at Par Value: The purchasing company records a large Goodwill debit and a Securities Premium credit , which cannot be adjusted directly. However, entries are made at par value, ensuring Goodwill (or Capital Reserve) is automatically adjusted for the premium.

Inter-Company Owing: If one company owes the other, the amount appears as book debts in one and trade payables in the other. These entries are made after acquisition without affecting the Realization Account initially.

Stock Value Adjustment: If inter-company transactions include goods in stock, unrealized profits must be eliminated. The purchasing company adjusts stock value, affecting Goodwill or Capital Reserve accordingly.

Inter-Company Loans: Any loan taken by the transferor company from the transferee company is assumed by the transferee.

Question & Answer

Question 1

What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?

(SM, MTP 4 Marks Apr'21, Mar'22, PYP 5 Marks Jan'21)

Answer 1

Amalgamation in the nature of merger is an amalgamation where there is a genuine pooling not only of assets and liabilities of the transferor and transferee companies but also of the shareholders' interests and of the businesses of thecompanies. The accounting treatment of such amalgamations should ensure thatthe resultant figures of assets, liabilities, capital and reserves more or less represent the sum of the respective figures of the transferor and transferee companies.

Amalgamation in the nature of merger is an amalgamation, as per para 3(e) of AS-14, which satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity sharesof the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company,except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformityof accounting policies. For example, if transferor company is following weighted average method for inventory valuation, the book value of the inventory of the transferor company will be revised by applying the FIFOmethod (if the transferee company follows FIFO method for inventory valuation).

If any one or more of the above conditions are not satisfied in an amalgamation,such amalgamation is called **amalgamation in the nature of purchase.**

Question 2

Distinguish between (i) the pooling of interest's method and (ii) the purchase method of recording transactions relating to amalgamation. ***(SM, MTP 4 Marks Oct'20, Oct'21)***

Answer 2

Pooling of Interest Method

Under pooling of interest's method, the assets, liabilities and reserves of the Transferor Company will be taken over by Transferee Company at existing carrying amounts unless any adjustment is required due to different accounting policiesfollowed by these companies. As a result, the difference between the amount recorded as share capital issued(plus any additional consideration in the form of cash or other assets) and the amount of share capital of Transferor Company should be adjusted in the reservesof the financial statements of Transferee company (recorded as deduction from the reserves where the capital issued is more than the capital of the transferor company).

In simple terms, where in case of pooling method- the amount to be adjustedagainst the reserves- can be computed in the following 3 steps-

Step I- Equity Share capital + Preference share capital issued+ any other additionalconsideration in form of cash and other assets by the Transferee Company.

Step II- Existing Equity share capital + Existing Preference share capital in the booksof Transferor Company.

Step III- Step I- Step II= amount to be adjusted from the reserves of Transfereecompany.

Purchase Method

Assets and Liabilities: the assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.

Difference between the Purchase Consideration and Net Assets transferred: Any excess of the amount of purchase consideration over the value of the net assets of the transferor company acquired by the transferee company should be recognized as goodwill in the financial statement of the transferee company. Any short fall should be shown as capital reserve. Goodwill should be amortized over period of five years unless a somewhat longer period can be justified.

In simple terms, where in case of purchase method- the amount to be transferredto capital reserve or to be recorded as Goodwill- can be computed in the following 3 steps-

Step I- Find out the **Net assets** amount using the following formula- Total assets- Outside liabilities (Non-current liabilities + Current Liabilities)

Step II- Compute the purchase consideration using any of the methods as given under Purchase consideration computation.

Step III- (a) If Step I- Step II= Positive amount- then it is capital reserve- since the assets received more than the amount paid as purchase consideration to acquire them.

(b) If Step I- Step II= Negative amount- then it is to be recorded as Goodwill (intangible asset) - since the amount paid for acquiring business is more than the Net assets, which is technically due to its goodwill.

Question 3

On 1st April, 2021, Bimal Ltd. take over the business of Vimal Ltd. and discharged purchase consideration as follows:

(a) Issued 50,000 fully paid Equity shares of Rs. 10 each at a premium of Rs. 5 per share to the equity shareholders of Vimal Ltd.

(b) Cash payment of Rs. 50,000 was made to equity shareholders of Vimal Ltd.

(c) Issued 2,000 fully paid 12% Preference shares of Rs. 100 each at par to discharge the preference shareholders of Vimal Ltd.

(d) Debentures of Vimal Ltd. (Rs.1,20,000) will be converted into equal number and amount of 10% debentures of Bimal Ltd.

Calculate the amount of Purchase consideration as per AS 14 and pass Journal Entry relating to discharge of purchase consideration in the books of Bimal Ltd. ***(MTP 5 Marks Apr'21, PYP 5 Marks Nov'18)***

Answer 3

Particulars	Rs.
Equity Shares (50,000 x 15)	7,50,000
Cash payment	50,000
12% Preference Share Capital	2,00,000
Purchase Consideration	10,00,000

As per AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Thus, payment to debenture holders are not covered by the term 'consideration'.

Journal entry relating to discharge of consideration in the books of Bimal Ltd.

Liquidation of Vimal Ltd. A/c	10,00,000	
To Equity share capital A/c		5,00,000
To 12% Preference share capital A/c		2,00,000
To Securities premium A/c		2,50,000
To Bank/Cash A/c		50,000
(Discharge of purchase consideration)		

Exam Insights: Few examinees were not able to compute correct amount of purchase consideration as per AS 14 "Accounting for Amalgamation of Companies" and failed to pass journal entry relating to discharge of purchase consideration.

Question 4

Moon Limited is absorbed by Sun Limited; the consideration, being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9000); the payment of 9% Debentures of ₹ 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value; the payment of ₹ 18 per share in cash; allotment of two 11% preference shares of ₹ 10/- each and one equity share of ₹ 10/- each at a premium of 30% fully paid for every three shares in Moon Limited respectively. The number of shares of the vendor company is 1,50,000 of ₹ 10/- each fully paid. Calculate purchase consideration as per AS-14. *(PYP 5 Marks Dec'21) (Same concept different figures RTP May'21)*

Answer 4

As per AS 14 "Accounting for Amalgamations", the term consideration has been defined as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

Purchase consideration will be:		
	₹	Form
Equity shareholders: 1,50,000 × ₹ 18	27,00,000	Cash
1,50,000 × 2/3 × ₹ 10	10,00,000	11% Pref. shares
1,50,000 × 1/3 × ₹ 13	6,50,000	Equity shares
	43,50,000	

Note:

1. According to AS 14, 'consideration' excludes the any amount payable to debenture- holders. The liability in respect of debentures of vendor company will be taken by transferee company, which will then be settled by issuing new debentures.
2. Liquidation expenses will also not form part of purchase consideration.

Exam Insights: This part of the question required calculation of purchase consideration. Few examinees wrongly included amount payable to debenture-holders and cost of absorption expenses as part of purchase consideration.

Question 5

Raman Limited and Naman Limited decided to amalgamate and form a new company Rana Limited as on 31st March, 2023 and provided you the following information:

Particulars	As on 31st March,2023		Revalued Figures for Amalgamation	
	Raman Limited (₹)	Naman Limited (₹)	Raman Limited (₹)	Naman Limited (₹)
Equity shares of ₹ 10 each	6,72,000	2,52,000		
10% Preference Shares of ₹ 100 each	3,36,000	1,68,000		
Reserves and Surplus	5,44,240	2,65,480		
Trade Payables	84,000	1,76,000	80,640	1,68,960
Property, Plant and Equipment	7,69,000	4,36,400	10,58,100	5,20,100
Goodwill	1,62,000	-	1,62,000	-
Inventories	1,89,000	1,17,600	2,78,620	2,06,780
Trade Receivables	2,81,000	1,47,000	2,47,140	1,38,180
Cash & Cash Equivalents	2,35,240	1,60,480		

The purchase consideration is to be satisfied as follows:

(i) **By issue of 4 Preference Shares of ₹ 100 each in Rana Limited @ ₹ 85 paid up and at a premium of ₹ 30 per share for every 3 preference shares held in both the companies.**

(ii) **By issue of 5 Equity shares of ₹ 10 each in Rana Limited @ ₹ 7 paid up and at a premium of ₹ 5 per share for every 3 equity shares held in both the companies.**

(iii) **In addition, necessary cash should be paid to equity shareholders of both the companies as required to adjust the rights of shareholders of both the companies in accordance with the intrinsic value of the shares of both the companies.**

You are required to compute the purchase consideration for both the companies. ***(PYP 5 Marks Nov'23)***

Answer 5

Purchase consideration

	Raman Ltd.₹	Naman Ltd.₹
Payable to preference shareholders: Preference shares at ₹ 115 per share	5,15,200 $\left(3,360 \times \frac{4}{3}\right)$	2,57,600 $(1,680) \times \frac{4}{3}$
Equity Shares at ₹ 12 per share	13,44,000 $(67,200) \times \frac{5}{3}$	5,04,000 $(25,200) \times \frac{5}{3}$
Cash [See W.N.]	41,260	94,980
	19,00,460	8,56,580
Working note:		
	Raman Ltd. ₹	**Naman Ltd. ₹**
Goodwill	1,62,000	
PPE	10,58,100	5,20,100
Trade receivables	2,47,140	1,38,180
Inventory	2,78,620	2,06,780
Cash & Cash Equivalent	2,35,240	1,60,480
	19,81,100	10,25,540
Less: Trade payables	(80,640)	(1,68,960)
	19,00,460	8,56,580
Payable in shares	18,59,200	7,61,600
Payable in cash	41,260	94,980

> **Exam Insight:** A few examinees made mistakes in calculating the assets of Raman Ltd and Naman Ltd, resulting in incorrect calculations of cash payments to equity shareholders of both companies.

Question 6

Naresh Ltd. had the following transactions during the financial year 2022-2023:

i. **Naresh Ltd. acquired running business of Sunil Ltd. for ₹ 10,80,000 on 15th May, 2022. The fair value of Sunil Ltd.'s net assets was ₹ 5,16,000. Naresh Ltd. is of the view that due to popularity of Sunil Ltd.'s product in the market, its goodwill exists.**

ii. **Naresh Ltd. had taken a franchise on July 2022 to operate a restaurant from Sankalp Ltd. for ₹ 1,80,000 and at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were ₹ 60,000 during the financial year 2022-2023.**

iii. **On 20th August, 2022, Naresh Ltd, incurred costs of ₹ 2,40,000 to register the patent for its product. Naresh Ltd. expects the patent's economic life to be 8 years.**

Naresh Ltd. follows an accounting policy to amortize all intangibles on straight line basis over the maximum period permitted by accounting standards taking a full year amortization in the year of acquisition.

Goodwill on acquisition of business to be amortized over 5 years (SLM) as per AS 14.

Prepare a schedule showing the intangible assets section in Naresh Ltd. Balance Sheet at 31st March, 2023. ***(RTP May'24) (Same Concept Different Figure MTP 5 Marks Oct'22, RTP May '21)***

Answer 6

Naresh Ltd.Balance Sheet (Extract relating to intangible asset) as on 31st March 2023

	Note No.	₹
Assets		
(1) Non-current assets		
Intangible assets	1	8,11,200

Notes to Accounts (Extract)

		₹	₹
1.	Intangible assets		
	Goodwill (Refer to note 1)	4,51,200	
	Franchise (Refer to Note 2)	1,50,000	
	Patents (Refer to Note 3)	2,10,000	8,11,200

Working Notes:

		₹
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	10,80,000
	Less: Fair value of net assets acquired	(5,16,000)
	Goodwill	5,64,000
	Less: Amortisation as per AS 14 ie. over 5 years (as per SLM)	(1,12,800)
	Balance to be shown in the balance sheet	4,51,200
(2)	Franchise	1,80,000
	Less: Amortisation (over 6 years)	(30,000)
	Balance to be shown in the balance sheet	1,50,000
(3)	Patent	2,40,000
	Less: Amortisation (over 8 years as per SLM)	(30,000)
	Balance to be shown in the balance sheet	2,10,000

Question 7

Following is the information of Anu Ltd. and Banu Ltd. as on 31.03.2023 were as under:

	Anu Ltd. (₹)	Banu Ltd. (₹)
Share Capital:		

50,000 Equity Shares of ₹10 each, Fully Paid	5,00,000	
37,500 Equity Shares of ₹10 each, Fully Paid		3,75,000
General Reserve	3,00,000	-
Profit and Loss Account	62,500	62,500
Trade Payables	2,62,500	1,62,500
5% Debentures	-	1,50,000
Freehold Property	3,75,000	3,00,000
Plant and Machinery	75,000	50,000
Motor Vehicle	37,500	25,000
Trade Receivables	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000

Anu Ltd. and Banu Ltd. carry on business of similar nature and they agreed to amalgamate.

A new Company, Anban Ltd. is formed to take over the Assets and Liabilities of Anu Ltd. and Banu Ltd. on the following basis:

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

(a) Goodwill of Anu Ltd. and Banu Ltd. is to be valued at ₹1,75,000 and ₹50,000 respectively.

(b) Plant and Machinery of Anu Ltd. are to be valued at ₹1,25,000.

(c) The Debentures of Banu Ltd. are to be discharged by the issue of 6% Debentures of Anan Ltd. at a premium of 5%.

You are required to:

1. Compute the basis on which shares in Anban Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of Anban Ltd. is ₹10.
2. Draw up a Balance Sheet of Anban Ltd. as on 1st April, 2023, when Amalgamation is completed. *(MTP 14 Marks Apr'24)*

Answer 7

Calculation of Net Assets

Particulars	Anu Ltd. (₹)	Banu Ltd. (₹)
Goodwill	1,75,000	50,000
Freehold property	3,75,000	3,00,000
Plant & Machinery	1,25,000	50,000
Motor vehicle	37,500	25,000
Trade receivable	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000
Total	13,50,000	8,00,000
Less : Trade payable	(2,62,500)	(1,62,500)
6% debentures	-	(1,57,500)
Net Assets	10,87,500	4,80,000

Calculation of Purchase Consideration

Sr. No.	Particulars	Computation	Anu Ltd	Banu Ltd
1	Amount payable to Equity Share Holder in the form of			
	1,08,750 Equity shares of ₹10 each	(1,08,750 × 10)	10,87,500	
	48,000 Equity shares of ₹10 each	(48,000 × 10)		4,80,000
	Purchase Consideration		10,87,500	4,80,000

Balance Sheet of Anban Ltd. as on 1st April, 2023

	Particulars	Note No.	₹
	<u>Equity and Liabilities</u>		
(1)	Shareholders' Funds		
(a)	Share Capital	1	15,67,500

(2)	Non-current Liabilities		
(a)	Long term borrowings	2	1,57,500
(3)	Current Liabilities		
(a)	Trade Payables (2,62,500 + 1,62,500)		4,25,000
	Total		21,50,000
	Assets		
(1)	Non-current Assets		
(a)	Property Plant and Equipment	3	9,12,500
(b)	Intangible assets	4	2,25,000
(2)	Current Assets		
(a)	Inventories (2,87,500 + 2,25,000)		5,12,500
(b)	Trade Receivables (2,50,000 + 1,00,000)		3,50,000
(c)	Cash and cash equivalents (1,00,000 + 50,000)		1,50,000
	Total		21,50,000

Notes to Accounts:

Note No.	Particulars	₹
1	Share Capital	
	Equity share capital	
	1,56,750 equity shares of ₹10 each	15,67,500
	(out of above shares are issued for consideration other than cash)	
2	Long term borrowings	
	6% Debentures	1,57,500
3	Property, Plant & Equipment's	
	Freehold property (3,75,000 + 3,00,000)	6,75,000
	Plant & Machinery (1,25,000 + 50,000)	1,75,000
	Motor Vehicle (37,500+25,000)	62,500
4	Intangible assets	9,12,500
	Goodwill (1,75,000 + 50,000)	2,25,000

Question 8

Black Limited and White Limited have been carrying their business independently from 01/04/2022. Because of synergy in business, they amalgamated on and from 1st April, 2022 and formed a new company Grey Limited to take over the business of Black Limited and White Limited. The information of Black Limited and White Limited as on 31st March, 2022 are as follows:

	Black Ltd. (₹)	White Ltd. (₹)
Share Capital:		
Equity share of ₹ 10 each	15,00,000	14,50,000
10% Preference shares of ₹ 100 each	2,00,000	1,40,000
Revaluation Reserve	1,00,000	2,00,000
General Reserve	1,65,000	85,000
Profit & Loss Account:		
Opening balance (Credit balance)	1,50,000	1,20,000
Profit for the Year	2,00,000	1,30,000
15% Debentures of ₹ 100 each (Secured)	4,00,000	5,00,000
Trade payables	3,10,000	1,20,000
Land and Buildings	3,20,000	7,40,000
Plant and Machinery	18,00,000	14,00,000
Investments	1,00,000	60,000
Inventory	2,20,000	1,50,000
Trade Receivables	4,25,000	2,65,000
Cash at Bank	1,60,000	1,30,000

Additional Information:

(i) The authorized capital of the new company will be ₹ 54,00,000 divided into 2,00,000 equity shares of

₹ 25 each, and 4,000 preference shares of ₹ 100 each.

(ii) Trade payables of Black Limited includes ₹ 15,000 due to White Limited and trade receivables of White Limited shows ₹ 15,000 receivable from Black Limited.

(iii) Land & Buildings and inventory of Black Limited and White Limited are to be revalued as under:

	Black Ltd.(₹)	White Ltd.(₹)
Land and Buildings	5,20,000	10,40,000
Inventory	1,80,000	1,25,000

(iv) The purchase consideration is to be discharged as under:

(a) Issue 1,80,000 equity shares of ₹ 25 each fully paid up in proportion of their profitability in the preceding two financial years.

(b) Preference shareholders of two companies are issued equivalent number of 12% preference shares of Grey Limited at a price of ₹ 120 per share (face value ₹ 100).

(c) 15% Debenture holders of Black Limited and White Limited are discharged by Grey Limited issuing such number of its 18% Debentures of ₹ 100 each so as to maintain the same amount of interest.

You are required to prepare the Balance Sheet of Grey Limited after amalgamation. The amalgamation took place in the nature of purchase. *(MTP 15 Marks Sep'22)*

Answer 8

Balance Sheet of Grey Ltd. as at 1st April, 2022

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	48,40,000
(b) Reserves and Surplus	2	1,85,000
(2) Non-Current Liabilities		
Long-term borrowings	3	7,50,000
(3) Current Liabilities		
Trade payables		4,15,000
Total		**61,90,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	47,60,000
(b) Non-current investments		1,60,000
(2) Current assets		
(a) Inventory		3,05,000
(b) Trade receivables		6,75,000
(c) Cash and bank balances		2,90,000
Total		**61,90,000**

Notes to Accounts:

		(₹)	(₹)
1.	**Share Capital**		
	Authorized: 2,00,000 equity shares of ₹ 25 each		50,00,000
	4,000 preference share of ₹ 100 each		4,00,000
	Issued, subscribed, and paid up share capital:		
	1,80,000 Equity shares of ₹ 25 each	45,00,000	
	3,400 Preference shares of ₹ 100 each	3,40,000	
	(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		48,40,000
2.	**Reserves and surplus**		
	Securities Premium (3,400 x ₹ 20)	68,000	
	Capital Reserve	1,17,000	1,85,000
3.	**Long-term borrowings**		

	18% Debentures		7,50,000
4.	**Property, plant and equipment**		
	Land and Building	15,60,000	
	Plant and Machinery	32,00,000	47,60,000

Working Notes:

			(₹)		
			Black Ltd.		**Grey Ltd.**
1.	**Computation of Purchase consideration**				
	Preference shares:				
	Shares at ₹ 120 each		2,40,000		1,68,000
	Equity shares:				
	Preceding 2 years profitability				
	Year 1		1,50,000		1,20,000
	Year 2		2,00,000		1,30,000
			3,50,000		2,50,000
	Shares (in ratio 35: 25)				
	1,05,000 shares at ₹ 25		26,25,000		
	75,000 shares at ₹ 25				18,75,000
	Amount of purchase consideration (a + b)		28,65,000		20,43,000
2.	**Net Assets Taken Over**				
	Assets taken over:				
	Land and Building		5,20,000		10,40,000
	Plant and Machinery		18,00,000		14,00,000
	Investments		1,00,000		60,000
	Inventory		1,80,000		1, 25,000
	Trade receivables		4,25,000		2,50,000
	Cash and bank		1,60,000		1,30,000
			31,85,000		30,05,000
	Less: Liabilities taken over:				
	Debentures	3,33,333		4,16,667	
	Trade payables	2,95,000		1,20,000	
			6,28,333		5,36,667
	Net assets taken over		25,56,667		24,68,333
	Purchase consideration		28,65,000		20,43,000
	Goodwill		3,08,333		
	Capital reserve				4,25,333
	Net amount of capital reserve				₹ 1,17,000
3.			**Black Limited**		**White Limited**
	Existing Debentures		₹ 4,00,000 x 15%		₹ 5,00,000 x 15%
			= ₹ 60,000		= ₹ 75,000
	Debentures to be issued in Grey Limited @ 18% to maintain the same amount of interest		₹ 60,000 x 100/18		₹ 75,000x100/18
			= ₹ 3,33,333		= ₹ 4,16,667

Question 9

The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

Particulars	Notes	Black Limited (₹ In 000)	White Limited (₹ In 000)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600

(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		600	360
Total		7,680	4,620
Assets			
Non-current assets			
Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		7,680	4,620

Note No.	Particulars	Black Limited (₹ in 000)	White Limited (₹ in 000)
1.	Share Capital Equity Shares of ₹ 100 each	6,000	3,600
	Reserves and Surplus		
2.	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	1,080	660

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of ₹ 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment, during April-June, 2020.

Estimated profit of Black Limited during these 3 months was ₹ 4,80,000 after charging proportionate deprecation @ 10% p.a. on Property Plant and Equipment

Both the companies have declared and paid 10% dividend within this 3 months' period.

Goodwill of White Limited is valued at ₹ 2,40,000 and Property Plant and Equipment are valued at ₹ 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par. Ignore income tax. You are required to:

(i) Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.

(ii) Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

(iii) Give balance of Profit or Loss of Black Limited as on 1st July, 2020

(iv) Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover. *(PYP 10 Marks Jul'21)*

Answer 9

(i) No. of shares issued by Black Ltd. to White Ltd. against purchase consideration

White Ltd.		₹	₹
Goodwill			2,40,000
Property, plant and equipment		24,00,000	
Less: Depreciation [24,00,000 X 10 % X 3/12]		(60,000)	
		23,40,000	
Add: Appreciation		1,20,000	24,60,000
Inventory			7,20,000
Trade receivables			10,80,000
Cash and Bank balances		4,20,000	
Add: Profit after depreciation	2,40,000		
Add: Depreciation (non-cash)	60,000	3,00,000	
Less: Dividend [36,00,000 X 10%]		(3,60,000)	3,60,000
			48,60,000

Less: Trade payables		(3,60,000)
Purchase Consideration		45,00,000
Number of shares to be issued by Black Ltd. @ ₹ 100 each		45,000 shares

(ii) Calculation of Net Current Assets as on 01.07.2020

		Black Ltd.		White Ltd.
	₹	₹		₹
Current assets:				
Inventory		9,60,000		7,20,000
Trade receivables		16,80,000		10,80,000
Cash and Bank	14,40,000		4,20,000	
Less: Dividend	(6,00,000)		(3,60,000)	
Add: Profit after depreciation	4,80,000		2,40,000	
Add: Depreciation being non cash	90,000	14,10,000	60,000	3,60,000
		40,50,000		21,60,000
Less: Trade payables		(6,00,000)		(3,60,000)
		34,50,000		18,00,000

(iii) Profit and Loss Account balance of Black Ltd. as on 1.07.2020

	₹
P & L A/c balance as on 31.03.2020	7,20,000
Less: Dividend paid	(6,00,000)
	1,20,000
Add: Estimated profit for 3 months after charging depreciation	4,80,000
	6,00,000

(iv) Property, plant and equipment as on 01.07.2020

Property, plant and equipment of Black Ltd. as on 31.03.2020		36,00,000
Less: Depreciation for 3 months [36,00,000 x 10% x 3/12]		(90,000)
Property, plant and equipment of White Ltd. Taken over as on 31.03.2020	24,00,000	35,10,000
Less: Proportionate depreciation for 3 months on fixed assets	(60,000)	
	23,40,000	
Add: Appreciation above the estimated book value	1,20,000	24,60,000
Total Property, plant and equipment as on 1.7.2020		59,70,000

Exam Insights: Large number of the examinees could not compute number of shares to be issued by Black Limited to White Limited against purchase consideration. They failed to calculate the balance of net current assets of Black Limited and White Limited as on 1st July, 2020. Some of them also erred in computation of balances of profit or loss and property, plant and equipment of Black Ltd. after takeover.

Question 10

Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarized Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows:

			Galaxy Ltd.	Glory Ltd.
			₹	₹
(I)	**Equity & Liabilities** **(1) Shareholders' fund**			
	Share Capital Equity shares of ₹ 10 each		8,40,000	4,55,000
	Reserves & Surplus			
	General Reserve		4,48,000	40,000

	Profit & Loss A/c		1,12,000	72,000
	(2) Non-current Liabilities			
	Secured Loan			
	6% Debentures		-	3,30,000
	(3) Current Liabilities			
	Trade Payables		4,20,000	1,83,000
		Total	18,20,000	10,80,000
(II) Assets				
(1) Non-current assets				
	Property, Plant & Equipment			
	Freehold property, at cost		5,88,000	3,36,000
	Plant & Machinery, at cost less depreciation		1,40,000	84,000
	Motor vehicles, at cost less depreciation		56,000	-
(2) Current Assets				
	Inventories		3,36,000	4,38,000
	Trade Receivables		4,62,000	1,18,000
	Cash at Bank		2,38,000	1,04,000
		Total	18,20,000	10,80,000

Assets and Liabilities are to be taken at book value, with the following exceptions:

(i) The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.

(ii) Plant and Machinery of Galaxy Ltd. are to be valued at ₹ 2,52,000.

(iii) Goodwill is to be valued at : Galaxy Ltd. ₹4,48,000 Glory Ltd. ₹ 1,68,000

(iv) Liquidator of Glory Ltd. is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected ₹ 1,10,000 from debtors and paid ₹ 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to :

(1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is ₹ 10.

(2) Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013. ***(PYP 20 Marks, Jan'21)***

Answer 10

(i) Calculation of Purchase consideration (or basis for issue of shares of Glorious Ltd.)

	Galaxy Ltd.	**Glory Ltd.**
Purchase Consideration:	₹	₹
Goodwill	4,48,000	1,68,000
Freehold property	5,88,000	3,36,000
Plant and Machinery	2,52,000	84,000
Motor vehicles	56,000	-
Inventory	3,36,000	4,38,000
Trade receivables	4,62,000	-
Cash at Bank	2,38,000	24,000
	23,80,000	10,50,000
Less: Liabilities:		
6% Debentures (3,00,000 x 110%)	-	(3,30,000)
Trade payables	(4,20,000)	-
Net Assets taken over	19,60,000	7,20,000
To be satisfied by issue of shares of Glorious. Ltd. @ ₹ 10 each	1,96,000	72,000

(ii) Balance Sheet of Glorious Ltd. as at 1st April, 2020

		Particulars		Note No	Amount
					₹
		EQUITY AND LIABILITIES			
1		Shareholders' funds			
	(a) (b)	Share capital Reserves and surplus		1 2	26,80,000 30,000
2		Non-current liabilities			
	(a)	Long-term borrowings		3	3,00,000
3		Current liabilities			
	(a)	Trade payables			4,20,000
		ASSETS	Total		34,30,000
1		Non-current assets			
	(a)	Property, plant and equipment		4	13,16,000
		Intangible assets		5	6,16,000
2		Current assets			
	(a)	Inventories		6	7,74,000
	(b)	Trade receivables			4,62,000
	(c)	Cash and cash equivalents		7	2,62,000
			Total		34,30,000

Notes to accounts:

		₹	₹
1.	Share Capital		
	Equity share capital 2,68,000 shares of ₹ 10 each (All the above shares are issued for consideration other than cash)		26,80,000
2.	Reserves and surplus		
	Securities Premium (10% premium on debentures of ₹3,00,000)		30,000
3.	Long-term borrowings Secured 8% 3,000 Debentures of ₹100 each		3,00,000
4.	Property Plant and Equipment		
	eehold property		
	Galaxy Ltd.	5,88,000	
	Glory Ltd.	3,36,000	9,24,000
	Plant and Machinery		
	Galaxy Ltd.	2,52,000	
	Glory Ltd.	84,000	3,36,000
	Motor vehicles - Galaxy Ltd.		56,000
			13,16,000
5	Intangible assets		
	Goodwill		
	Galaxy Ltd.	4,48,000	
	Glory Ltd.	1,68,000	6,16,000
6	Inventories		
	Galaxy Ltd.	3,36,000	

	Glory Ltd.	4,38,000	7,74,000
7	Cash and cash equivalents		
	Galaxy Ltd.	2,38,000	
	Glory Ltd.(As per working note)	24,000	2,62,000

Working note:

Calculation of cash balance of Glory Limited to be taken over by Glorious Limited

	₹
Cash balance as at 31st March,2020	1,04,000
Add: Received from debtors	1,10,000
	2,14,000
Less: paid to creditors	(1,80,000)
	34,000
Less: Commission to liquidators	
On Debtors @ 5% 5,500	
On Creditors @ 2.5% 4,500	
	(10,000)
	24,000

Question 11

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

		Particulars	Notes	₹ P Ltd	₹ Q Ltd
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	8,00,000	4,00,000
	B	Reserves and Surplus		3,00,000	2,00,000
2		**Non-current liabilities**			
	A	Long-term borrowings	2	2,00,000	1,50,000
3		**Current liabilities**			
	A	Trade Payables		2,50,000	1,50,000
		Total		**15,50,000**	**9,00,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		7,00,000	2,50,000
	B	Non-current investments		80,000	80,000
2		**Current assets**			
	A	Inventories		2,40,000	3,20,000
	B	Trade receivables		4,20,000	2,10,000
	C	Cash and Cash equivalents		1,10,000	40,000
		Total		**15,50,000**	**9,00,000**

Notes to accounts

		P Ltd.	Q Ltd.
1	**Share Capital**		
	Equity shares of ₹ 10 each	6,00,000	3,00,000
	10% Preference Shares of ₹ 100 each	2,00,000	1,00,000
		8,00,000	**4,00,000**
2	**Long term borrowings**		
	12% Debentures	2,00,000	1,50,000
		2,00,000	**1,50,000**

Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	Q Ltd. (₹)
Trade receivables		
Debtors	3,60,000	1,90,000

Bills Receivable	60,000	20,000
	4,20,000	**2,10,000**
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	**1,50,000**

Property, plant and equipment of both the companies are to be revalued at 15% above book value. Both the companies are to pay 10% Equity dividend, but Preference dividend having been already paid. After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

(i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.

(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.

(iii) 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.

(v) Inventory in Trade and Debtors are taken over at 5% lesser than their book value by P Ltd.

Prepare:

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

(b) Statement of consideration payable by P Ltd. *(SM)*

(Same concept different figures RTP May '23, PYP 10 Marks May '19, MTP 14 Marks Jul'24)

Answer 11

(a) Journal Entries in the Books of P Ltd.

		Dr.	Cr.
		₹	₹
Property, Plant and Equipment	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of PPE at 15% above book value)			
Reserve and Surplus	Dr.	60,000	
To Equity Dividend			60,000
(Declaration of equity dividend @ 10%)			
Equity Dividend	Dr.	60,000	
To Bank Account			60,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	4,90,000	
To Liquidator of Q Ltd.			4,90,000
(Consideration payable for the business taken overfrom Q Ltd.)			
Property, Plant and Equipment (115% of ₹ 2,50,000)	Dr.	2,87,500	
Inventory (95% of ₹ 3,20,000)	Dr.	3,04,000	
Debtors	Dr.	1,90,000	
Bills Receivable	Dr.	20,000	
Investment	Dr.	80,000	
Cash at Bank	Dr.	10,000	
(₹ 40,000 –₹ 30,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 1,90,000)			9,500
To Sundry Creditors			1,25,000
To 12% Debentures in Q Ltd.			1,62,000
To Bills Payable			25,000
To Business Purchase Account			4,90,000
To Capital Reserve (Balancing figure)			80,000
(Incorporation of various assets and liabilities taken over from Q Ltd. at agreed values and difference ofnet assets and purchase consideration			

being credited to capital reserve)			
Liquidator of Q Ltd.	Dr.	4,90,000	
To Equity Share Capital			4,00,000
To 10% Preference Share Capital			90,000
(Discharge of consideration for Q Ltd.'s business)			
12% Debentures in Q Ltd. (₹1,50,000 × 108%)	Dr.	1,62,000	
Discount on Issue of Debentures	Dr.	18,000	
To 12% Debentures			1,80,000
(Allotment of 12% Debentures to debenture holdersof Q Ltd. at a discount of 10%)			
Sundry Creditors of Q Ltd.	Dr.	10,000	
To Sundry Debtors of P Ltd.			10,000
(Cancellation of mutual owing)			
Goodwill	Dr.	30,000	
To Bank			30,000
(Being liquidation expenses reimbursed to Q Ltd.)			
Capital Reserve	Dr.	30,000	
To Goodwill			30,000
(Being goodwill set off)			

(b) Statement of Consideration payable by P Ltd. for 30,000 shares (payment method)

Shares to be allotted $\frac{30,000}{6} \times 8$ = 40,000 shares of P Ltd.

Issued 40,000 shares of ₹ 10 each i.e. ₹ 4,00,000 (i)

For 10% preference shares, to be paid at 10% discount

Rs. $\frac{1,00,000 \times 90}{100}$ ₹ 90,000 (ii)

Consideration amount [(i) + (ii)] ₹ 4,90,000

Question 12

Mohan Ltd. gives you the following information as on 31st March, 2020:

	₹
Share capital:	
Equity shares of Rs. 10 each	**3,00,000**
6,000, 9% cumulative preference shares of Rs. 10 each	**60,000**
Profit and Loss Account (Dr. balance)	**1,70,000**
10% Debentures of Rs. 100 each	**2,00,000**
Interest payable on Debentures	**20,000**
Trade Payables	**1,50,000**
Property, Plant and Equipment	**3,40,000**
Goodwill	**10,000**
Inventory	**80,000**
Trade Receivables	**1,10,000**
Bank Balance	**20,000**

A new company Ravi Ltd. is formed with authorised share capital of Rs. 4,00,000 divided into 40,000 Equity Shares of Rs. 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

(i)

(a) Mohan Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

(b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

(c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

(d) Equity shareholders are issued one share at par for every three shares held in Mohan Ltd.

(ii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. The Property, plant and equipment is taken over at Rs. 3,08,400.

(iii) Remaining equity shares of the new company are issued to public at par fully paid up.

(iv) Expenses of Rs. 5,000 to be met from bank balance of Mohan Ltd. This is to be adjusted from the bank balance of Mohan Ltd. before acquisition by Ravi Ltd.

You are required to prepare:

(a) Realization account and Equity Shareholders' account in the books of Mohan Ltd.

(b) Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd. *(RTP May'21)*

Answer 12

In the books of Mohan Ltd.

(i) Realisation Account

	Rs.		Rs.
To Goodwill	10,000	By 10% Debentures	2,00,000
To Property, plant and equipment	3,40,000	By Interest accrued on debentures	20,000
To Inventory	80,000	By Trade payables	1,50,000
To Trade receivables	1,10,000	By Ravi Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To Bank (20,000 - 5,000)	15,000	By Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000
To Preference shareholders A/c (W.N.2)	5,400		
	5,60,400		5,60,400

(ii) Equity shareholders' Account

	Rs.		Rs.
To Profit & loss A/c	1,70,000	By Equity Share capital	3,00,000
To Expenses*	5,000		
To Equity shares in Ravi Ltd.	1,00,000		
To Realization A/c	25,000		
	3,00,000		3,00,000

*Alternatively, expenses may be routed through Realization account.

In the books of Ravi Ltd.

(iii) Bank Account

	Rs.		Rs.
To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 3)	94,600		
	1,09,600		1,09,600

(iv) Balance Sheet as at 31st March, 2020

Particulars	**Note No.**	**Rs.**
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	4,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	2,00,000
Total		6,00,000
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		3,08,400
(2) Current assets		
(a) Inventories		72,000
(b) Trade receivables		1,10,000
(c) Cash and cash equivalents		1,09,600

Total		6,00,000

Notes to Accounts

		Rs.
1.	Share Capital	
	Authorised share capital	
	40,000 equity shares of Rs. 10 each	4,00,000
	Issued and Subscribed	
	40,000 shares of Rs. 10 each fully paid up	4,00,000
	(out of the above, 30,540 (W.N.3) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	
2.	**Long Term Borrowings**	
	10% Debentures	2,00,000

Working Notes:

1. Calculation of Purchase consideration

	Rs.
Payment to preference shareholders	
6,000 equity shares @ Rs. 10	60,000
For arrears of dividend: (6,000 x Rs. 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ Rs. 10	1,00,000
Total purchase consideration	1,65,400

2. Preference shareholders' Account in books of Mohan Ltd.

	Rs.		Rs.
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000
		By Realization A/c (Bal. fig.)	5,400
	65,400		65,400

3. Calculation of number of Equity shares issued to public

	Number of shares	
Authorized equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Mohan Ltd.	12,000	
Preference shareholders of Mohan Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Mohan Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

Question 13

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd. The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	Assets	P Ltd. Rs.	Q Ltd. Rs.
Equity & liabilities:			Assets:		
Shareholders Fund			Non-current Assets:		
a. Share Capital	6,00,000	8,40,000	Property, Plant & Equipment		
b. Reserves	10,20,000	6,00,000	(excluding Goodwill)	7,20,000	10,80,000
Current Liabilities			Current Assets		
Bank Overdraft	-	5,40,000	a. Inventories	3,60,000	6,60,000

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

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

The profit had been:

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

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies. In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of Rs. 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

(i) Calculate the number of shares issued to P Ltd. and Q Ltd; and

(ii) Prepare required journal entries in the books of PQ Ltd.; and

(iii) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries. ***(RTP May'18, Nov'21)***

Answer 13

(i) Calculation of number of shares issued to P Ltd. and Q Ltd.:

Amount of Share Capital as per balance sheet	Rs.
P Ltd.	6,00,000
Q Ltd.	8,40,000
	14,40,000

Share of P Ltd. = Rs. 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]
= Rs. 8,64,000 or 86,400 shares

Securities premium = Rs. 21,60,000 – Rs. 8,64,000 = Rs. 12,96,000

Premium per share = Rs. 12,96,000 / Rs. 86,400 = Rs. 15

Issued 86,400 shares @ Rs. 10 each at a premium of Rs.15 per share

Share of Q Ltd.= Rs. 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]
= Rs. 5,76,000 or 57,600 shares

Securities premium = Rs. 14,40,000 – Rs. 5,76,000 = Rs. 8,64,000

Premium per share = Rs. 8,64,000 / Rs. 57,600 = Rs. 15

Issued 57,600 shares@ Rs. 10 each at a premium of Rs. 15 per share

(ii) Journal Entries in the books of PQ Ltd.

Particulars		**Dr. Amount (Rs.)**	**Cr. Amount (Rs.)**
Business purchase account	Dr.	36,00,000	
To Liquidator of P Ltd. account			21,60,000
To Liquidator of Q Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Property, Plant & Equipment account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			
Property, Plant & Equipment account	Dr.	10,80,000	

Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Q Ltd. taken over)			
Liquidator of P Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x Rs. 10)			8,64,000
To Securities premium (86,400 x Rs. 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Q Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x Rs. 10)			5,76,000
To Securities premium (57,600 x Rs. 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c		18,00,000	
To Equity share capital account			7,20,000
To Securities premium			10,80,000
(Equity share capital issued to raise working capital)			

(iii) Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	21,60,000
	b	Reserves and Surplus	2	32,40,000
2		Current liabilities		
	a	Trade payables (2,40,000 + 5,40,000)		7,80,000
		Total		61,80,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
2		Tangible assets (7,20,000 + 10,80,000)		18,00,000
		Intangible assets (goodwill)	4	5,40,000
		Current assets		
	a	Inventories (3,60,000 + 6,60,000)		10,20,000
	b	Trade receivables (4,80,000 +7,80,000)		12,60,000
	c	Cash and cash equivalents	3	15,60,000
		Total		61,80,000

Notes to accounts

		Rs.
1	**Share Capital**	
	Issued, subscribed and paid up share capital	
	2,16,000 Equity shares of Rs. 10 each	21,60,000
	(Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)	
2	**Reserves and Surplus**	
	Securities premium	32,40,000
	(@ Rs. 15 for 2,16,000 shares)	
3	**Cash and cash equivalents**	
	Cash at Bank	15,60,000
4	**Intangible Assets**	
	Goodwill	5,40,000

Working Notes:

1.**Calculation of goodwill of P Ltd.**

Particulars	Amount Rs.	Weight	Weighted amount Rs.
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	6,30,000	3	18,90,000
Total (a+b+c)	14,55,000	6	32,40,000
weighted Average = [Total weighted amount/ Total of weight][Rs. 32,40,000/6]			
Goodwill			5,40,000

2. **Calculation of Net assets**

	P Ltd. Rs.	Q Ltd. Rs.
Assets		
Goodwill	5,40,000	
Property, Plant & Equipment	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	21,60,000	14,40,000
New authorized capital		
= Rs. 14,40,000 + Rs. 12,00 000 = Rs. 26,40,000		
Cash and Cash equivalents		Rs.
P Ltd. Balance		3,00,000
Cash received from Fresh issue (72,000 X Rs.25)		18,00,000
		21,00,000
Less: Bank Overdraft		5,40,000
		15,60,000*

*The balance of cash and equivalents has been shown after setting off overdraft amount.

Question 14

The balance sheets of Truth Limited and Myth Limited as at 31.03.2021 is given below. Myth Limited is to be amalgamated with Truth Limited from 1.04.2021. The amalgamation is to be carried out in the nature of purchase

Particulars	Note No.	Truth Ltd. (₹)	Myth Ltd. (₹)
(1) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	11,35,000	4,13,000
2. Non -Current Liabilities	3	-	1,50,000
3. Current Liabilities	4	1,40,000	1,82,000
Total		22,75,000	11,45,000
(2) Assets			
1. Non -Current Assets			
(a) Property, Plant & Equipment		15,75,000	6,80,000
(b) Investments		1,87,500	1,00,000
2. Current Assets	5	5,12,500	3,65,000
Total		22,75,000	11,45,000

Note No.	Particulars	Truth Limited (₹)	Myth Limited (₹)
1	Share Capital	10,00,000	4,00,000
	Equity shares of ₹ 10 each		
2	Reserves & Surplus		
	General Reserve	5,05,000	2,30,000
	Profit & Loss A/c	4,45,000	1,58,000
	Export Profit Reserve	1,85,000	25,000
		11,35,000	4,13,000
3	Non- Current Liabilities		
	14% Debentures	---	1,50,000
4	Current Liabilities		
	Trade Payables	90,000	1,42,000
	Other Current Liabilities	50,000	40,000
		1,40,000	1,82,000
5	Current Assets		
	Inventory	2,15,000	85,000
	Trade Receivables	2,02,500	1,75,000
	Cash and Cash equivalents	95,000	1,05,000
		5,12,500	3,65,000

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill. Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (₹)	Myth Limited (₹)
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020-2021	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation. *(RTP Nov'22)*

Answer 14

Balance Sheet of Truth Ltd. (after amalgamated with Myth Ltd.) as at 1.4.2021

Particulars	Note No.	(₹)
I. Equity and liabilities		
(1) Shareholder's funds		
(a) **Share capital**	1	13,13,750
(b) **Reserves and surplus**	2	20,76,250
(2) Non-current liabilities		
12% Debentures	3	1,75,000
(3) Current liabilities		
(a) Trade payables	4	2,32,000
(b) Other current liabilities	5	90,000
Total		38,87,000
II. Assets		
(1) Non-current assets		
(a) **Property, plant and equipment**	6	22,55,000
(b) **Intangible assets (Goodwill) [WN 1]**		4,67,000
(c) **Non-current investments**	7	2,87,500

(2) Current assets		
(a) **Inventories (2,15,000 + 85,000)**		3,00,000
(b) **Trade receivables (2,02,500 + 1,75,000)**		3,77,500
(c) **Cash & cash equivalents (95,000 + 1,05,000)**		2,00,000
Total		38,87,000

Notes to Accounts

			(₹)	(₹)
1.	Share Capital			
	1,31,375 Equity Shares of ₹ 10 each [1,00,000 + 31,375]			13,13,750
	(of the above shares, 31,375 shares were issued to the vendors otherwise than for cash)			
2.	Reserves and surplus			
	General Reserve		5,05,000	
	Profit and Loss A/c		4,45,000	
	Securities Premium [31,375 x 30]		9,41,250	
	Export profit reserve	1,85,000		
	Add: Balance of Myth Ltd.	25,000	2,10,000	
	Amalgamation Adjustment Reserve		(25,000)	20,76,250
3.	Long Term Borrowings			
	12% Debentures issued to Myth Ltd.			1,75,000
4.	Trade payables			
	Trade payables		90,000	
	Add: Taken over		1,42,000	2,32,000
5	Other Current Liabilities			
	Truth Ltd.		50,000	
	Myth Ltd.		40,000	90,000
6.	Property, Plant & Equipment			
	Truth Ltd.		15,75,000	
	Myth Ltd.		6,80,000	22,55,000
7.	Investment			
	Truth Ltd.		1,87,500	
	Myth Ltd.		1,00,000	2,87,500

Working Notes:

(1) Valuation of Goodwill

I. Capital Employed

	Truth Ltd.		Myth Ltd.	
	₹	₹	₹	₹
Assets as per Balance Sheet		22,75,000		11,45,000
Less: Non-trade Investment		(1,50,000)		(80,000)
		21,25,000		10,65,000
Less: Liabilities:				
14% Debentures	-		1,50,000	
Trade payables	90,000		1,42,000	
Other current liabilities	50,000	(1,40,000)	40,000	(3,32,000)
Capital Employed		19,85,000		7,33,000

II. Average Profit before Tax

	Truth Ltd.		Myth Ltd.	
2018-2019		8,20,000		2,55,000
2019-2020		7,45,000		2,15,000
2020- 2021		6,04,000		2,14,000
Total profit of 3 years (a)		21,69,000		6,84,000
Simple Average [(a)/3]		7,23,000		2,28,000

Less: Non-trading income*		(30,000)		(12,000)
(iii) Goodwill		6,93,000		2,16,000
Capitalized value of average profit	[(6,93,000 / 18) x 100]	38,50,000	[(2,16,000 / 18) x 100]	12,00,000
Less: Capital Employed [From (i) above]		(19,85,000)		(7,33,000)
Goodwill		18,65,000		4,67,000

* For Truth Ltd. = 1,87,500 x 80% x 20% = 30,000; and
Myth Ltd. = 1,00,000 x 80% x 15% = 12,000

(2) Intrinsic Value per Share

	Truth Ltd.		Myth Ltd.	
		₹		₹
Goodwill [W.N. 1]	18,65,000		4,67,000	
Other Assets	22,75,000	41,40,000	11,45,000	16,12,000
Less: Liabilities				
12% Debentures	-		1,75,000**	
Trade payables	90,000		1,42,000	
Provision for Tax	50,000	(1,40,000)	40,000	(3,57,000)
Net Assets		40,00,000		12,55,000
Intrinsic value per share [Net Assets / No. of Shares]		40,00,000 / 1,00,000		12,55,000 / 40,000
		= ₹ 40		= ₹ 31.375

** $1,50,000 \times \frac{14\%}{12\%} = 1,75,000$

(3) Purchase Consideration & manner of its discharge

Intrinsic Value of Myth Ltd. [a]	₹ 31.375 per share
No. of shares [b]	40,000 shares
Purchase Consideration c= [a x b]	₹ 12,55,000
Intrinsic Value of Truth Ltd. [d]	₹ 40 per share
No. of shares to be issued [c / d]	31,375 shares

Question 15

The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March,2022 are as under:

	A Ltd. (in ₹)	B Ltd. (in ₹)
Equity shares of ₹10 each, fully paid up	30,00,000	24,00,000
Securities Premium Account	4,00,000	
General Reserve	6,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Retirement Gratuity Fund Account	1,00,000	
10% Debentures	20,00,000	
Unsecured Loan (including loan from A Ltd.)	6,00,000	8,20,000
Trade Payables	1,00,000	3,40,000
	71,80,000	43,80,000
Land and Buildings	28,00,000	21,00,000
Plant and Machinery	20,00,000	7,60,000
Long term advance to B Ltd.	2,20,000	
Inventories	10,40,000	7,00,000
Trade Receivables	8,20,000	5,20,000
Cash and Bank	3,00,000	3,00,000
	71,80,000	43,80,000

B Ltd. is to declare and pay ₹ 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

(a) The authorized share capital of Z Ltd. is ₹ 60 lakhs divided into ₹ 6 lakhs equity shares of ₹ 10 each.

(b) As per Registered Valuer the value of equity shares of A Ltd. is ₹ 18 per share and of B Ltd. is ₹ 12 per share respectively and agreed by respective shareholders of the companies.

(c) 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.

(d) A contingent liability of A Ltd. of ₹ 2,00,000 is to be treated as actual liability.

(e) Liquidation expenses including Registered Valuer fees of A Ltd.₹ 50,000 and B Ltd.₹ 30,000 respectively to be borne by Z Ltd.

(f) The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid up equity shares of ₹ 10 each at a premium of ₹ 10 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies. *(PYP 20 Marks May'22)*

Answer 15

Journal Entries in the books of Z Ltd.

		₹	₹
Business Purchase A/c	Dr.	54,00,000	
To Liquidator of A Ltd. A/c			54,00,000
Land & Building A/c	Dr.	28,00,000	
Plant & Machinery A/c	Dr.	20,00,000	
Long term advance to B Ltd. A/c	Dr.	2,20,000	
Inventories A/c	Dr.	10,40,000	
Trade Receivables A/c	Dr.	8,20,000	
Cash and Bank A/c	Dr.	3,00,000	
Goodwill A/c	Dr.	12,20,000	
To Retirement Gratuity Fund A/c			1,00,000
To 10% Debentures A/c			20,00,000
To Unsecured Loan A/c			6,00,000
To Trade Payables A/c			1,00,000
To Other liabilities A/c			2,00,000
To Business Purchase A/c			54,00,000
10% Debentures A/c	Dr.	20,00,000	
To 12% Debentures A/c			20,00,000
Liquidator of A Ltd. A/c	Dr.	54,00,000	
To Equity Share Capital A/c			27,00,000
To Securities Premium A/c			27,00,000
Business Purchase A/c	Dr.	28,80,000	
To Liquidator of B Ltd. A/c			28,80,000
Land and Building A/c	Dr.	21,00,000	
Plant & Machinery A/c	Dr.	7,60,000	
Inventories A/c	Dr.	7,00,000	
Trade Receivables A/c	Dr.	5,20,000	
Cash and Bank (less dividend) A/c	Dr.	60,000	
To Unsecured Loan A/c			8,20,000
To Trade Payables A/c			3,40,000
To Business Purchase A/c			28,80,000
To Capital Reserve A/c			1,00,000
Liquidators of B Ltd. A/c	Dr.	28,80,000	
To Equity Share Capital A/c			14,40,000
To Securities Premium A/c			14,40,000
Unsecured Loans A/c	Dr.	2,20,000	
To Long term Advance to B Ltd. A/c			2,20,000
*Capital Reserve A/c	Dr.	1,00,000	

To Cash and Bank A/c (Liquidation expenses)			80,000
To Goodwill A/c			20,000

Note:

1. The journal entries for A Ltd. and B Ltd. have been given separately in the above solution. Alternatively, the entries may be given as combined for both companies.
2. Alternatively, following set of entries may be given in place of the last entry given in the above solution:

Goodwill A/c	Dr.	50,000	
To Cash & Bank A/c (Liquidation expenses of A Ltd.)			50,000
Capital Reserve A/c	Dr.	30,000	
To Cash and Bank A/c (Liquidation expenses of B Ltd.)			30,000
Capital Reserve A/c	Dr.	70,000	
To Goodwill A/c			70,000

Balance Sheet of Z Ltd. as at 31st March, 2022

Particulars	Note No.	(₹)
I. **Equity and Liabilities**		
(1) Shareholder's Funds		
(a) Share Capital	1	41,40,000
(b) Reserves and Surplus	2	41,40,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	20,00,000
(b) Long term provisions	4	1,00,000
(3) Current Liabilities		
(a) Short-term borrowings[1]	5	12,00,000
(b) Trade payables	6	4,40,000
(a) Other liability		2,00,000
Total		1,22,20,000
II. Assets		
(1) Non-current assets		
(a) i. Property, plant and equipment	7	76,60,000
ii. Intangible assets (Goodwill 12,20,000-20,000)		12,00,000
(2) Current assets		
(a) Inventories	8	17,40,000
(b) Trade receivables	9	13,40,000
(c) Cash and cash equivalents	10	2,80,000
Total		1,22,20,000

[1] Unsecured loans have been considered as short-term borrowings. Alternatively, it may be considered as long-term borrowings and presented accordingly

Notes to Accounts

		(₹)	(₹)
1.	Share Capital		
	Authorized Share Capital		
	6,00,000 Equity shares of ₹ 10 each		60,00,000
	Issued: 4,14,000 Equity shares of ₹ 10 each (all these shares were Issued for consideration other than cash)		41,40,000
2.	Reserves and surplus		
	Securities Premium Account (4,14,000 shares × ₹ 10)		41,40,000
3.	Long-term borrowings		
	12% Debentures		20,00,000
4	Long term Provisions		
	Retirement gratuity fund		1,00,000
5.	Short-term borrowings		
	Unsecured loans		
	A Ltd. 6,00,000		

	B Ltd. 8,20,000	14,20,000	
	Less: Mutual	(2,20,000)	12,00,000
6.	Trade payables		
	A Ltd.	1,00,000	
	B Ltd.	3,40,000	4,40,000
7.	Property, plant & equipment		
	Land and Building		
	A Ltd.	28,00,000	
	B Ltd.	21,00,000	49,00,000
	Plant and Machinery		
	A Ltd.	20,00,000	
	B Ltd.	7,60,000	27,60,000
			76,60,000
8.	Inventories		
	A Ltd.	10,40,000	
	B Ltd.	7,00,000	17,40,000
9	Trade receivables		
	A Ltd.	8,20,000	
	B Ltd.	5,20,000	13,40,000
10	Cash & cash equivalents		
	A Ltd.	3,00,000	
	B Ltd. [3,00,000-2,40,000(dividend)]	60,000	
		3,60,000	
	Less: Liquidation Expenses	(80,000)	2,80,000

Working Note:

Calculation of amount of Purchase Consideration

	A Ltd.	B Ltd.
Existing shares	3,00,000	2,40,000
Agreed value per share	₹ 18	₹ 12
Purchase consideration	54,00,000	28,80,000
No. of shares to be issued of ₹ 20 each (including ₹ 10 premium)	2,70,000	1,44,000
Face value of shares at ₹ 10	27,00,000	14,40,000
Premium of shares at ₹ 10	27,00,000	14,40,000

Exam Insights Few examinees were not able to give the necessary journal entries in the books of amalgamated company and failed to prepare the balance sheet of the amalgamated company immediately after amalgamation of both the companies.

Question 16

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

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

Trade Receivables	6,00,000	3,00,000
Cash and Bank	4,00,000	1,00,000

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

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

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

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

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

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

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

(ii) Preference shareholders of both companies are issued equivalent number of 8% Preference Shares of ₹ 100 each of Genius Limited at a price of ₹ 125 per share.

(iii) 12% debentures of ₹ 100 each in Genius Limited at par to provide an income equivalent to 10% return on the basis of net assets in theirrespective business as on 1st April, 2024 after revaluation of assets.

You are required to:

(a) Compute the amount of Shares & Debentures to be issued to IntelligentLimited and Diligent Limited.

(b) Prepare a Balance Sheet of Genius Limited showing the position immediately after amalgamation. *(PYP 14 Marks May'24)*

Answer 16

Computation of shares and debentures to be issued

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

Balance Sheet of Genius Limited
as at 1st April, 2024 (after amalgamation)

		Notes no.	₹
I.	**Equity and Liabilities**		
(1)	Shareholder's fund		
(a)	Share Capital	1	27,00,000
(b)	Reserves & Surplus	2	1,25,000
(2)	Non-current Liabilities		
(a)	Long term borrowings	3	28,75,000
(b)	Other non-current liabilities	4	5,00,000
(3)	Current Liabilities		
(a)	Trade Payables (12,00,000 + 4,00,000 – 1,00,000)		15,00,000
	Total		77,00,000

II.	**Assets**		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	32,50,000
(b)	Intangible Assets	6	22,50,000
(2)	Current Assets		
(a)	Inventories (6,00,000 + 3,00,000)		9,00,000
(b)	Trade Receivables (6,00,000 + 3,00,000 - 1,00,000)		8,00,000
(c)	Cash & Cash Equivalents		5,00,000
	Total		77,00,000

Notes to Accounts:

Sr. No.	Particular	₹
1.	Share Capital	
	Authorized Share Capital	
	a) Equity Share Capital	
	30,000 Equity Shares of ₹100 each	30,00,000
	b) Preference Share Capital	
	10% 10,000 Preference Shares ₹100 each	10,00,000
		40,00,000
	Issued, Subscribed & Paid-up Capital	
	a) Equity Share Capital	
	22,000 Equity Shares of ₹100 each	22,00,000
	(out of the above all shares are issued for consideration other than cash)	
	b) Preference Share Capital	
	10% 5,000 Preference Shares of ₹100 each	5,00,000
	(out of the above all shares are issued for consideration other than cash)	
		27,00,000
2.	Reserves & Surplus	
	Securities Premium	1,25,000
3.	Long term borrowings	
	12% Debentures of ₹100 each	28,75,000
4.	Other Non-current Liabilities	
	Gratuity Fund	5,00,000
5.	Property, Plant & Equipment	
	Land & Building (11,00,000 + 8,50,000)	19,50,000
	Plant & Machinery (9, 00,000 + 4,00,000)	13,00,000
		32,50,000
6.	Intangible Assets	
	Goodwill	22,50,000

Working Notes:

1. Calculation of Ratio of Equity Shares

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

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

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

2. Calculation of Net assets as on 31.3.2024

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

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

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

4. Calculation of Goodwill / Capital Reserve

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

Alternatively:

5. Calculation of Goodwill / Capital Reserve

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

* Calculation of Net assets taken over

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

*₹3,00,000 - ₹ 1,00,000= ₹2,00,000
**₹12,00,000 - ₹ 1,00,000 = ₹11,00,000

Question 17

The following were the Balance Sheets of P Ltd. and V Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹ P Ltd (₹ in Lakhs)	₹ V Ltd (₹ in Lakhs)
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	15,000	6,000
	B	Reserves and Surplus	2	15,370	4,335
2		**Non-current liabilities**			
		Long term borrowings	3	--	1,000
3		**Current liabilities**			
	A	Trade Payables		1,200	463
	B	Short term provisions		1,830	702
		Total		33,400	12,500
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	22,304	6,750
2		**Current assets**			
	A	Inventories		7,862	4,041
	B	Trade receivables		2,120	1,100
	C	Cash and Cash equivalents		1,114	609
		Total		33,400	12,500

Notes to accounts

		₹ P Ltd (₹ in Lakhs)	₹ V Ltd (₹ in Lakhs)
1	**Share Capital**	15,000	6,000
2	**Reserves and Surplus**		
	Securities premium	3,000	--
	Foreign project reserve	--	310
	General reserve	9,500	3,200
	Profit and loss account	2,870	825
		15,370	4,335
3	**Long term borrowings**		
	12% debentures	--	1,000
		--	1,000
4	**Property, Plant and Equipment**		
	Land and Building	6,000	--
	Plant and machinery	14,000	5,000
	Furniture and fixtures	2,304	1,750
		22,304	6,750

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

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

	P Ltd. (₹ in Lakhs)	V Ltd. (₹ in Lakhs)
Trade Payables		
Bills Payable	120	--
Trade Creditors	1,080	463

TOTAL	**1,200**	**463**
Trade receivables		
Trade debtors	2,120	1,020
Bills Receivable	--	80
TOTAL	**2,120**	**1,100**

Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd.

You are required to: (i) pass journal entries in the books of P Ltd. and (ii) prepare P Ltd.'s Balance Sheet immediately after the merger. *(SM) (Same concept different figures MTP 16 Marks Apr'22, MTP 20 Marks Mar'21 &May'20, MTP 20 Marks Apr'19, MTP 15 Marks Aug 18, MTP 14 Marks Aug'24)*

Answer 17

Books of P Ltd. Journal Entries

Particulars		**Dr.**	**Cr.**
		₹ (in lacs)	**₹ (in lacs)**
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd (Being business of V Ltd. taken over for consideration settled as per agreement)			9,000
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,750	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825)			825
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase (Being assets & liabilities taken over from V Ltd)			9,000
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c (Purchase consideration discharged in the form of equity shares)			9,000
Goodwill A/c	Dr.	1	
To Bank A/c (Liquidation expenses paid by P Ltd debited to Goodwill A/c)			1
Profit and loss A/c	Dr.	1	
To Goodwill A/c (being the Goodwill charged to Profit and loss account)			1
Liability for 12% Debentures A/c	Dr.	1,000	
To 13% Debentures A/c (12% debentures discharged by issue of 13% debentures)			1,000
Bills Payable A/c	Dr.	80	
To Bills Receivable A/c (Cancellation of mutual owning on account of bills)			80

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

Particulars			Notes	₹ (in lakhs)
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,704
2		**Non-current liabilities**		
	A	Long-term borrowings	3	1,000
3		**Current liabilities**		
	A	Trade Payables (1,543 + 40)		1,583
	B	Short-term provisions		2,532
		Total		45,819
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	29,054
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		45,819

Notes to accounts

		₹
1.	**Share Capital**	
	Equity share capital	
	Authorized, issued, subscribed and paid up	
	24 crores equity shares of ₹10 each (Of the above shares, 9 crores shares have been issued forconsideration other than cash)	24,000
	Total	24,000
2.	**Reserves and Surplus**	
	General Reserve	9,700
	Securities Premium	3,000
	Foreign Project Reserve	310
	Profit and Loss Account	3,694
	Total	16,704
3.	**Long-term borrowings**	
	Secured	
	13% Debentures	1,000
4.	**Property, Plant and Equipment**	
	Land & Buildings	6,000
	Plant & Machinery	19,000
	Furniture & Fittings	4,054
	Total	29,054

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equityshares of P Ltd. for every two equity shares held in V Ltd. Purchase consideration = ₹6,000 lacs × $\frac{3}{2}$ = ₹9,000 lacs.

Question 18

The financial position of two companies Hari Ltd. and Vayu Ltd. as at 31 st March, 2023 was as under:

		Particulars	Notes	Hari Ltd.	Vayu Ltd.
		Equity and Liabilities			

1		Shareholders' funds			
	A	Share capital	1	11,00,000	4,00,000
	B	Reserves and Surplus	2	70,000	70,000
2		Non-current liabilities			
	A	Long term provisions	3	50,000	20,000
3		Current liabilities			
	A	Trade Payables		1,30,000	80,000
		Total		13,50,000	5,70,000
		Assets			
1		Non-current assets			
	A	Property, Plant and Equipment	4	8,00,000	2,50,000
	B	Intangible assets	5	50,000	25,000
2		Current assets			
	A	Inventories		2,50,000	1,75,000
	B	Trade receivables		2,00,000	1,00,000
	C	Cash and Cash equivalents		50,000	20,000
		Total		13,50,000	5,70,000

Notes to accounts

			Hari Ltd.	Vayu Ltd.
1	Share Capital			
	Equity shares of ₹ 10 each		10,00,000	3,00,000
	9% Preference Shares of ₹ 100 each		1,00,000	--
	10% Preference Shares of ₹ 100 each		--	1,00,000
			11,00,000	4,00,000
2	Reserves and Surplus			
	General reserve		70,000	70,000
			70,000	70,000
3	Long term Provisions			
	Retirement gratuity fund		50,000	20,000
			50,000	20,000
4	Property, plant and Equipment			
	Land and Building		3,00,000	1,00,000
	Plant and machinery		5,00,000	1,50,000
			8,00,000	2,50,000
5	Intangible assets			
	Goodwill		50,000	25,000
			50,000	25,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Vayu Ltd. will be issued necessary Equity Shares @ 5% premium.

Prepare necessary the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 2023.

(MTP 14 Marks Mar'24) (Same Concept Different Figure MTP 16 Marks Oct'20, Mar'22 & Oct'23, RTP Nov'18) (Same concept different figures SM)

Answer 18

In the Books of Hari Ltd. Journal Entries

		₹	₹
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account			5,30,000

(Being business of Vayu Ltd. taken over)			
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	
Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000
To Trade payables Account			80,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			
(Being Assets and Liabilities taken over as per agreed valuation).			5,30,000
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c (Being Purchase Consideration satisfied as above).			20,000

Balance Sheet of Hari Ltd. (after absorption) as at 31st March, 2023

		Particulars	Notes	₹
		Equity and Liabilities		
1.		**Shareholders' funds**		
	A	Share capital	1	16,10,000
	B	Reserves and Surplus	2	90,000
2		**Non-current liabilities**		
	A	Long-term provisions		
3		**Current liabilities**	3	70,000
	A	Trade Payables		2,10,000
		Total		19,80,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	11,10,000
	B	Intangible assets	5	1,00,000
2		**Current assets**		
	A	Inventories		4,07,500
	B	Trade receivables	6	2,92,500
	C	Cash and cash equivalents		70,000
		Total		19,80,000

Notes to accounts

	₹
1 **Share Capital** Equity share capital 1,40,000 Equity Shares of ₹ 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than for cash)	14,00,000
Preference share capital 2,100 9% Preference Shares of ₹ 100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)	2,10,000
Total	16,10,000
2 **Reserves and Surplus** Securities Premium General Reserve	20,000 70,000
Total	90,000
3 **Long-term provisions**	

Retirement Gratuity fund	70,000
Total	70,000
4 Property, Plant and Equipment	
Buildings	4,50,000
Machinery	6,60,000
Total	11,10,000
5 Intangible assets	
Goodwill	1,00,000
6 Trade receivables	3,00,000
Less: Provision for Doubtful Debts	7,500
	2,92,500

Working notes:

Purchase Consideration:	₹
Good will	50,000
Building	1,50,000
Machinery	1,60,000
Inventory	1,57,500
Trade receivables	92,500
Cash at Bank	20,000
	6,30,000
Less: Liabilities:	
Retirement Gratuity Fund	(20,000)
Trade Payables	(80,000)
Net Assets/ Purchase Consideration	5,30,000
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	10,000
1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000 Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	5,30,000

Question 19

Sun and Neptune (both companies) had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of Rs. 4,00,000 divided into 80,000 equity shares of Rs. 5 each. On 31st March, 2021 Sun and Neptune provide the following information:

	Sun (Rs.)	Neptune (Rs.)
Property, Plant & Equipment	6,35,000	3,65,000
Current Assets	3,27,000	1,67,750
	9,62,000	5,32,750
Less: Current Liabilities	(5,97,000)	(1,80,250)
Representing Capital	3,65,000	3,52,500

Additional Information:

(a) Revalued figures of Property, Plant & Equipment and Current assets were as follows:

	Sun (Rs.)	Neptune (Rs.)
Property, Plant & Equipment	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

(b) The debtors and creditors include Rs. 43,350 owed by Sun to Neptune.

The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Sun (Rs.)	Neptune (Rs.)
2019 Profit	4,49,576	2,73,900
2020 (Loss)/Profit	(2,500)	3,42,100
2021 Profit	3,77,924	3,59,000

(ii) 15% debentures in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31 st March, 2021 after revaluation of assets.

You are required to :

(1) Compute the amount of debentures and shares to be issued to Sun and Neptune.

(2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.

(MTP 16 Marks Oct'21 & Apr'23, SM) (PYP 20 Marks May'23)

Answer 19

(1) Computation of Amount of Debentures and Shares to be issued:

		Sun	Neptune
		Rs.	Rs.
(i)	**Average Net Profit**		
	Rs. (4,49,576-2,500+3,77,924)/3	= 2,75,000	
	Rs. (2,73,900+,3,42,100+3,59,000)/3		= 3,25,000

(ii) Equity Shares Issued

(a) Ratio of distribution

Sun	:	Neptune
275	:	325

(b) Number

Sun	:	27,500
Neptune	:	32,500
		60,000

(c) Amount

		Sun	Neptune
		Rs.	Rs.
	27,500 shares of Rs. 5 each	1,37,500	
	32,500 shares of Rs. 5 each		1,62,500

(iii)	**Capital Employed (after revaluation of assets)**	Rs.	Rs.
	Property, Plant & Equipment	7,10,000	3,90,000
	Current Assets	2,99,500	1,57,750
		10,09,500	5,47,750
	Less: Current Liabilities	-5,97,000	-1,80,250
		4,12,500	3,67,500

(iv)	**Debentures Issued**		
	8% Return on capital employed	33,000	29,400
	15% Debentures to be issued to provide equivalent income:		
	Sun: 33,000 × 100/15	2,20,000	
	Neptune: 29,400 × 100/15		1,96,000

(2)

Balance Sheet of Jupiter Ltd.
As at 31st March 2021 (after amalgamation)

Particulars	Note No	Rs.
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	3,00,000

(b) Reserves and Surplus	2	64,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	4,16,000
(3) Current Liabilities		
(a) Other current liabilities		7,33,900
Total		15,13,900
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment		11,00,000
(2) Current assets		
(a) Other current assets		4,13,900
Total		**15,13,900**

Notes to Accounts

		Rs.
	Share Capital	
	Authorized	
	80,000 Equity Shares of Rs. 5 each	4,00,000
	Issued and Subscribed	
	60,000 Equity Shares of Rs. 5 each	3,00,000
	(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)	
2	Reserve and Surplus	
	Capital Reserve	64,000
3	Long-term borrowings	
	Secured Loans	
	15% Debentures	4,16,000

Working Notes:

		Sun	Neptune	Total
		Rs.	**Rs.**	**Rs.**
(1)	Purchase Consideration			
	Equity Shares Issued	1,37,500	1,62,500	3,00,000
	15% Debentures Issued	2,20,000	1,96,000	4,16,000
		3,57,500	3,58,500	7,16,000
(2)	Capital Reserve			
(a)	Net Assets taken over			
	Property, Plant & Equipment	7,10,000	3,90,000	11,00,000
	Current Assets	2,99,500	1,14,400*	4,13,900
		10,09,500	5,04,400	15,13,900
	Less: Current Liabilities	(5,53,650**)	(1,80,250)	(7,33,900)
		4,55,850	3,24,150	7,80,000
(b)	Purchase Consideration	3,57,500	3,58,500	7,16,000
(c)	Capital Reserve [(a) - (b)]	98,350		
(d)	Goodwill [(b) - (a)]		34,350	
(e)	Capital Reserve [Final Figure(c) -(d)]			64,000

* 1,57,750–43,350= 1,14,400** 5,97,000–43,350= 5,53,650

Exam Insights: Few examinees erred in computation of the amount of debentures and shares to be issued to the amalgamating companies ie. 'X' Ltd. and 'Y' Ltd. Hence, they failed to give the correct balance sheet of the amalgamated company in the format prescribed as per schedule III to the Companies Act, 2013.

Question 20

The following information from Balance Sheet of X Ltd. as at 31st March, 2023:

	₹
4,000 Equity shares of ₹ 100 each	4,00,000
10% Debentures	2,00,000
Loans	80,000
Trade payables	1,60,000
General Reserve	40,000
Building	1,70,000
Machinery	3,20,000
Inventory	1,10,000
Trade receivables	1,30,000
Bank	68,000
Patent	65,000
Share issue Expenses	17,000

Y Ltd. agreed to absorb X Ltd. on the following terms and conditions:

(1) **Y Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.**

(2) **Y Ltd. is to take over trade payables at book value.**

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

The average profit is ₹ 62,200. The liquidation expenses amounted to ₹ 8,000. Y Ltd. sold prior to 31st March, 2023 goods costing ₹ 60,000 to X Ltd. for ₹ 80,000. ₹ 50,000 worth of goods are still in Inventory of X Ltd. on 31st March, 2023. Trade payables of X Ltd. include ₹ 20,000 still due to Y Ltd.

Show the necessary Ledger Accounts to close the books of X Ltd. and prepare the Balance Sheet of Y Ltd. as at 1st April, 2023 after the takeover. ***(RTP Nov'23, New SM) (Same concept different figures MTP 16 Marks Nov'21 & Mar'23, RTP Nov'19)***

Answer 20

Books of X Limited Realization Account

	₹		₹
To Building	1,70,000	By Trade payables	1,60,000
To Machinery	3,20,000	By Y Ltd.	6,05,000
To Inventory	1,10,000	By Equity Shareholders (Loss)	38,000
To Trade receivables	1,30,000		
To Patent	65,000		
To Bank (Exp.)	8,000		
	8,03,000		8,03,000

Bank Account

To Balance b/d	68,000	By Realization (Exp.)	8,000
To Y Ltd.	3,00,000	By 10% Debentures	2,00,000
		By Loan	80,000
		By Equity shareholders	80,000
	3,68,000		3,68,000

10% Debentures Account

To Bank	2,00,000	By Balance b/d	2,00,000
	2,00,000		2,00,000

Loan Account

To Bank	80,000	By Balance b/d	80,000
	80,000		80,000

Share Issue Expenses Account

To Balance b/d	17,000	By Equity shareholders	17,000
	17,000		17,000

General Reserve Account

To Equity shareholders	40,000	By Balance b/d	40,000
	40,000		40,000

Y Ltd. Account

To Realization A/c	6,05,000	By Bank	3,00,000
		By Equity share in Y Ltd. (2,440 shares at ₹ 125 each)	3,05,000
	6,05,000		6,05,000

Equity Shares in Y Ltd. Account

To Y Ltd.	3,05,000	By Equity shareholders	3,05,000
	3,05,000		3,05,000

Equity Share Holders Account

To Realization	38,000	By Equity share capital	4,00,000
To Share issue Expenses	17,000	By General reserve	40,000
To Equity shares in B Ltd.	3,05,000		
To Bank	80,000		4,40,000

Y Ltd Balance Sheet as on 1st April, 2023 (An extract) *

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	2,44,000
b	Reserves and Surplus	2	53,500
2	Current liabilities		
a	Trade Payables	3	1,40,000
b	Bank overdraft		3,00,000
	Total		7,37,500
	Assets		
1	Non-current assets		
a	Property, Plant and Equipment	4	4,41,000
	Intangible assets	5	1,08,000
2	Current assets		
a	Inventories	6	91,500
b	Trade receivables	7	97,000
			7,37,500

Notes to Accounts

			₹
1	Share Capital		
	Equity share capital		
	2,440 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)		2,44,000
	Total		2,44,000
2	Reserves and Surplus (an extract)		
	Securities Premium		61,000
	Profit and loss account	.....	
	Less: Unrealised profit	(7,500)	(7,500)
	Total		53,500
3	Trade payables		
	Opening balance	1,60,000	
	Less: Inter-company transaction cancelled upon amalgamation	(20,000)	1,40,000
4	Property, Plant and Equipments		
	Buildings		1,53,000
	Machinery		2,88,000

	Total		4,41,000
5	Intangible assets		
	Goodwill		1,08,000
6	Inventories		
	Opening balance	99,000	
	Less: Cancellation of profit upon amalgamation	(7,500)	91,500
7	Trade receivables		
	Opening balance	1,17,000	
	Less: Intercompany transaction cancelled upon amalgamation	(20,000)	97,000

Working Notes:

1. Valuation of Goodwill	₹
Average profit	62,200
Less: 8% of ₹ 4,40,000	(35,200)
Super profit	27,000
Goodwill = 27,000 x 4	1,08,000
2. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	1,08,000
Building	1,53,000
Machinery	2,88,000
Inventory	99,000
Trade receivables (1,30,000-13,000)	1,17,000
Total Assets	7,65,000
Less: Trade payables	(1,60,000)
Net Assets	6,05,000
Out of this ₹ 3,00,000 is to be paid in cash and remaining i.e., (6,05,000 – 3,00,000) ₹ 3,05,000 in shares of ₹ 125. Thus, the number of shares to be allotted 3,05,000/125 = 2,440 shares.	
3. Unrealised Profit on Inventory	₹
The Inventory of X Ltd. includes goods worth ₹ 50,000 which was sold by Y Ltd. on profit. Unrealized profit on this Inventory will be [20,000/80,000 x 50,000]	12,500
As Y Ltd purchased assets of X Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 50,000.	(5,000)
Amount of unrealized profit	7,500

*In the absence of the particulars of assets and liabilities (other than those of X Ltd.), the complete Balance Sheet of Y Ltd. after takeover cannot be prepared.

Question 21

Dark Ltd. and Fair Ltd. were amalgamated on and from 1st April, 2021. A new company Bright Ltd. was formed to take over the business of the existing companies. The balance Sheets of Dark Ltd. and Fair Ltd. as at 31st March, 2021 are given below:

(₹ In Lakhs)

	Particulars	Note No.	Dark Ltd.	Fair Ltd.
1	Equity and Liabilities			
	Shareholders' Funds			
	Share Capital	1	1,650	1,425
	Reserves and Surplus	2	630	495
	Non-Current Liabilities			
	Long Term Borrowings:			

	10% Debentures of 100 ₹ each		90	45
	Current Liabilities Trade Payables		630	285
	Total		3,000	2,250
II	Assets Non Current Assets			
	Property, Plant and Equipment		1,350	975
	Non Current Investments		225	75
	Current Assets Inventories Trade Receivables Cash and Cash Equivalents		 525 450 450	 375 525 300
	Total		3,000	2,250

Notes to Accounts

		Dark Ltd. (₹ in Lakh)	Fair Ltd. (₹ in Lakh)
1	Share Capital	1, 200	1,125
	Equity Shares of ₹ 100 each	450	300
	14% Preference Shares of ₹ 100 each	1,650	1,425
2	Reserves and Surplus		
	Revaluation Reserve	225	150
	General Reserve	255	225
	Investment Allowance Reserve	75	75
	Profit and Loss Account	75	45
		630	495

Additional Information:

(i) Bright Limited will issue 5 equity shares for each equity share of Dark Limited and 4 equity shares for each equity share of Fair Limited. The shares are to be issued @ ₹ 35 each having a face value of ₹ 10 per share.

(ii) Preference shareholders of the two companies are issued equivalent number of 16% preference shares of Bright Limited at a price of ₹ 160 per share (face value ₹ 100).

(iii) 10% Debenture holders of Dark Limited and Fair Limited are discharged by Bright Limited, issuing such number of its 16% Debentures of ₹ 100 each so as to maintain the interest.

(iv) Investment allowance reserve is to be maintained for 4 more years.

(v) Liquidation expenses are for Dark Limited ₹ 6,00,000 and for Fair Limited ₹ 3,00,000. It is decided that these expenses would be borne by Bright Limited.

(vi) All the assets and liabilities of Dark Limited and Fair Limited are taken over at book value.

(vii) Authorized equity share capital of Bright Limited is ₹ 15,00,00,000 divided into equity share of ₹ 10 each. After issuing required number of shares to the liquidators of Dark Limited and Fair Limited, Bright Limited issued balance shares to public. The issue was fully subscribed.

You are required to prepare Balance Sheet of Bright Limited as at 1st April, 2021 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase *(PYP 15 Marks Dec'21) (Same concept different figures PYP 15 Marks Nov'20) (MTP 15 Marks Sep'23)*

Answer 21

Balance Sheet of Bright Ltd. as at 1st April, 2021

Particulars	Note No.	(₹ in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,250
(b) Reserves and Surplus	2	4,200
(2) Non-Current Liabilities		
Long-term borrowings	3	84.375
(3) Current Liabilities		

Trade payables	4	915
Total		7449.375
II. Assets		
(1) Non-current assets		
(a) i. Property, plant and equipment	5	2,325
ii. Intangible assets	6	633.375
(b) Non-current investments	7	300
(2) Current assets		
(a) Inventories	8	900
(b) Trade receivables	9	975
(c) Cash and cash equivalents	10	2316
Total		7449.375

Notes to Accounts

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Authorized Share Capital		
	1,50,00,000 Equity shares of ₹10 each	1500	
	7,50,000 16% Preference Share of 100 each	750	
	Issued: 1,50,00,000 Equity shares of ₹ 10 each (Out of which 1,05,00,000 Shares were Issued for consideration other than cash)	1500	
	7,50,000 16% Preference Shares of 100 each (Issued for consideration other than cash)	750	2,250
2.	Reserves and surplus		
	Securities Premium Account (1,50,00,000 shares ×₹ 25) 3750		
	(7,50,000 shares × ₹ 60) 450	4,200	
	Investment Allowance Reserve	150	
	Amalgamation Adjustment Reserve	(150)	4,200
3.	Long-term borrowings		
	16% Debentures (56,25,000+28,12,500) (W.N. 3)		84.375
4.	Trade payables		
	Dark Ltd.	630	
	Fair Ltd.	285	915
5.	Property, plant & equipment		
	Land and Building	1350	
	Plant and Machinery	975	2,325
6.	Intangible assets		
	Goodwill [W.N. 2] 624.375		
	Add: liquidation exp. (6+3) 9.00		633.375
7.	Non-current Investments		
	Investments (225+75)		300
8.	Inventories		
	Dark Ltd.	525	
	Fair Ltd.	375	900
9	Trade receivables		

	Dark Ltd.	450	
	Fair Ltd.	525	975
10	Cash & cash equivalents		
	Dark Ltd.	450	
	Fair Ltd.	300	
	Liquidation Expenses (6+3)	(9)	
	Shares issued for cash (45 lakh shares x ₹35)	1575	2316

Working Notes:

			(₹ in lakhs)		
			Dark Ltd.	Fair Ltd.	
(1)	Computation of Purchase consideration Preference shareholders: $\left(\frac{4,50,00,000}{100}\right)$ 00 shares × ₹ 160 each		720		
	$\left(\frac{3,00,00,000}{100}\right)$ i.e. 3,00,000 shares × ₹ 160 each				480
	(b) Equity shareholders: $\left(\frac{12,00,00,000X\ 5}{100}\right)$ i.e. 60,00,000 shares x ₹ 35 each		2,100		
	$\left(\frac{11,25,00,000X4}{100}\right)$ i.e. 45,00,000 shares × ₹ 35 each				1,575
	Amount of Purchase Consideration Net		2,820		2,055
(2)	Net Assets Taken Over				
	Assets taken over: Property Plant & Equity		1,350		975
	Non-Current Investments		225		75
	Inventory		525		375
	Trade receivables		450		525
	Cash and bank		450		300
	Less: Liabilities taken over:		3,000		2,250
	10% Debentures	56.25		28.125	
	Trade payables	630	(686.25)	285	(313.125)
	Net assets taken over		2,313.75		1936.875
	Purchase consideration		2,820		2055.00
	Goodwill		506.25		118.125
	Total goodwill				624.375

(3) Issue of Debentures

Debentures	₹ 90,00,000	₹ 45,00,000
Interest 10%	₹ 9,00,000	₹ 4,50,000
	$\left(\frac{9,00,000 \times 100}{16}\right) = 56,25,000$	$\left(\frac{4,50,000 \times 100}{16}\right) = 28,12,500$

NOTE: In the above solution ₹ 35 has been considered as the issue price of Equity shares for public issue also. Alternative considering this as ₹ 10 also possible. In that case, the balance of cash and cash equivalents will be ₹ 1,191 lakhs and securities premium will be ₹ 3,075 lakhs in place of the balances given in the balance sheet in the above solution.

Exam Insights: Few examinees erred in computation of amounts of net assets taken over and purchase consideration. Some of them also failed to calculate the number of debentures issued t o the debenture holders of the amalgamating companies so as to maintain the same amount of interest. Consequently, they failed to draw up the resultant balance sheet of the company immediately after the amalgamation.

Question 22 LDR

A Limited and B Limited are carrying on business of same nature. On 31st March, 2021 the information given by both these companies is as follows:

	A Ltd. (₹)	B Ltd. (₹)
Share Capital		
- Equity Shares 10 each (Fully Paid)	12,00,000	7,20,000
- 10% Preference Shares of ₹ 100 each	6,00,000	-
- 8% Preference Shares of ₹ 100 each	-	5,00,000
General Reserve	3,00,000	2,50,000
Investment Allowance Reserve	-	60,000
Security Premium	2,40,000	-
Export Profit Reserve	1,80,000	1,20,000
Profit & Loss Account	2,16,000	1,92,000
9% Debentures (₹ 10 each)	3,00,000	2,00,000
Secured Loan	-	3,60,000
Sundry Creditors	3,12,000	2,04,000
Bills Payable	75,000	1,00,000
Other Current Liabilities	50,000	75,000
Land and Building	10,80,000	8,40,000
Plant and Machinery	6,00,000	5,60,000
Office Equipment	3,45,000	2,10,000
Investments	96,000	3,00,000
Stock in Trade	6,30,000	4,20,000
Sundry Debtors	4,90,000	3,20,000
Bills Receivables	60,000	70,000
Cash at Bank	1,72,000	61,000

A Limited take over B Limited on the above date, both companies agreeing on a scheme of Amalgamation on the following terms:

(a) **A Limited will issue 80,000 Equity Shares of ₹ 10 each at par to the Equity Shareholders of B Limited.**

(b) **A Limited will issue 10% Preference Shares of ₹ 100 each to discharge the Preference Shareholders of B Limited at 15% premium in such a way that the existing dividend quantum of the preference shareholders of B Limited will not get affected. Accordingly, ₹ 5,00,000 pref. shares are discharged at ₹ 5,75,000 (5,00,000X 115%) by issue of 4,000 preference shares of ₹ 100 each at premium of ₹ 43.75 each.**

(c) **The Debentures of B Limited will be converted into equivalent number of Debentures of A Limited.**

(d) **All the Bills Receivable of A Limited were accepted by B Limited.**

(e) **A contingent liability of B Limited amounting to ₹ 72,000 to be treated as actual liability in trade payables.**

(f) **Expenses of Amalgamation amounted to ₹ 12,000 were borne by A Limited.**

You are required to pass opening Journal Entries in the books of A Limited and prepare the opening Balance Sheet of A Limited as on 1st April, 2021 after amalgamation, assuming that the amalgamation is in the nature of Merger. ***(MTP 20 Marks Oct'22, MTP 14 Marks Dec'24)***

Answer 22

Journal Entries in the books of A Ltd.

Particulars		Debit	Credit
		₹	₹
Business purchase A/c (W.N.1)	Dr.	13,75,000	
To Liquidator of B Ltd.			13,75,000
(Being business of B Ltd. taken over)			
Land & Building A/c	Dr.	8,40,000	
Plant and machinery A/c	Dr.	5,60,000	
Office equipment A/c	Dr.	2,10,000	
Investments A/c	Dr.	3,00,000	
Inventory A/c	Dr.	4,20,000	
Debtors A/c	Dr.	3,20,000	
Bills receivables A/c	Dr.	70,000	
Bank A/c	Dr.	61,000	
To General reserve A/c (W.N.2) (2,50,000-1,55,000)			95,000
To Export profit reserve A/c			1,20,000
To Investment allowance reserve A/c			60,000
To Profit and loss A/c			1,20,000
To Liability for 9% Debentures A/c (₹ 100 each)			2,00,000
To Secured Loan			3,60,000
To Trade creditors A/c			2,76,000
To Bills payables A/c			1,00,000
To Other current liabilities A/c			75,000
To Business purchase A/c			13,75,000
(Being assets and liabilities taken over)			
Liquidator of B Ltd.	Dr.	13,75,000	
To Equity share capital A/c			8,00,000
To 10% Preference share capital A/c			4,00,000
To Securities premium A/c			1,75,000
(Being purchase consideration discharged)			
General Reserve* A/c	Dr.	12,000	
To Cash at bank			12,000
(Being expenses of amalgamation paid)			
Liability for 9% Debentures in B Ltd. A/c	Dr.	2,00,000	
To 9% Debentures A/c			2,00,000
(Being debentures in B ltd. discharged by issuing own 9% debentures)			
Bills payables A/c	Dr.	60,000	
To Bill receivables A/c			60,000
(Cancellation of mutual owing on account of bills of exchange)			

*Alternatively, profit & loss A/c may be debited in place of general reserve A/c.

Opening Balance Sheet of A Ltd. (after absorption) as at 1st April, 2021

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	30,00,000
b	Reserves and Surplus	2	14,94,000
2	Non-current liabilities		
a	Long-term borrowings	3	8,60,000

3	Current liabilities		
a	Trade Payables	4	7,03,000
b	Other current liabilities	5	1,25,000
	Total		61,82,000
	Assets		
1	Non-current assets		
a	PPE	6	36,35,000
b	Investments	7	3,96,000
2	Current assets		
a	Inventories	8	10,50,000
b	Trade receivables	9	8,80,000
c	Cash and cash equivalents	10	2,21,000
	Total		61,82,000

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	2,00,000 Equity shares of ₹ 10 each (Out of above, 80,000 shares were issued for consideration other than cash)		20,00,000
	Preference share capital		
	10,000 10% Preference shares of ₹ 100 each (Out of above, 4,000 shares were issued for consideration other than cash)		10,00,000
	Total		30,00,000
2	Reserves and Surplus		
	General Reserve		
	Opening balance	3,00,000	
	Add: Adjustment under scheme of amalgamation	95,000	
	Less: Amalgamation expense paid	(12,000)	3,83,000
	Securities premium (2,40,000+1,75,000)		4,15,000
	Export profit reserve		
	Opening balance	1,80,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,00,000
	Investment allowance reserve		60,000
	Profit and loss account		
	Opening balance	2,16,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,36,000
	Total		14,94,000
3	Long-term borrowings		
	Secured		
	9% Debentures	3,00,000	
	Add: Adjustment under scheme of amalgamation	2,00,000	
	Secured loan	3,60,000	8,60,000
4	Trade payables		
	Creditors: Opening balance	3,12,000	
	Add: Adjustment under scheme of amalgamation	2,76,000	5,88,000
	Bills Payables: Opening balance	75,000	
	Add: Adjustment under scheme of amalgamation	1,00,000	
	Less: Cancellation of mutual owning upon amalgamation	(60,000)	1,15,000
			7,03,000
5	Other current liabilities		

	Opening balance	50,000	
	Add: Adjustment under scheme of amalgamation	75,000	1,25,000
6	PPE		
	Land & Building- Opening balance	10,80,000	
	Add: Adjustment under scheme of amalgamation	8,40,000	19,20,000
	Plant and machinery- Opening balance	6,00,000	
	Add: Adjustment under scheme of amalgamation	5,60,000	11,60,000
	Office equipment- Opening balance	3,45,000	
	Add: Adjustment under scheme of amalgamation	2,10,000	5,55,000
	Total		36,35,000
7	Investments		
	Opening balance	96,000	
	Add: Adjustment under scheme of amalgamation	3,00,000	3,96,000
8	Inventories		
	Opening balance	6,30,000	
	Add: Adjustment under scheme of amalgamation	4,20,000	10,50,000
9	Trade receivables		
	Debtors: Opening balance	4,90,000	
	Add: Adjustment under scheme of amalgamation	3,20,000	8,10,000
	Bills Payables: Opening balance	60,000	
	Add: Adjustment under scheme of amalgamation	70,000	
	Less: Cancellation of mutual owning upon amalgamation	(60,000)	70,000
	Total		8,80,000
10	Cash and cash equivalents		
	Opening balance	1,72,000	
	Add: Adjustment under scheme of amalgamation	61,000	
	Less: Amalgamation expense paid	(12,000)	2,21,000

Working Notes:

1. **Calculation of purchase consideration**

	₹
Equity shareholders of B Ltd. (80,000 x ₹ 10)	8,00,000
Preference shareholders of B Ltd. (5,00,000 x 115%)	5,75,000
Purchase consideration would be	13,75,000

2. **Amount to be adjusted from general reserve**

The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve.

Thus, General reserve will be adjusted as follows:

	₹
Purchase consideration	13,75,000
Less: Share capital issued (₹ 7,20,000 + ₹ 5,00,000)	(12,20,000)
Amount to be adjusted from general reserve	1,55,000

3. **Calculation of balances of Profit & Loss and Sundry Creditors of B Limited to be taken over by A Limited**

	P&L (₹)	Creditors (₹)
Balance as per Balance Sheet of B Limited	1,92,000	2,04,000
Less / Add: Contingent Trade Payable treated as Actual Liability	(72,000)	72,000
Taken by A Limited	1,20,000	2,76,000

Question 23

LDR

The following are the Balance Sheets of Aakash Limited and Ganga Limited as at March 31, 2021:

Particulars		Note No.	Aakash Limited (Rs.)	Ganga Limited (Rs.)
I. Equity and Liabilities:				

(1) Shareholder's Funds:			
(a) Share Capital	1	80,00,000	20,00,000
(b) Reserves and Surplus	2	(3,24,00,000)	56,00,000
(2) Non-Current Liabilities:			
(a) Secured Loans	3	3,20,00,000	1,60,00,000
(b) Unsecured Loans	4	1,72,00,000	-
(3) Current Liabilities:			
(a) Trade Payables		56,00,000	36,00,000
(b) Other Current Liabilities	5	2,04,00,000	56,00,000
Total		5,08,00,000	3,28,00,000
II. Assets:			
(1) Non-Current Assets:			
Property, Plant & Equipment		68,00,000	1,36,00,000
(2) Current Assets:			
(a) Inventories		3,68,00,000	-
(b) Other Current Assets		72,00,000	1,92,00,000
Total		5,08,00,000	3,28,00,000

Notes to Accounts:

		Aakash Limited (Rs.)	Ganga Limited (Rs.)
1.	Share Capital		
	Authorized, Issued, Subscribed & Paid up:		
	6,00,000 Equity Shares of Rs.10 each	60,00,000	-
	20,000 Preference Shares of Rs. 100 each	20,00,000	-
	2,00,000 Equity Shares of Rs. 10 each	-	20,00,000
		80,00,000	20,00,000
2.	Reserves and Surplus		
	General Reserve	8,00,000	56,00,000
	Surplus	(3,32,00,000)	-
		(3,24,00,000)	56,00,000
3.	Secured Loans (Secured Loans of Aakash Limited are secured against pledge of Inventories)	3,20,00,000	1,60,00,000
4.	Unsecured Loans	1,72,00,000	-
5.	Other Current Liabilities		
	Statutory Liabilities	1,44,00,000	20,00,000
	Liability to Employees	60,00,000	36,00,000
		2,04,00,000	56,00,000

Both the companies go into liquidation and a new company 'Aakash Ganga Limited' is formed to take over their business. The following information is given:

(i) All Current Assets of two companies, except pledged inventory are taken over by Aakash Ganga Limited. The realizable value of all the Current Assets (including pledged inventory) is 80% of book value in case of Aakash Limited and 70% for Ganga Limited.

(ii) Property, Plant and Equipment of both the companies are taken over at book value by Aakash Ganga Limited.

(iii) Secured Loans include Rs. 32,00,000 accured interest in case of Ganga Limited.

(iv) 4,00,000 Equity Shares of Rs. 10 each are allotted by Aakash Ganga Limited at par against cash payment of entire face value to the shareholders of Aakash Limited and Ganga Limited in the ratio of shares held by them in Aakash Limited and Ganga Limited.

(v) Preference Shareholders in Aakash Limited are issued Equity Shares in Aakash Ganga Ltd. worth Rs. 4,00,000 in lieu of their present holdings.

(vi) Secured Loan agree to continue the balance amount of their loans to Aakash Ganga Limited after adjusting realizable value of pledged asset in case of Aakash Limited and after waiving 50% of interest due in the case of Ganga Limited.

(vii) Unsecured Loans are taken over by Aakash Ganga Limited at 25% of loan amounts.

(viii) Employees are issued fully paid Equity Shares in Aakash Ganga Limited in full settlement of their dues.

(ix) Statutory Liabilities are taken over by Aakash Ganga Limited at full value and Trade Payables are taken over at 80% of the book value.

You are required to prepare the opening Balance Sheet of Aakash Ganga Limited as at 1.4.2021. *(RTP May'22)*

Answer 23

Balance sheet of Aakash Ganga Ltd. as at 1st April, 2021

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,40,00,000
(2) Non-Current Liabilities		
(a) Long term borrowings	2	2,12,60,000
(3) Current Liabilities		
(a) Trade Payables	3	73,60,000
(b) Other current liabilities	4	1,64,00,000
Total		5,90,20,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	5	2,04,00,000
(b) Intangible assets	6	1,54,20,000
(2) Current assets		
(a) Cash and cash equivalents		40,00,000
(b) Other current assets	7	1,92,00,000
Total		5,90,20,000

Notes to Accounts

			(Rs.)
1.	Share Capital		
	Issued, subscribed & Paid up:		
	14,00,000 equity shares of Rs. 10 each, fully paid up (W.N.4) (of the above 10,00,000 shares have been issued for consideration other than cash)		1,40,00,000
2.	Long Term borrowings		
	Secured Loans		
	Aakash Limited 25,60,000		
	Ganga Limited 1,44,00,000	1,69,60,000	
	Unsecured Loans	43,00,000	2,12,60,000
3.	Trade Payables (W.N.1)		
	Aakash Limited	44,80,000	
	Ganga Limited	28,80,000	73,60,000
4.	Other current liabilities		
	Statutory Liabilities		
	Aakash Limited	1,44,00,000	
	Ganga Limited	20,00,000	1,64,00,000
5.	Property, Plant & Equipment		
	Aakash Limited	68,00,000	
	Ganga Limited	1,36,00,000	2,04,00,000
6.	Intangible assets		
	Goodwill (W.N.3)		1,54,20,000

7.	Other Current Assets		
	Aakash Limited	57,60,000	
	Ganga Limited	1,34,40,000	1,92,00,000

Working Notes:

1. **Value of total liabilities taken over by Aakash Ganga Ltd.** **(Rs.)**

	Aakash Limited		Ganga Limited	
Current liabilities				
Statutory liabilities	1,44,00,000		20,00,000	
Liability to employees	60,00,000		36,00,000	
Trade payables @ 80%	44,80,000	2,48,80,000	28,80,000	84,80,000
Secured loans				
Given in Balance Sheet	3,20,00,000		1,60,00,000	
Interest waived	-		16,00,000	1,44,00,000
Value of Inventory (80% of Rs. 3,68,00,000)	2,94,40,000	25,60,000		
Unsecured Loans (25% of Rs.1,72,00,000)		43,00,000		-
		3,17,40,000		2,28,80,000

2. **Assets taken over by Aakash Ganga Ltd.** **(Rs.)**

	Aakash Limited	Ganga Limited
	Rs.	Rs.
Property, Plant & Equipment	68,00,000	1,36,00,000
Current Assets (80% and 70% respectively of book value)	57,60,000	1,34,40,000
	1,25,60,000	2,70,40,000

3. **Goodwill / Capital Reserve on amalgamation** **(Rs.)**

Liabilities taken over (W.N. 1)		3,17,40,000	2,28,80,000
Equity shares to be issued to Preference Shareholders		4,00,000	-
	A	3,21,40,000	2,28,80,000
Less: Total assets taken over (W.N. 2)	B	(1,25,60,000)	(2,70,40,000)
	A-B	1,95,80,000	(41,60,000)
		Goodwill	Capital Reserve
Net Goodwill (1,95,80,000- 41,60,000)		1,54,20,000	

4. **Equity shares issued by Aakash Ganga Ltd.**

(i)	For Cash		40,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	96,00,000	
(iii)	To Preference shareholders	4,00,000	1,00,00,000
			1,40,00,000
	No. of shares @ Rs. 10		14,00,000

5. **Journal Entries in the Books of Z Ltd.**

			Rs.	Rs.
(i)	Equity Share Capital (Rs. 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (Rs. 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of Rs. 10 each fully paid into same number of fully paid equity shares of Rs. 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (Rs. 100 each) A/c	Dr.	20,00,000	

	10% Preference Share Capital (Rs. 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of Rs. 100 each into same number of 10% preference share of Rs. 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures payable A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being Rs. 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables		60,000	
	Interest on debentures payable A/c		64,000	
	Bank A/c		60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being Rs. 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (Rs. 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 8,000 equity shares of Rs. 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of Rs. 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000
	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000
	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			

(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			11,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000
	To Trade Investment A/c			50,000
	To Inventory A/c			2,50,000
	To Trade Receivables A/c			1,00,000
	To Capital Reserve (bal. fig.)			7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)			

Bank Account

	Rs.		Rs.
To Reconstruction (Y)	1,00,000	By Balance b/d (overdraft)	1,00,000
To Reconstruction(Z)	60,000	By Reconstruction A/c	15,000
To Reconstruction A/c (refund of earlier fees by directors)	1,00,000	(capital commitment penalty paid)	
		By Reconstruction A/c (reconstruction expenses paid)	15,000
		By Provision for tax A/c (tax paid)	75,000
		By Balance c/d	55,000
	2,60,000		2,60,000

Reconstruction Account

	Rs.		Rs.
To Bank (penalty)	15,000	By Equity Share Capital A/c	25,00,000
To Bank (reconstruction expenses)	15,000		
To Goodwill	11,00,000	By 9% Pref. Share Capital A/c	10,00,000
To Patent	5,00,000	By Mr. Y (Settlement)	5,78,000
To P & L A/c	14,60,000	By Mr. Z (Settlement)	3,82,000
To P & M	6,50,000	By Trade Payables A/c	1,70,000
To Furniture and Fixtures	1,00,000	By Director's loan	60,000
To Trade investment	50,000	By Bank	1,00,000
To Inventory	2,50,000	By Provision for tax	25,000
To Trade Receivables	1,00,000	By Land and Building	2,00,000
To Capital Reserve (bal. fig.)	7,75,000		
	50,15,000		50,15,000

Question 24

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
	Trade payables		
2.	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.*(PYP 14 Marks Sep'24)*

Answer 24

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 (Being 9% debentures issued to 10% debenture holders)			1,000
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)		11,120
	(out of above 16,200 shares are issued for consideration other than cash)		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 25

LDR

The financial details of X Ltd. and Y Ltd. as on 31st March, 2024 was as under:

	X Ltd. (₹)	Y Ltd. (₹)
Equity Shares of ₹ 10 each	30,00,000	9,00,000
9% Preference Shares of ₹ 100 each	3,00,000	-
10% Preference Shares of ₹ 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2022-23 : ₹ 90,000; 2021-22 : ₹ 78,000 and 2020-21: ₹ 72,000).

(iii) The profits of 2020 -21 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2019- 20 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2021 -22, there was an embezzlement of cash by an employee amounting to ₹ 10,000.

(iv) Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.

(v) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(vi) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.

(vii) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.

(viii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

(i) Prepare Realisation A/c in the books of Y Ltd.

(ii) Prepare the Balance Sheet of X Ltd. After absorption as at 31st arch,2024. *(MTP 14 Marks Nov'24)*

Answer 25

In the Books of Y Ltd. Realisation Account

		₹		₹
To Sundry Assets:			By Retirement Gratuity Fund	60,000

Goodwill	75,000		By Trade payables	2,40,000
Land & Building	3,00,000		By X Ltd. (PurchaseConsideration)	15,90,000
Plant & Machinery	4,50,000			
Inventory	5,25,000			
Trade receivables	3,00,000			
Bank	60,000	17,10,000		
To Preference Shareholders		30,000		
(Premium on Redemption)				
To Equity Shareholders				
(Profit onRealisation)		1,50,000		
		18,90,000		18,90,000

Balance Sheet of X Ltd. (after absorption) as a 31st March, 2024

Notes to accounts

Particulars			Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	48,30,000
	B	Reserves and Surplus	2	2,70,000
2		Non-current liabilities		
	A	Long-term provisions	3	2,10,000
3		Current liabilities		
	A	Trade Payables	4	6,10,000
	B	Short term provision	5	7,500
		Total		59,27,500
		Assets		
1		Non-current assets		
	A	Fixed assets		
		Tangible assets	6	33,00,000
		Intangible assets	7	3,00,000
2		Current assets		
	A	Inventories	8	12,22,500
	B	Trade receivables	9	8,80,000
	C	Other current Assets	10	15,000
	D	Cash and cash equivalents	11	2,10,000
		Total		59,27,500

		₹
1	Share Capital	
	Equity share capital	
	4,20,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000
	Preference share capital	
	6,300 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
	Total	48,30,000
2	Reserves and Surplus	
	Securities Premium	60,000
	General Reserve	2,10,000
	Total	2,70,000
3	Long-term provisions	
	Retirement Gratuity fund	2,10,000
4	Trade payables	

	(3,90,000 + 2,40,000 - 20,000*) * *Mutual Owings eliminated.*	6,10,000
5	Short term Provisions	
	Provision for Doubtful Debts	7,500
6	Tangible assets	
	Land & Buildings	14,00,000
	Plant & Machinery	19,00,000
	Total	33,00,000
7	Intangible assets	
	Goodwill (1,50,000 +1,50,000)	3,00,000
8	Inventories (7,50,000 + 4,72,500)	12,22,500
9	Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	Other current Assets	15,000
11	Cash and cash equivalents (1,50,000 +60,000)	2,10,000

Working Notes:

1. Computation of goodwill ₹

Profit of 2022-23	90,000
Profit of 2021-22 adjusted ₹ 78,000 + 10,000)	88,000
Profit of 2020-21 adjusted (₹ 72,000 – 25,000)	47,000
	2,25,000
Average profit	75,000

2. Goodwill to be valued at 2 times of average profits = ₹75,000 x 2 = ₹ 1,50,000

Purchase Consideration:		₹
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000		
equity Shares of X Ltd. at 5% Premium		12,60,000
	Total	15,90,000

Multiple Choice Questions (MCQs)

1. In case of amalgamation, the entry for elimination of unrealized profit or losson stock is made *(SM)*

(a) By the vendor company
(b) By the purchasing company
(c) By the third party
(d) By the court

Ans: (b)

2. **If expenses of liquidation of the vendor company are paid by the purchasing company then, in purchasing company's book, the account debited is *(SM)***
   (a) Goodwill account.
   (b) Liquidation expense account.
   (c) Vendor company account.
   (d) General Reserve

Ans: (a)

3. **Amalgamation adjustment reserve is opened in the books of the amalgamated company to incorporate *(SM)***
   (a) Assets of the amalgamating company
   (b) Non- Statutory reserves of the amalgamating company
   (c) Statutory reserves of the amalgamating company
   (d) General Reserve of the amalgamating company

Ans: (c)

4. **Amalgamation Adjustment Reserve is presented in the financial statements of the transferee company as *(SM)***
   (a) Other current asset.
   (b) Separate line item with a negative sign under the head 'Reserves and Surplus'.
   (c) Other non-current assets.
   (d) Investment of the company

Ans: (b)

5. **A company into which the vendor company is merged is called *(SM)***
   (a) Transferee company.
   (b) Transferor company.
   (c) Selling company.
   (d) Acquiree Company

Ans: (a)

6. **If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as ___________ in the books of the transferee company. *(SM)***
   (a) Goodwill.
   (b) Capital Reserve.
   (c) Profit
   (d) loss.

Ans: (a)

A

CHAPTER 14: ACCOUNTING FOR RECONSTRUCTION OF COMPANIES

CONCEPTS OF THIS CHAPTER	
• Meaning and types of reconstruction • Sub-division and consolidation of shares, conversion of shares to stock and vice versa • Meaning of capital reduction account • Presentation of accounts post-reconstruction under Companies Act 2013	LDR **LDR Questions** **Q 9** **Q 18** **Q 19**

QUICK REVIEW OF IMPORTANT CONCEPTS

Difference Between Internal and External Reconstruction

Basis	Internal Reconstruction	External Reconstruction
Liquidation and formation of new company	The existing company is not liquidated rather the capital and debt structure is changed to bring the company back to normalcy	The existing company is liquidated to form a new company in which the existing shareholders become shareholders of new company as well
Reduction of capital and varying rights	There is certain reduction of capital and sometimes the outside liabilities like debenture holders may have to reduce their claim in this scheme.	There is no reduction of capital. In fact, there is a fresh share capital of the company. The shareholders need not vary their rights in company
Legal formalities	It requires court's confirmation and other legal procedures before it can be implemented	It can be affected without the court's interference and less time-consuming process.

Methods of Internal Reconstruction

Alteration of Share Capital

The following types of Alteration can be done under Section 61-

(a) Increase of authorized share capital;

(b) Consolidation and sub-division into shares of larger or smaller denominations;

(c) Conversion of all or any of the shares into stock or vice versa;

(d) Cancellation of shares which have not been taken or agreed to be taken by any person.

- The existing share capital can be sub-divided or consolidated into the shares into those of a smaller or higher denomination than that fixed by the Memorandum of Association, so long as the proportion between the paid up and unpaid amount, if any, on the shares continues to be the same as it was in the case of the original shares.
- If authorized by its Articles, a company may, in a general meeting by passing an ordinary resolution, can convert its fully paid shares into stock and reconversion of stock into shares.

Variation of Shareholders Rights

When a company has issued different classes of shares with different rights or privileges attached to such shares e.g. rights as to dividend, voting rights etc., any of such right may be changed in any manner.

For example, the company may change rate of (a) dividend on preference shares or (b) convert cumulative preference shares into non-cumulative preference shares without changing the amount of share capital.

Reduction of Share Capital

When liability of the shareholders is extinguished or reduced in respect of unpaid amount on the shares held by them: Here the shareholders are not called upon to pay the unpaid amount on shares held by them in future.

Share Capital (Partly Paid-Up) Account	Dr.	(₹ 7.5 (Fv ₹10) X No. of Shares)
To Share Capital (Fully Paid-up) Account		(₹ 7.5 (Fv- ₹7.5) X No. of Shares)

<u>When excess paid up capital is paid off</u>: When its not possible for the company to employ profitably its paid up capital, then in such case it may decide to refund the excess capital to its shareholders.

Share Capital Account (₹ 10)	Dr.	(₹ 10 X No. of Shares)
To Share Capital Account (₹ 8)		(₹ 8 X No. of Shares)
To Sundry Shareholders Account		(₹ 2 X No. of Shares)
Sundry Shareholders Account	Dr.	(₹ 2 X No. of Shares)
To Bank Account		(₹ 2 X No. of Shares)

<u>When the paid up capital which is lost or not represented is cancelled</u>: **Reduction in paid up value only**- Here the nominal value of the share remains the same and only the paid value is reduced.

Share Capital Account	Dr.	(₹ 90 X No. of Shares)
To Capital Reduction Account		(₹ 90 X No. of Shares)

<u>Reduction in both nominal and paid up values</u>- In this case, both the paid up capital and nominal value of the shares are reduced.

Share Capital Account (₹ 100 Share)	Dr.	(₹ 100 X No. of Shares)
To Share Capital (₹ 10 Share)		(₹ 10 X No. of Shares)
To Capital Reduction Account		(₹ 90 X No. of Shares)

Compromise/Arrangements

A scheme of compromise and arrangement is an agreement between a company and its members and outside liabilities when the company faces financial problems. Such an arrangement therefore also involves sacrifices by shareholders, or creditors or debenture holders or by all of them.

Accounting treatment for some of the cases is as follows:

a) When equity shareholders give up their right over the reserves and accumulated profits of the company:

Reserves Account	Dr.	(With the amount of reserves)
To Reconstruction Account		

b) Settlement of outside liabilities at lesser amount: Liabilities such as sundry creditors may agree to accept less amount in lieu of final settlement. Treatment will be as follows:

Outside Liabilities Account	Dr.	(With the amount of sacrifice)
Provision Account (if any)	Dr.	(made by creditors, debenture holders etc.)
To Reconstruction Account		

Surrender of Shares

Shares are divided into shares of smaller denominations and then the shareholders are made to surrender their shares to the company.

ENTRIES IN CASE OF INTERNAL RECONSTRUCTION

- Under the above-mentioned methods- the alteration of share capital and the varying of the shareholders rights do not involve opening the capital reduction/reconstruction account.
- It is only under the reduction of share capital, unrepresented reserves, compromise/ arrangements with the outsiders liabilities and surrender of shares, there shall be capital reduction/reconstruction account used to which the unrepresented assets/liabilities will be transferred as per the arrangement.
- An appreciation in the value of an asset or reduction in the amount of a liability should be debited to the account concerned and credited to Capital Reduction Account (or Reconstruction Account).
- Eliminate debit balance of profit and loss account and all over-valuation of assets by crediting the accounts concerned and debiting the Capital Reduction (or Reconstruction) Account. For this purpose, any reserve appearing in the books of the company may be used. If any balance is left in the Capital Reduction (or Reconstruction) Account, it should be transferred to the Capital Reserve Account.
- If there is any balance in the reconstruction account it is finally transferred to the Capital reserve under Reserves and Surplus. But if the amount for writing off the assets and accumulated losses is more than the reconstruction amount, then reserves will be adjusted against the same.

  While preparing the balance sheet of a reconstructed company, the following points are to be kept in mind:

- After the name of the company, the words **"and Reduced"** should be added *only* if the Court so orders.
- In case of fixed assets, the amount written off under the scheme of reconstruction must be shown for five years.

Question & Answers

Question 1

C Ltd. had ₹ 5,00,000 authorized capital on 31-12-2021 divided into shares of ₹ 100 each out of which 4,000 shares were issued and fully paid up. In June 2022 the Company decided to convert the issued shares into stock. But in June, 2023 the Company re-converted the stock into shares of ₹ 10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-2022 and 31-12-2023. *(MTP 4 Marks Apr'24, New SM)*

Answer 1

Journal Entries

			₹	₹
2022	Equity Share Capital A/c	Dr.	4,00,000	
June	To Equity Stock A/c (Being conversion of 4,000 fully paid Equity Shares of ₹ 100 into ₹ 4,00,000 Equity Stock as per resolution in general meeting dated...)			4,00,000
2023	Equity Stock A/c	Dr.	4,00,000	
June	To Equity Share Capital A/c (Being re-conversion of ₹ 4,00,000 Equity Stock into 40,000 shares of ₹ 10 fully paid Equity Shares as per resolution in General Meeting dated...)			4,00,000

Question 2

As a part of the reconstruction scheme of Getting better Ltd, the following terms were agreed upon-

1. **The shareholders to receive in lieu of their present holdings (viz. 10,000 shares of ₹ 50 each), the following-**
   a) **15,000 Fully paid equity shares of ₹ 10 each;**
   b) **12% fully paid preference shares to the extent of 2/5 of total equity shares;**
   c) **To pay them ₹ 50,000 and transfer the remaining to the reconstruction account.**
2. **8% Preference share capital - ₹ 3,00,000**
   To write down the value of preference shares to ₹ 50 (original face value ₹ 100).
3. **14% debentures of the nominal value of ₹ 2,00,000 along with accrued interest ₹ 56,000 was waived off for three fourths of the total amount, and the remaining being paid in cash.**

Show the necessary journal entries in the books of Getting better company based on the above scheme. *(RTP May'24)*

Answer 2

Journal entries in the books of Getting better Co.

Date	Particulars		Dr.	Cr.
			₹	₹
	Share capital A/c (₹50)	Dr.	5,00,000	
	To Share capital A/c (₹10)			1,50,000
	To 12% Preference share capital A/c			2,00,000
	To Bank A/c			50,000
	To Reconstruction A/c			1,00,000
	(Being 15,000 equity shares of ₹ 10 and 12% preference shares issued, paid in cash and remaining forgone as a part of Reconstruction Scheme dated...)			
	Preference Share capital A/c (₹ 100)	Dr.	3,00,000	
	To Preference share capital A/c (₹ 50) To Reconstruction A/c			1,50,000 1,50,000
	(Being the preference share capital reduced and forfeited as per reconstruction scheme)			
	14% Debenture A/c Interest accrued on Debentures A/c	Dr. Dr.	2,00,000 56,000	

	To Bank A/c To Reconstruction A/c (Being the debenture holders paid their interest and amount foregone as per reconstruction scheme)			64,000 1,92,000
	Reconstruction A/c To Capital Reserve A/c (Being the balance in reconstruction ac transferred to capital reserve as per reconstruction scheme)	Dr.	4,42,000	 4,42,000

Question 3

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 ₹ 100 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. *(PYP 6 Marks Sep'24)*

Answer 3

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 To Freehold Property A/c To Capital Reduction/Reconstruction A/c (Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)	Dr.	5,00,000	 4,45,000 55,000
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

Question 4

The Paid-up capital of S Limited amounted to Rs. 5,00,000 Equity Shares of Rs. 10 each. Due to continuous losses incurred by the company, the following scheme of reconstruction has been approved for S Limited on 1st April, 2020:

(i) In lieu of present holding the Equity Shareholders are to receive:

(a) Fully Paid Equity Shares equal to 3/5th of their holding.

(b) 8% Preference Shares fully paid to the extent of 20% of the above new Equity Shares.

(c) 10% Second Debentures of Rs. 40,000.

(ii) An issue of 8% Debentures First Debentures of Rs. 1,00,000 was made and fully subscribed for cash,

(iii) The Assets were reduced as follows: -

(a) Building from Rs. 2,00,000 to Rs. 1,50,000

(b) Plant & Machinery from Rs. 1,50,000 to Rs. 1,30,000

(c) Goodwill from Rs. 30,000 to Nil.

Show the Journal Entries in the books of S Limited to give effect of the scheme of Reconstruction. ***(MTP 5 Marks Mar'21, May'20, Apr'22) (Same concept different figures MTP 5 Marks Sep'22, SM)***

Answer 4

Journal Entries in the books of S Ltd.

			Dr.	Cr.
2020			Rs.	Rs.
April 1	Equity Share Capital A/c (Rs. 10)	Dr.	5,00,000	
	To Equity Share Capital A/c			3,00,000
	To 8% Preference Equity Share Capital A/c			60,000
	To 10% Second Debentures A/c			40,000
	To Capital Reduction /Reconstruction A/c			1,00,000
	(Being reduction of equity shares to 3/5 shares, issue of preference shares and debentures as per Reconstruction Scheme dated...)			
	Capital Reduction / Reconstruction A/c	Dr.	1,00,000	
	To Building A/c			50,000
	To Plant and Machinery A/c			20,000
	To Goodwill A/c			30,000
	(Being value of building and plant and machinery reduced and goodwill written off completely.)			
	Bank A/c	Dr.	1,00,000	
	To 8% First Debentures A/c			1,00,000
	(Being Rs. 1,00,000 debentures issued)			

Question 5

X Ltd. had ₹ 1,00,000 equity share capital divided into 1,000 shares of ₹ 100 each out of which ₹ 80 per share was called up and paid up. It has 1,500 cumulative preference shares of ₹ 100 each fully paid up. Intangible assets include Goodwill of ₹ 80,000 and patents of ₹ 27,800. Preference dividends are in arrears of ₹ 33,000. You are required to show the entries (Ignore dates) under each of the following conditions:

(i) If X Ltd. resolves to subdivide the equity shares into 10,000 equity shares of ₹ 10 each of which ₹ 8 per share is called up and paid up.

(ii) If X Ltd. resolves to convert its 1,000 equity shares of ₹ 100 each (assume fully - paid) into ₹ 1,00,000 worth of stock.

(iii) The preference shares are to be converted into 11% unsecured debentures of ₹ 100 each (including arrears of dividends).

(iv) Patents and Goodwill to be written-off. ***(PYP 5 Marks May'23)***

Answer 5

Journal Entries in the books of X Ltd.

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c	Dr.	80,000	
	To Equity Share Capital (₹ 10) A/c			80,000
	(Being the sub-division of 1,000 shares of ₹ 100 each with ₹ 80 paid up into 10,000 shares ₹ 10 each with ₹ 8 paid up by resolution in general meeting dated....)			
(ii)	Equity Share Capital (₹ 100) A/c	Dr.	1,00,000	
	To Equity Stock A/c			1,00,000
	(Being conversion of 1,000 fully paid Equity			

	Shares of ₹ 100 into ₹ 1,00,000 Equity Stock as per resolution in general meeting dated...)			
(iii)	Cumulative Preference Share Capital A/c	Dr.	1,50,000	
	Capital Reduction (Reconstruction) A/c	Dr.	33,000	
	To 11% Debentures (Unsecured)			1,83,000
	(Being 1,500 cumulative preference shares of ₹ 100 each fully paid up converted into 11% debentures of ₹ 100 each (including arrears of dividends amounting ₹ 33,000)			
(iv)	Capital Reduction (Reconstruction) A/c	Dr.	1,07,800	
	To Goodwill			80,000
	To Patents (Writing off patents, goodwill)			27,800

Exam Insights : Some examinees failed to pass the required journal entries under the given conditions for reconstruction scheme.

Question 6

Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.

(i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of ₹ 10 each, the following:
- **New fully paid ₹ 10 Equity Shares equal to 3/5th of their holding.**
- **Fully paid ₹ 10, 6% Preference Shares to the extent of 2/5th of the above new equity shares.**
- **7% Debentures of ₹ 250,000.**

(ii) Goodwill which stood at ₹ 2,70,000 is to be completely written off.

(iii) Plant & Machinery to be reduced by ₹ 1,00,000, Furniture to be reduced by ₹ 88,000 and Building to be appreciated by ₹ 1,50,000.

(iv) Investment of ₹ 6,00,000 to be brought down to its existing market price of ₹ 1,80,000.

(v) Write off Profit & Loss Account debit balance of ₹ 2,25,000.

In case of any shortfall, the balance of General Reserve of ₹ 42,000 can be utilized to write off the losses under reconstruction scheme.

You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses. ***(PYP 5 Marks Jul'21)***

Answer 6

Journal Entries

		₹	₹
Equity Share Capital (old) A/c	Dr.	75,00,000	
To Equity Share Capital (₹ 10) A/c			45,00,000
To 6% Preference Share Capital (₹ 10) A/c			18,00,000
To 7% Debentures A/c			2,50,000
To Capital Reduction A/c			9,50,000
(Being new equity shares, 6% Preference Shares, 7% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Building A/c	Dr.	1,50,000	
Capital Reduction A/c	Dr.	9,53,000	
To Goodwill Account			2,70,000
To Plant and Machinery Account			1,00,000
To Furniture Account			88,000
To Investment A/c			4,20,000
To Profit & Loss A/c			2,25,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery, furniture,			

investment and Profit & Loss as per the scheme)			
General reserve A/c	Dr.	3,000	
To Capital Reduction A/c			3,000
(Being general reserve utilized to write off the balance in Capital reduction A/c)			

Note: In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used in the above journal entries.

Exam Insights : Very few examinees failed to give the necessary journal entries for the given reconstruction scheme.

Question 7

The summarised Balance Sheet of Preeti Limited as on 31st March 2019, was as follows:

Liabilities	(₹)	Assets	(₹)
Authorized and subscribed capital:		**Property, plant and equipment:**	
20,000 Equity shares of ₹ 100 each fully paid	**20,00,000**	**Machineries**	**7,00,000**
Unsecured loans:		**Current Assets:**	
15% Debentures	**6,00,000**	**Inventory**	**5,06,000**
Interest payable thereon	**90,000**	**Trade receivables**	**4,60,000**
Current Liabilities:		**Bank**	**40,000**
Trade payables	**1,04,000**	**Profit & loss A/c**	**11,60,000**
Provision for income tax	**72,000**		
	28,66,000		**28,66,000**

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

(i) Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.

(ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.

(iii) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.

(iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.

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

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

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

Pass Journal Entries giving effect to the above. ***(MTP 8 Marks Oct'20, MTP 5 Marks Mar'22) (Same concept different figures SM)***

Answer 7

In the books of Preeti Limited Journal Entries

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c	Dr.	20,00,000	
	To Share Surrender A/c			10,00,000
	To Equity Share Capital (₹ 10) A/c			10,00,000
	(Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)			
(ii)	15% Debentures A/c	Dr.	3,00,000	
	Interest payable A/c (proportionate 50%)	Dr.	45,000	
	To Reconstruction A/c			3,45,000

	(Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)			
(iii)	Trade payables A/c	Dr.	1,04,000	
	To Reconstruction A/c			1,04,000
	(Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)			
(iv)	Share Surrender A/c	Dr.	10,00,000	
	To 10% Preference Share Capital A/c			2,00,000
	To Equity Share Capital A/c			78,000
	To Reconstruction A/c			7,22,000
	(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)			
(v)	Reconstruction A/c	Dr.	11,71,000	
	To Profit & Loss A/c			11,60,000
	To Capital Reserve A/c			11,000
	(Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)			

Note: Alternative set of correct journal entries may be given for transfer of surrendered shares to trade payables and debenture holders.

Question 8

The following is the Balance Sheet of Weak Ltd. as at 31.3.20X1:

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	1,50,00,000
	B	Reserves and Surplus	2	(6,00,000)
2		Non-current liabilities		
	A	Long-term borrowings	3	40,00,000
3		Current liabilities		
	A	Trade Payables		50,00,000
	B	Short term provisions	4	1,00,000
		Total		2,35,00,000
		Assets		
1		Non-current assets		
	A	Property, plant and equipment		1,25,00,000
	B	Non-current investment	5	10,00,000
2		Current assets		1,00,00,000
		Total		2,35,00,000

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	1,00,000 Equity Shares of ₹ 100 each	1,00,00,000
	50,000, 12% Cumulative Preference shares of ₹ 100 each	50,00,000
		1,50,00,000

2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(6,00,000)
		(6,00,000)
3	Long-term borrowings	
	40,000, 10% debentures of ₹100 each	40,00,000
		40,00,000
4	Short term provisions	
	Provision for taxation	1,00,000
		1,00,000
5	Non-current investments	
	Investments (market value of ₹ 9,50,000)	10,00,000
		000

The following scheme of reorganization is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.

(v) Property, plant and equipment are to be written down by 30%.

(vi) Current assets are to be revalued at ₹ 45,00,000.

(vii) The taxation liability of the company is settled at ₹ 1,50,000.

(viii) Investments to be brought to their market value.

(ix) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above. *(SM) (Same concept different figures RTP Nov'21, PYP 10 Marks Nov'18)*

Answer 8

Journal Entries in the books of Weak Ltd.

		₹	₹
(i)	Equity share capital (₹ 100) A/c Dr.	1,00,00,000	
	To Equity Share Capital (₹ 40) A/c		40,00,000
	To Capital Reduction A/c (Being conversion of equity share capital of ₹ 100 each into ₹ 40 each as per reconstructionscheme)		60,00,000
(ii)	12% Cumulative Preference Share capital(₹ 100) A/c Dr.	50,00,000	
	To 12% Cumulative Preference ShareCapital (₹ 60) A/c		30,00,000
	To Capital Reduction A/c (Being conversion of 12% cumulative preference share capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		20,00,000
(iii)	10% Debentures A/c Dr.	40,00,000	
	To 12% Debentures A/c		28,00,000
	To Capital Reduction A/c		12,00,000
	(Being 12% debentures issued to 10% debenture- holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Trade payables A/c Dr.	20,00,000	
	To Equity Share Capital A/c		12,00,000
	To Capital Reduction A/c (Being a creditor of ₹ 20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)		8,00,000
(v)	Provision for Taxation A/c Dr.	1,00,000	

	Capital Reduction A/c Dr.	50,000	
	To current assets(bank A/c) A/c (Being liability for taxation settled)		1,50,000
(vi)	Capital Reduction A/c Dr.	99,00,000	
	To P & L A/c		6,00,000
	To Property, plant and equipment A/c		37,50,000
	To Current Assets A/c		55,00,000
	To Investments A/c (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Property, plant and equipment, Current Assets, Investments through capital reduction account)		50,000
(vii)	Capital Reduction A/c Dr	50,000	50,000
	To capital Reserve A/c (Being balance in capital reduction accounttransferred to capital reserve account)		

Balance Sheet of Weak Ltd. (and reduced) as at 31.3.20X1

	Particulars	Notes	₹
	Equity and Liabilities		
1	**Shareholders' funds**		
a	Share capital	1	82,00,000
b	Reserves and Surplus	2	50,000
2	**Non-current liabilities**		
a	Long-term borrowings	3	28,00,000
3	**Current liabilities**		
a	Trade Payables		30,00,000
	Total		1,40,50,000
	Assets		
1	**Non-current assets**		
a	Property, plant and equipment	4	87,50,000
b	Investments	5	9,50,000
2	**Current assets**	6	43,50,000
	Total		1,40,50,000

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	1,30,000 equity shares of ₹ 40 each		52,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	50,000 12% Cumulative Preference shares of ₹ 60 each		30,00,000
	Total		82,00,000
2.	**Reserves and Surplus**		
	Capital Reserve		50,000
3.	**Long-term borrowings**		
	Secured		
	12% Debentures		28,00,000
4.	**Property, plant and Equipment**		
	Total PPE	1,25,00,000	
	Adjustment under scheme of reconstruction	(37,50,000)	87,50,000
5.	**Investments**	10,00,000	
	Adjustment under scheme of reconstruction	(50,000)	9,50,000
6.	**Current assets**	45,00,000	

	Adjustment under scheme of reconstruction	(1,50,000)	43,50,000

Working Note:

Capital Reduction Account

	₹		₹
To Current Asset	50,000	By Equity share capital	60,00,000
To P & L A/c	6,00,000	By 12% Cumulative preference share capital	20,00,000
To Property, plant andequipment	37,50,000	By 10% Debentures	12,00,000
To Current assets	55,00,000	By Trade payables	8,00,000
To Investment	50,000		
To Capital Reserve (bal. fig.)	50,000		
	1,00,00,000		1,00,00,000

Question 9

LDR

Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31 st March, 2022 before reconstruction:

Particulars	Note No.	Amount (₹ In lakh)
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
Non-Current Liabilities		
Long term Borrowings	3	1,050
Current Liabilities		
Trade Payables	4	153
Other Liabilities	5	36
Total		2,556
Assets		
Non-Current Assets:		
PPE	6	1,125
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		2,556

Notes to Accounts:

		₹ In lakh
(1)	Share capital	
	Authorised:	
	300 lakh Equity shares of ₹ 10 each	3,000
	12 lakh, 8% preference Shares of ₹ 100 each	1,200
		4,200
	Issued, Subscribed and Paid up:	
	150 Lakh Equity Shares of ₹ 10 each, fully paid up	1,500
	6 lakh 8% Preference Shares of ₹ 100 each, fully paid up	600
		2,100
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(783)
(3)	Long term borrowings	
	6% Debentures (Secured by freehold property)	600
	Director's Loan	450
		1,050

(4)	Trade payables	
	Trade payables for Goods	153
(5)	Other Liabilities	
	Interest Accrued and Due on 6% Debentures	36
(6)	PPE	
	Freehold Property	825
	Plant & machinery	300
		1,125
(7)	Current Investment	
	Investment in Equity Instruments	300
(8)	Inventories	
	Finished Goods	450
(9)	Trade Receivables	
	Trade receivables for Goods	675
(10)	Cash and Cash equivalents	
	Balance with bank	6

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.
(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.
(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
(4) Interest accrued and due on Debentures to be paid in cash.
(5) Remaining Freehold Property to be valued at ₹ 550 lakh.
(6) All investments sold out for ₹ 425 lakh.
(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allotted.
(8) 40% of Trade receivables and 80% of Inventories to be written off.
(9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying penalty of ₹ 72 lakhs.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;
(b) Prepare Capital Reduction Account, Bank Account; and
(c) Prepare Notes to Accounts on Share Capital and PPE, immediately after the implementation of internal reconstruction. *(RTP Nov'22)*

Answer 9

a) Journal Entries related to internal reconstruction In the books of Planet Ltd.

(₹ in lakhs)

	Particulars		Debit ₹	Credit ₹
i	8% Preference share capital A/c (₹ 100 each)	Dr.	600	
	To 8% Preference share capital A/c (₹ 75 each)			450
	To Capital reduction A/c (Being the preference shares of ₹ 100 each reduced to ₹ 75 each as per the approved scheme)			150
ii	Equity share capital A/c (₹ 10 each)	Dr.	1,500	
	To Equity share capital A/c (₹ 2 each)			300
	To Capital reduction A/c (Being the equity shares of ₹ 10 each reduced to ₹ 2 each)			1,200
iii	Capital reduction A/c	Dr.	48	
	To Equity share capital A/c (₹ 2 each) (Being 1/3rd of arrears of preference share dividend of three years to be satisfied by issue of 24 lakh equity shares of ₹ 2 each)			48

iv	6% Debentures A/c	Dr.	450	
	To Freehold property A/c (Being claim settled in part by transfer of freehold property)			450
v	Accrued debenture interest A/c	Dr.	36	
	To Bank A/c (Being accrued debenture interest paid)			36
vi	Freehold property A/c	Dr.	175	
	To Capital reduction A/c (Being appreciation (550-375) in the value of freehold property)			175
vii	Bank A/c	Dr.	425	
	To Investment A/c			300
	To Capital reduction A/c (Being investment sold on profit)			125
viii	Director's loan A/c	Dr.	450	
	To Equity share capital A/c (₹ 2 each)			135
	To Capital reduction A/c (Being director's loan waived by 70% and balance being discharged by issue of 67.5 lakh equity shares of ₹ 2 each)			315
ix	Capital Reduction A/c	Dr.	1,485	
	To Profit and loss A/c			783
	To Trade receivables A/c (675 x 40%)			270
	To Inventories-in-trade A/c (450 x 80%)			360
	To Bank A/c (Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account)			72
x	Capital Reduction A/c	Dr.	432	
	To Capital reserve A/c (Being balance transferred to capital reserve account as per the scheme)			432

b) Capital Reduction Account

(₹ in lakhs)

To Equity Share Capital	48	By 8% Pref. Share Capital	150
To P & L A/c	783	By Equity Share Capital	1,200
To Trade Receivables	270	By Freehold property	175
To Inventories	360	By Bank (profit on sale of investment)	125
To Bank	72	By Director's loan	315
To Capital Reserve	432		
	1,965		1,965

Bank Account (₹ in lakhs)

To Balance b/d	6	By Accrued debenture interest	36
To Investments	300	By Capital Reduction Account (Penalty on cancellation of contract)	72
To Capital reduction	125	By Balance c/d	323
	431		431

c) Note to Accounts on Share Capital and PPE after implementation of internal reconstruction

Share Capital	(₹ in lakhs)
Authorised:	
300 lakh shares of ₹ 2 each	600
12 lakh, 8% Preference shares of ₹ 75 each	900
	1,500
Issued, subscribed and paid up:	

241.5 lakh Equity shares of ₹ 2 each	483
(out of which 91.5 lakh shares have been issued for consideration other than cash)	
6 lakh, 8% Preference shares of ₹75 each fully paid up	450
Total	933
PPE	
Freehold property 825	
Less: Utilised to pay Debenture holders (450)	
Add: Appreciation 175	550
Plant and machinery	300
Total	850

Working Note:

Calculation of number of equity shares issued	
To equity shareholders	150 Lakh
To Preference shareholders (in lieu of arrear of preference dividend)	24 Lakh
To Directors	67.5 Lakh
	241.5 Lakh

Question 10

The following information of Vivtsu Ltd. as at March 31, 2024:

	₹ in lacs
Fully paid equity shares of ₹ 10 each	500
Capital Reserve	6
12% Debentures	400
Debenture Interest Outstanding	48
Trade payables	165
Directors' Remuneration Outstanding	10
Other Outstanding Expenses	11
Provisions	33
Assets	
Goodwill	15
Land and Building	184
Plant and Machinery	286
Furniture and Fixtures	41
Inventory	142
Trade receivables	80
Cash at Bank	27
Discount on Issue of Debentures	8
Profits and Loss Account	390

The following scheme of internal reconstruction was framed, approved by the Tribunal all the concerned parties and implemented:

- (i) All the equity shares be converted into the same number of fully- paid equity shares of ₹ 2.50 each.
- (ii) Directors agree to forego their outstanding remuneration.
- (iii) The debenture holders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.
- (iv) The existing shareholders agree to subscribe for cash, fully paid equity shares of ₹ 2.50 each for ₹ 125 lacs.
- (v) Trade payables are given the option of either to accept fully-paid equity shares of ₹ 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Trade payables for ₹ 65 lacs accept equity shares whereas those for ₹ 100 lacs accept ₹ 80 lacs in cash in full settlement.
- (vi) The Assets are revalued as under:

	₹ in lacs
Land and building	**230**
Plant and Machinery	**220**
Inventory	**120**
Trade receivables	**76**

Pass Journal Entries for all the above mentioned transactions immediately after the reconstruction. ***(MTP Dec'24 10 Marks)***

Answer 10

Journal Entries

			₹ in lacs
		Dr.	Cr.
Equity Share Capital (₹ 10 each) A/c	Dr.	500	
To Equity Share Capital (₹ 2.50 each) A/c			125
To Reconstruction A/c			375
(Conversion of all the equity shares into the same number of fully paid equity shares of ₹ 2.50 each as per scheme of reconstruction)			
Director's Remuneration Outstanding A/c	Dr.	10	
To Reconstruction A/c			10
(Outstanding remuneration foregone by the directors as per scheme of reconstruction)			
12% Debentures A/c	Dr.	400	
Debenture Interest Outstanding A/c	Dr.	48	
To 13% Debentures A/c			400
To Reconstruction A/c			48
(Conversion of 12% debentures into 13% debentures, Debenture holders forgoing outstanding debenture interest)			
Bank A/c	Dr.	125	
To Equity Share Application A/c			125
(Application money received for fully paid equity shares of ₹ 2.5 each from existing shareholders)			
Equity Share Application A/c	Dr.	125	
To Equity Share Capital (₹ 2.50 each) A/c			125
(Application money transferred to share capital)			
Trade payables A/c	Dr.	165	
To Equity Share Capital (₹ 2.50 each) A/c			65
To Bank A/c			80
To Reconstruction A/c			20
(Trade payables for ₹ 65 lakhs accepting shares for full amount and those for ₹ 100 lakhs accepting cash equal to 80% of claim in full settlement)			
Capital Reserve A/c	Dr.	6	
To Reconstruction A/c			6
(Being the loss on reconstruction (balance in the Reconstruction A/c) transferred to Capital Reserve)			
Land and Building A/c	Dr.	46	
To Reconstruction A/c			46

(Appreciation made in the value of land and building as per scheme of reconstruction)	Dr.	505	
Reconstruction A/c			
To Goodwill A/c			15
To Plant and Machinery A/c			66
To Inventory A/c			22
To Trade receivables A/c			4
To Discount on issue of Debentures A/c			8
To Profit and Loss A/c			390
(Writing off losses and reduction in the values of assets as per scheme of reconstruction— W.N. 1)			

Note: In a scheme of Reconstruction, Goodwill, Losses etc should be written off against the Reconstruction Account whether or not it is mentioned in the question.

Question 11

Following information from Balance Sheet of Ruby Limited as on 31st March, 2023.

	Amount ₹
Authorised and Issued equity share capital:	
60,000 shares of ₹ 100 each fully paid	60,00,000
40,000 7% cumulative preference shares of ₹ 100 each fully paid	40,00,000
General Reserve	12,00,000
Loan from Director	8,80,000
Trade Payables	49,20,000
Outstanding expenses	6,40,000
Bank loan	6,00,000
Patent	8,00,000
Plant & machinery	60,00,000
Building	11,00,000
Trade receivables	47,00,000
Inventory	32,60,000
Cash	2,40,000
Bank Balance	4,60,000
Profit and Loss account	16,80,000

Note: The arrears of preference dividend amount to ₹ 5,60,000.

The company had suffered losses since last 3 years due to bad market conditions and hope for a better position in the future.

The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

(1) Equity shares to be converted into 6,00,000 shares of ₹ 10 each.
(2) Equity shareholders to surrender to the company 80 percent of their holdings.
(3) Preference shareholders agree to forgo their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 8% preference shares.
(4) Trade payables agree to reduce their claim by one fourth in consideration of their getting shares of ₹ 10,00,000 out of the surrendered equity shares.
(5) Directors agree to forego the amounts due on account of loan.
(6) Surrendered shares not otherwise utilized to be cancelled.
(7) Assets to be reduced as under:

	₹
Patent to	Nil

Plant & Machinery by	**8,00,000**
Inventory by	**6,80,000**

(8) Trade receivables to the extent of ₹ 34,00,000 are considered good.

(9) Revalued figures for building is accepted at ₹ 14,00,000.

(10) Bank loan is paid.

(11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.

(12) Expenses of reconstruction amounted to ₹ 1,20,000.

(13) Further 80,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the Company. *(RTP Nov'23)*

Answer 11

Books of Ruby Ltd.
Journal Entries

Particulars		Debit (₹)	Credit (₹)
Equity Share Capital (₹ 100 each) a/c	Dr	60,00,000	
To Equity share capital (₹ 10 each) A/c (Sub division of equity share into ₹ 10 each)			60,00,000
Equity Share Capital (₹ 10) A/c	Dr.	48,00,000	
To Share surrendered A/c (Surrender of 80% of share holding by equity share holders)			48,00,000
7% Cumulative preference share capital A/c	Dr.	40,00,000	
To 8% cumulative preference share capital A/c (Conversion of 7% Cumulative Preference share capital into 8% Cumulative Preference share capital. They also forgo their right to arrears of dividends)			40,00,000
Shares Surrendered A/c	Dr.	10,00,000	
To Equity share capital A/c (Surrendered share issued against trade payables under reconstruction scheme)			10,00,000
Bank loan A/c	Dr.	6,00,000	
Expenses of reconstruction A/c	Dr.	1,20,000	
To Bank A/c (Bank loan and reconstruction expenses paid)			7,20,000
Share surrendered A/c	Dr.	38,00,000	
To Capital Reduction A/c (Cancellation of unissued surrendered shares) (48,00,000-10,00,000)			38,00,000
Loan from Director A/c	Dr.	8,80,000	
Trade Payables A/c	Dr.	12,30,000	
Building A/c	Dr.	3,00,000	
To Capital reduction A/c (Amount sacrificed by directors and trade payables and appreciation in value of building)			24,10,000
Capital reduction A/c	Dr.	62,10,000	
To Patent A/c			8,00,000
To Trade receivables A/c			13,00,000
To Inventory A/c			6,80,000
To Profit and Loss A/c			16,80,000
To Expenses on Reconstruction A/c			1,20,000
To Plant A/c (bal. fig) (8,00,000+8,30,000) (Various assets and expenses written off)			16,30,000
Bank A/c	Dr.	8,00,000	

To Share application money A/c (Application money received on full and final payment)			8,00,000
Share application money A/c	Dr.	8,00,000	
To Share capital A/c (Being 80,000 equity shares of ₹ 10 each issued and fully paid up)			8,00,000

Note: Cancellation of preference dividend need not be journalized. On cancellation, it ceases to be contingent liability and hence no further disclosure required.

Balance Sheet of Ruby Ltd. (and Reduced) as at 31st March, 2023

	Particulars	Note	Amount (₹)
I.	**EQUITY AND LIABILITIES**		
	1. Shareholders' funds		
	a. Share capital	1	70,00 000
	b. General reserve		12,00 000
	2. Current liabilities		
	a. Trade payables (49,20,000-12,30,000)		36,90,000
	b. Other current liabilities (outstanding expenses)		6,40,000
	Total		125,30,000
II.	**ASSETS**		
	1. Non-current assets		
	i. Property, Plant and Equipments	2	57,70,000
	ii. Intangible assets	3	-
	2. Current assets		
	a. Inventories (32,60,000- 6,80,000)		25,80,000
	b. Trade receivables (47,00,000 - 13,00,000)		34,00,000
	c. Cash and cash equivalents	4	7,80,000
	Total		125,30,000

Notes to the financial statements

(1) Share capital

	Particulars	Amount (₹)
a.	Authorized	
	• 6,00,000 equity shares of ₹ 10 each • 40,000 8% cumulative preference shares of ₹ 100 each	60,00,000 40,00,000
b.	Issued, subscribed and fully paid up	
	• 3,00,000 equity shares of ₹ 10 each (of the above, 1,00,000 shares were issued as fully paid up for consideration other than cash under the scheme of reconstruction) • 40,000 8% cumulative preference shares of ₹ 100 each	30,00,000 40,00,000
	Total	70,00,000

(2) Property, Plant and Equipments

Particulars	₹
Plant (60,00,000-16,30,000)	43,70,000
Building (11,00,000 + 3,00,000)	14,00,000
Total	57,70,000

(3) Intangible assets

Particulars	₹
Patent (8,00,000-8,00,000)	-

(4) Cash and cash equivalents

	Particulars	₹
a.	Balance with bank (4,60,000-6,00,000-1,20,000+8,00,000)	5,40,000

b.	Cash on hand	2,40,000
	Total	7,80,000

Question 12

Recover Ltd decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March 2020 is as follows-

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	**Share capital**	1	3,50,000
	B	**Reserves and surplus**	2	(70,000)
2		**Non-current liabilities**		
	A	**Long-term borrowings**	3	55,000
3		**Current liabilities**		
	A	**Trade Payables**		80,000
	B	**Short term Borrowings – Bank overdraft**		90,000
				5,05,000
		Assets		
1		**Non-current assets**		
	A	**Property, Plant Equipment**	4	3,35,000
	B	**Intangible assets**	5	50,000
	C	**Non-current investments**	6	40,000
2		**Current assets**		
	A	**Inventories**		30,000
	B	**Trade receivables**		50,000
				5,05,000

Notes to accounts:

1	**Share Capital**	Rs.
	Equity share capital:	
	20,000 Equity Shares of Rs. 10 each	2,00,000
	Preference share capital:	
	15,000 8% Cumulative Preference Shares of Rs. 10 each (preference dividend has been in arrears for 4 years)	1,50,000
		3,50,000
2	**Reserves and surplus**	
	Securities premium	10,000
	Profit and loss account (debit balance)	(80,000)
		(70,000)
3	**Long-term borrowings**	
	Secured	
	9% Debentures (secured on the freehold property	50,000
	Accrued interest on 9% debentures	5,000
		55,000
4	**Property, Plant and Equipment**	
	Freehold property	1,20,000
	Leasehold property	85,000
	Plant and machinery	1,30,000
		3,35,000
5	**Intangible assets**	
	Goodwill	50,000
		50,000
6	**Non-current investments**	

	Non-Trade investments at cost	40,000
		40,000

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

i. The preference shares were reduced to Rs. 2.5 per share, and the equity shares to Rs. 1 per share.
ii. One new equity share of Rs. 1 was issued for the arrears of preferred dividend for past 4 years.
iii. The balance on Securities Premium Account was utilized and was transferred to capital reduction account.
iv. The debenture holders took over the freehold property at an agreed figure of Rs. 75,000 and paid the
v. balance to the company after deducting the amount due to them.
vi. Plant and Machinery was written down to Rs. 1,00,000.
vii. Non-trade Investments were sold for Rs. 32,000.
viii. Goodwill and obsolete stock (included in the value of inventories) of Rs. 10,000 were written off.
ix. A contingent liability of which no provision had been made was settled at Rs. 7,000 and of this amount, Rs. 6,300 was recovered from the insurance.

You are required (a) to show the Journal Entries, necessary to record the above transactions in the company's books and (b) to prepare the Balance Sheet, after completion of the scheme. *(RTP May'21) (New SM)*

Answer 12

In the books of Recover Ltd Journal entries

Particulars		**Dr.**	**Cr.**
		Rs.	Rs.
8% Cumulative Preference share capital (Rs. 10) A/c	Dr.	1,50,000	
To 8% Cumulative Preference share capital (Rs.2.5) A/c			37,500
To Capital reduction (Rs. 7.5) A/c			1,12,500
(Preference shares being reduced to shares of Rs. 2.5 per share and remaining transferred to capital reduction account as per capital reduction scheme)			
Equity share capital A/c (Rs.10)	Dr.	2,00,000	
To Equity Share capital A/c (Rs. 1)			20,000
To Capital reduction A/c (Rs. 9)			1,80,000
(Equity shares reduced to Rs. 1 per share with the remaining amount transferred to capital reduction ac as a part of the internal reconstruction scheme.)			
Capital reduction A/c	Dr.	48,000	
To Equity share capital A/c			48,000
(Equity shares of Rs. 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)			
Securities Premium A/c	Dr.	10,000	
To Capital reduction A/c			10,000
(Amount from the securities premium utilized towards the capital reduction a/c as a part of the internal reconstruction scheme)			
9% Debentures A/c	Dr.	50,000	
Accrued interest on debentures A/c	Dr	5,000	
Bank A/c	Dr.	20,000	
Capital reduction A/c	Dr.	45,000	
To Freehold property A/c			1,20,000
(Debenture holders being paid by the sale of property, which is sold at a loss debited to the capital reduction account. Amount received in excess being refunded to company by debenture holders as a part of the internal reconstruction scheme.)			
Capital reduction A/c	Dr.	90,000	
To Plant and Machinery Ac			30,000

To Goodwill A/c			50,000
To Inventory A/c			10,000
(The assets written off as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	32,000	
Capital reduction A/c	Dr.	8,000	
To Investments A/c			40,000
(Investments sold at a loss debited to capital reduction account as a part of the internal reconstruction scheme)			
Contingent Liability A/c	Dr.	7,000	
To Bank A/c			7,000
(Contingent liability paid as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	6,300	
Capital reduction A/c	Dr.	700	
To Contingent Liability A/c			7,000
(The insurance company remitting part of the contingency payment amount)			
Capital reduction A/c	Dr.	80,000	
To Profit and loss A/c			80,000
(Accumulated losses written off to capital reduction account as a part of the internal reconstruction scheme).			
Capital reduction A/c	Dr.	30,800	
To Capital reserve A/c			30,800
(The balance in capital reduction account transferred to capital reserve as a part of the internal reconstruction scheme)			

Balance sheet of Recover Ltd. as at 31st March 2020 (and reduced)

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,05,500
	B	Reserves and surplus	2	30,800
2		**Non-current liabilities**		
	A	Long-term borrowings		-
3		**Current liabilities**		
	A	Trade Payables		80,000
	B	Bank Overdraft		90,000
		Total		**3,06,300**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	3	1,85,000
2		**Current assets**		
	A	Inventories		20,000
	B	Trade receivables		50,000
	C	Cash and cash equivalents	4	51,300
		Total		**3,06,300**

Notes to accounts:

1	**Share Capital**	**Rs.**
	Equity share capital	

	68,000 Equity Shares of Rs. 1 each	68,000
	Preference share capital	
	15,000 8% Cumulative Preference Shares of Rs. 2.5 each	37,500
2	**Reserves and surplus**	1,05,500
	Capital reserve	30,800
3	**Property, Plant and Equipment**	
	Leasehold property	85,000
	Plant and machinery	1,00,000
		1,85,000
4	**Cash and cash equivalents**	51,300
	Bank A/c (20,000+32,000-7000+6,300)	

Question 13

The following is the Balance Sheet of Purple Limited as at 31st March, 2022:

Particulars	Notes	Amount in ₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	15,00,000
(b) Reserves & Surplus	2	(3,00,000)
(2) Current Liabilities		
(a) Trade Payables		2,20,000
(b) Short Term Borrowings – Bank Overdraft		2,00,000
Total		16,20,000
II. Assets		
(1) Non-Current Assets		
(a) Property, Plant and Equipment	3	10,20,000
(b) Intangible Assets	4	1,20,600
(2) Current Assets		
(a) Inventories		1,70,000
(b) Trade Receivables		3,01,800
(c) Cash and cash equivalents		7,600
Total		16,20,000

Notes to Accounts

	₹	₹
(1) Share Capital		
90,000 Equity Shares of ₹ 10 each fully paid	9,00,000	
6% Preference Share Capital	6,00,000	15,00,000
(2) Reserves & Surplus		
Profit & Loss account		(3,00,000)
(3) Property, Plant and Equipment		
Land and Building	5,40,000	
Plant and Machinery	4,80,000	10,20,000
(4) Intangible Assets		
Goodwill	84,600	
Patents	36,000	1,20,600

Dividends on preference shares are in arrears for 3 years.

On the above date, the company adopted the following scheme of reconstruction:

(i) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.

(ii) The value of equity shares is brought down to ₹ 8 per share.

(iii) The arrears of dividend on preference shares are cancelled.

(iv) The debit balance of Goodwill account is written off entirely.

(v) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.

(vi) Book debts amounting to ₹ 14,400 are to be treated as bad and hence to be written off.

(vii) The company expects to earn a profit at the rate of ₹ 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.

(viii) The balance of total capital reduction is to be utilized in writing down Patents.

(ix) A secured loan of ₹ 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet. *(PYP 20 Marks Nov'22)*

Answer 13

	Particulars		Debit (₹)	Credit (₹)
1.	6% Preference share capital A/c	Dr.	6,00,000	
	To 8% Preference share capital A/c			4,50,000
	To Capital reduction A/c			1,50,000
	(Being 6% preference shares converted to 8% preference shares so that return to pref. shareholders remains unaffected)			
2.	Equity share capital A/c (₹ 10)	Dr.	9,00,000	
	To Equity share capital A/c (₹ 8)			7,20,000
	To Capital reduction A/c			1,80,000
	(Being equity capital reduced to nominal value of ₹ 8 each)			
3.	Capital Reduction A/c	Dr.	3,30,000	
	To Goodwill A/c			84,600
	To Land and Building A/c			81,000
	To Plant and Machinery A/c			96,000
	To Trade Receivables A/c (Book debts)			14,400
	To Patents A/c (Bal. fig.)			24,000
	To Profit and loss A/c			30,000
	(Being losses and assets written off to the extent required)			
4.	Bank A/c	Dr.	4,80,000	
	To Bank Loan A/c			4,80,000
	(Being Loan taken)			
5.	Bank overdraft A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being Bank overdraft repaid)			

Capital Reduction Account

Particulars	₹	Particulars	₹
To Goodwill A/c	84,600	By Equity Share Capital A/c	1,80,000
To Land & Building A/c	81,000	By 6% Preference Share Capital A/c	1,50,000
To Plant and Machinery, A/c	96,000		
To Trade receivables (Book Debts) A/c	14,400		
To Profit & Loss A/c	30,000		
To Patents A/c (Bal. fig.)	24,000		
	3,30,000		3,30,000

Balance Sheet of Purple Ltd. (and reduced) as at 31.3.2022

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	11,70,000

	b	Reserves and surplus	2	(2,70,000)
2		Current liabilities		
	a	Short term borrowings (Secured Bank Loan)		4,80,000
	b	Trade Payables		2,20,000
		Total		16,00,000
		Assets		
1		Non-current assets		
	a	Property, plant and equipment	3	8,43,000
	b	Intangible assets	4	12,000
2		Current Assets		
	a	Inventory		1,70,000
	b	Trade receivables	5	2,87,400
	c	Cash and cash equivalents (7,600+4,80,000-2,00,000)		2,87,600
		Total		16,00,000

Notes to Accounts:

			₹
1.	Share Capital		
	Authorized		
	Issued, subscribed and paid up:		
	90,000 equity shares of ₹ 8 each fully paid	7,20,000	
	8% Preference share capital*	4,50,000	11,70,000
2.	Reserves and Surplus		
	Profit and Loss Account (Dr. balance)		(2,70,000)
3.	Property plant and equipment		
	Land and Building	4,59,000	
	Plant and Machinery	3,84,000	8,43,000
4.	Intangible assets		
	Patent ₹ (36,000 - 24,000)		12,000
5.	Trade Receivables		
	Sundry Debtors	3,01,800	
	Less: Bad debts	(14,400)	2,87,400

Note: *Face value of preference share is not given in the question (pre and post reconstruction) and hence any suitable value of preference share may be assumed.

Working Notes:

1. Calculation of new Preference Shares

Rate of return : 6% on Preference Shares

Dividend : (6/100) x ₹ 6,00,000 = ₹ 36,000

Rate of return : 8% on Preference Shares

Dividend : (8/100) x X = ₹ 36,000

X = (36,000/8) x 100 = ₹ 4,50,000

New Preference Share Capital = ₹ 4,50,000

Old Preference Share Capital = ₹ 6,00,000

(6,00,000 – 4,50,000) = ₹ 1,50,000 Amount taken to Capital Reduction A/c.

2. Since the company expects to earn a profit of ₹ 90,000 p.a. consecutively for three years and it shall be used to write-off debit balance of P & L account, hence ₹ 2,70,000 being loss shall be shown in the Balance Sheet under Reserve & Surplus head and ₹ 30,000 shall be written-off from Capital Reduction A/c.

3. Calculation of Amount written off on Land & Building and Plant & Machinery

Land & Building Plant & Machinery	= (85/100) x 5,40,000 = (80/100) x 4,80,000	= ₹ 4,59,000 = ₹ 3,84,000
Reduced by:		
Land & Building	= (5,40,000 - 4,59,000)	= ₹ 81,000
Plant & Machinery	= (4,80,000 - 3,84,000)	= ₹ 96,000

EXAM INSIGHTS: Some of the examinees erred in passing the journal entries as per the terms of reconstruction given in the question and also failed to prepare the Capital reduction account . Consequently, they failed to draw up the resultant balance sheet of the Company immediately after the reconstructed.

Question 14

Following is the Balance Sheet of Wiwitsu Ltd. as at 31st March, 2023:

		Particulars	Notes	₹
1		**Equity and Liabilities** **Shareholders' funds**		
	A	Share capital	1	26,00,000
	B	Reserves and Surplus	2	(4,05,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	12,00,000
3		**Current liabilities**		
	A	Trade Payables		5,92,000
	B	Short term borrowings - Bank overdraft		1,50,000
		Total		41,37,000
1		**Assets** **Non-current assets**		
	A	Property, plant and equipment	4	11,50,000
	B	Intangible assets	5	70,000
	C	Non-current investment	6	68,000
2		**Current assets**		
	A	Inventory		14,00,000
	B	Trade receivables		14,39,000
	C	Cash and cash equivalents		10,000
		Total		41,37,000

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital:	
	2,00,000 Equity Shares of ₹ 10 each	20,00,000
	6,000, 8% Preference shares of ₹ 100 each	6,00,000
		26,00,000
2	**Reserves and Surplus**	
	Debit balance of Profit and loss A/c	(4,05,000)
		(4,05,000)
3	**Long-term borrowings**	
	9% debentures	12,00,000
		12,00,000
4	**Property, Plant and Equipment**	
	Plant and machinery	9,00,000
	Furniture and fixtures	2,50,000
		11,50,000
5	**Intangible assets**	
	Patents and copyrights	70,000
		70,000
6	**Non-current investments**	
	Investments (market value of ₹ 55,000)	68,000
		68,000

The following scheme of reconstruction was finalized:

- **Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures** to them.

- Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- Inventory equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- Investment value to be reduced to market price.
- The company would issue 11% Debentures for ₹ 3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet extract for Equity & Liabilities of the company after internal reconstruction. (Chapter - Accounting for Reconstruction of Companies) *(MTP 10 Marks Mar'24, New SM)*

Answer 14

In the Books of Wiwitsu Ltd. Journal Entries

Particulars		₹	₹
8% Preference share capital A/c	Dr.	6,00,000	
To 11% Debentures A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital			
and issue of 11% debentures]			
9% Debentures A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant &			
machinery]			
Trade payables A/c	Dr.	5,92,000	
To Inventory A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving Inventories]			
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c [Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			1,54,000

Capital Reduction Account

	₹		₹
To Investments A/c	13,000	By Preference share capital A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture holder's A/c	3,00,000
To Capital reserve A/c	1,54,000	By Trade payables A/c	92,000
	5,72,000		5,72,000

Balance Sheet Extract of Wiwitsu Ltd. (And Reduced) As at 31st March 2023

Particulars		Note No	₹
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital		1	20,00,000
(b) Reserves and Surplus		2	1,54,000

(2) **Non-Current Liabilities** Long-term borrowings		3	7,20,000
	Total		**28,74,000**

Notes to Accounts

		₹
1.	**Share Capital**	
	2,00,000 Equity shares of ₹ 10 each fully paid-up	20,00,000
2.	**Reserve and Surplus**	
	Capital Reserve	1,54,000
3.	**Long Term Borrowings**	
	11% Debentures (₹ 4,20,000 + ₹ 3,00,000)	7,20,000

Question 15

Following is the summarized Balance Sheets of Wivitsu Limited as on 31 st March, 2024:

Particulars	(₹)
EQUITY AND LIABILITIES:	
Share Capital	
Equity shares of ₹ 100 each	**60,00,000**
8% Preference shares of ₹ 100 each	**21,00,000**
10% Debentures of ₹ 100 each	**18,00,000**
Trade Payables	**16,80,000**
Total	**1,15,80,000**
ASSETS:	
Goodwill	**81,000**
Property, Plant and Equipment	**72,00,000**
Trade Receivables	**13,75,000**
Inventories	**9,80,000**
Cash at Bank	**1,33,000**
Own Debentures (Nominal value of ₹ 6 lakhs)	**5,76,000**
Profit and Loss A/c	**12,35,000**
Total	**1,15,80,000**

On 1stApril, 2024, court approved the following reconstruction scheme for Wivitsu Limited:

(i) Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. After sub-division, equity share capital will be reduced by 40%.

(ii) Preference share dividends are in arrear for last 4 years. Preference shareholders agreed to waive 75% of their dividend claim and accept payment for the balance.

(iii) Own debentures of ₹ 2,40,000 (nominal value) were sold at 98 cum interest and remaining own debentures were cancelled.

(iv) Debenture holders of ₹ 6,00,000 agreed to accept one machinery of book value of ₹ 9,00,000 in full settlement.

(v) Remaining Property, Plant and Equipment were valued at ₹ 60,00,000.

(vi) Trade Payables, Trade Receivables and Inventories were valued at ₹ 15,00,000, ₹ 13,00,000 and ₹ 9,44,000 respectively. Goodwill and Profit and Loss Account (Debit balance) are to be written off.

(vii) Company paid ₹ 60,000 as penalty to avoid capital commitments of ₹ 12 lakhs.

(viii) Interest on 10% Debentures is paid every year on 31st March.

You are required to:

(1) Pass necessary journal entries in the books of Wivitsu Limited to implement the above schemes.

(2) Prepare Capital Reduction Account.

(3) Prepare Bank Account ***(PYP 14 Marks May'24)***

Answer 15

Journal entries In the Books of Wivitsu Limited. as on 1st April 2024

	Particulars		Dr.	Cr.
01.04.2024			Amount (₹)	Amount (₹)
1.	Equity share capital A/c (₹100)	Dr.	60,00,000	
	To Equity share capital A/c (₹10)			60,00,000
	(Being sub-division of one share of ₹100 each into 10 shares of ₹10 each)			
2.	Equity share capital A/c (₹10)	Dr.	24,00,000	
	To Capital reduction A/c			24,00,000
	(Being reduction of Equity capital by 40%)			
3.	Capital reduction A/c	Dr.	1,68,000	
	To Bank A/c			1,68,000
	(Being payment in cash of 25% of arrear of preference dividend) [21,00,000x8%] x 4 years			
4.	Bank A/c	Dr.	2,35,200	
	To Own debentures A/c (5,76,000/6,00,000) x 2,40,000			2,30,400
	To Capital reduction A/c			4,800
	(Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reductionA/c)			
5.	10% Debentures A/c (6,00,000 -2,40,000)	Dr.	3,60,000	
	To Own debentures A/c			3,45,600
	To Capital reduction A/c			14,400
	(Being profit on cancellation of own debentures transferred to capital reduction A/c)			
6.	10% Debentures A/c	Dr.	6,00,000	
	Capital reduction A/c	Dr.	3,00,000	
	To Machinery or PPE A/c			9,00,000
	(Being machinery taken up by debenture holders for ₹ 6,00,000)			
7.	Capital reduction A/c (balancing figure)	Dr.	3,00,000	
	To PPE A/c (72,00,000 - 9,00,000 - 60,00,000)			3,00,000
	(Being PPE revalued)			
8.	Trade payables A/c (16,80,000 -15,00,000)	Dr.	1,80,000	
	To Trade receivables A/c (13,75,000-13,00,000)			75,000
	To Inventory A/c (9,80,000-9,44,000)			36,000
	To Capital Reduction A/c			69,000
	(Being assets and liabilities revalued)			
9.	Capital reduction A/c	Dr.	13,16,000	
	To Goodwill A/c			81,000
	To Profit and Loss A/c			12,35,000
	(Being the above assets written off)			
10.	Capital reduction A/c	Dr.	60,000	
	To Bank A/c			60,000
	(Being penalty paid for avoidance of capital commitments)			
11.	Capital reduction A/c	Dr.	3,44,200	
	To Capital reserve A/c			3,44,200
	(Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)			

1. **Capital Reduction Account**

	(₹)		(₹)
To Bank	1,68,000	By Equity Share Capital	24,00,000

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

3. **Bank Account**

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

Question 16

The Balance Sheet of Lion Limited as on 31-03-2018 is given below:

Particulars	Note No.	Amount (₹ in lakh)
Equity & Liabilities		
Shareholders' Funds		
Shares' Capital	1	1,400
Reserves & Surplus	2	(522)
Non-Current Liabilities		
Long term Borrowings	3	700
Current Liabilities		
Trade Payables	4	102
Other Liabilities	5	24
Total		1704
Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	750
Current Assets		
Current Investments	7	200
Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
Total		1704

Notes to Accounts:

	₹ in Lakhs
(1) Share Capital	
Authorised :	
200 lakh shares of ₹ 10 each	2,000
8 lakh, 8% Preference Shares of ₹ 100 each	800
	2,800
Issued, Subscribed and paid up:	
100 lakh Equity Shares of ₹ 10 each, full paid up	1,000
4 lakh 8% Preference Shares of ₹ 100 each, fully paid up	400
Total	1400
(2) Reserves and Surplus	

Debit balance of Profit & Loss A/c	(522)
(3) Long Term Borrowings	
6% Debentures (Secured by Freehold Property)	400
Directors' Loan	300
	700
(4) Trade Payables	
Trade payables for Goods	102
(5) Other Current Liabilities	
Interest Accrued and Due on 6% Debentures	24
(6) Tangible Assets	
Freehold Property	550
Plant & Machinery	200
	750
(7) Current Investment	
Investment in Equity Instruments	200
(8) Inventories	
Finished Goods	300
(9) Trade Receivables	
Trade receivables for Goods	450
(10) Cash and Cash Equivalents	
Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to Rs. 80 each and Equity Shares to Rs. 2 each.
(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs. 2 each to be allotted.
(3) Debenture holders agreed to take one Freehold Property at its book value of Rs. 300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
(4) Interest accrued and due on Debentures to be paid in cash.
(5) Remaining Freehold Property to be valued at Rs. 400 lakh.
(6) All investments sold out for Rs. 250 lakh.
(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of Rs. 2 each to be allowed.
(8) 40% of Trade receivables and 80% of Inventories to be written off.
(9) Company's contractual commitments amounting to Rs. 600 lakh have been settled by paying 5% penalty of contract value.

You are required to :

(a) Pass Journal Entries for all the transactions related to internal reconstruction;
(b) Prepare Reconstruction Account; and
(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

(MTP 15 Marks Mar'18, MTP 16 Marks Apr'21, RTP May'19)

Answer 16

Journal Entries in the books of Lion Ltd.

Particulars		Debit (Rs. in lakhs)	Credit (Rs. in lakhs)
(i) 8% Preference share capital A/c (Rs. 100 each)	Dr.	400	
To 8% Preference share capital A/c (Rs. 80 each)			320
To Capital Reduction A/c			80
(Being the preference shares of Rs. 100 each reduced to			
Rs. 80 each as per the approved scheme)			
(ii) Equity share capital A/c (Rs. 10 each)	Dr.	1,000	
To Equity share capital A/c (Rs. 2 each)			200
To Capital Reduction A/c			800

(Being the equity shares of Rs. 10 each reduced to Rs. 2 each)			
(iii) Capital Reduction A/c	Dr.	32	
To Equity share capital A/c (Rs. 2 each)			32
(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 16 lakhs equity shares of Rs. 2 each)			
(iv) 6% Debentures A/c	Dr.	300	
To Freehold property A/c			300
(Being claim of Debenture holders settled in part			
by transfer of freehold property)			
(v) Accrued debenture interest A/c	Dr.	24	
To Bank A/c			24
(Being accrued debenture interest paid)			
(vi) Freehold property A/c	Dr.	150	
To Capital Reduction A/c			150
(Being appreciation in the value of freehold property)			
(vii) Bank A/c	Dr.	250	
To Investments A/c			200
To Capital Reduction A/c			50
(Being investment sold at profit)			
(viii) Director's loan A/c	Dr.	300	
To Equity share capital A/c (Rs. 2 each)			90
To Capital Reduction A/c			210
(Being director's loan waived by 70% and balance being			
discharged by issue of 45 lakhs equity shares of Rs. 2 each)			
(ix) Capital Reduction A/c	Dr.	972	
To Profit and loss A/c			522
To Trade receivables A/c (450 x 40%)			180
To Inventories-in-trade A/c (300x 80%)			240
To Bank A/c (600 x 5%)			30
(Being certain value of various assets, penalty on cancellation			
of contract, profit and loss account debit balance written of			
through Capital Reduction Account)			
(x) Capital Reduction A/c		286	
To Capital reserve A/c			286
(Being balance transferred to capital reserve account as per the scheme)			

Capital Reduction Account

Dr.	(Rs. in lakhs)		Cr. (Rs. in lakhs)
To Equity Share Capital	32	By Preference Share Capital	80
To Trade receivables	180	By Equity Share Capital	800
To Finished Goods	240	By Freehold Property	150
To Profit & Loss A/c	522	By Bank	50
To Bank A/c	30		
To Capital Reserve	286	By Director's Loan	210
	1,290		**1,290**

Notes to Balance Sheet

		(Rs. in lakhs)	(Rs. in lakhs)
1.	Share Capital		
	Authorized:		
	200 lakhs Equity shares of Rs. 2 each		400
	8 lakhs 8% Preference shares of Rs. 80 each		640
			1,040
	Issued:		
	161 lakhs equity shares of Rs. 2 each		322

	4 lakhs Preference Shares of Rs. 80 each		320
			642
2.	Tangible Assets		
	Freehold Property	550	
	Less: Utilized to pay Debenture holders	(300)	
		250	
	Add: Appreciation	150	400
	Plant and Machinery		200
			600

Question 17

The Balance Sheet of Radhika Ltd. as at 31-3-2024 is as follows:

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	13,80,000
	b	Reserves and Surplus	2	(6,42,000)
2		Non-current liabilities		
	a	Long-term borrowings	3	4,50,000
3		Current liabilities		
	a	Trade Payables		3,60,000
	b	Short term borrowings - Bank Overdraft		2,34,000
	c	Other current liabilities	4	1,47,000
		Total		19,29,000
		Assets		
1		Non-current assets		
	a	Property, plant and equipment	5	5,70,000
	b	Intangible assets	6	2,01,000
	c	Non-current investments	7	66,000
2		Current assets		
	a	Inventories		5,10,000
	b	Trade receivables		5,00,000
	c	Cash and Cash Equivalents		82,000
		Total		19,29,000

Notes to accounts

		₹
1	Share Capital	
	Equity share capital:	
	9,000 Equity Shares of ₹100 each	9,00,000
	Preference share capital:	
	4,800 6% Cumulative Preference Shares of ₹100 each	4,80,000
		13,80,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(6,42,000)
3	Long-term borrowings	
	Secured: 6% Debentures	4,50,000
4	Other current liabilities	
	Loan from directors	1,20,000
	Interest payable on 6% debentures	27,000
		1,47,000
5	Property Plant and Equipment	
	Freehold property	5,10,000

	Plant	60,000
		5,70,000
6	Intangible assets	
	Goodwill	1,56,000
	Patents	45,000
		2,01,000
7	Non-current investments	
	Investments at cost	66,000

The Court approved a Scheme of re-organization to take effect on 1-4-2024, whereby:

(1) Equity Shares to be reduced to ₹ 20 each.

(2) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(3) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 20 each to be allotted for the remaining quarter.

(4) Interest payable on debentures to be paid in cash.

(5) Goodwill to be written off.

(6) Inventory to be written off by ₹65,000.

(7) Amount of ₹ 68,500 to be provided for bad debts.

(8) Freehold property to be revalued at ₹6,49,000

(9) Investments be sold for ₹ 1,40,000.

(10) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 20 each and as to 5% in cash, and balance 5% being waived.

(11) There were capital commitments totaling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(12) Ignore taxation and cost of the scheme.

(13) Eliminate debit balance of Profit and Loss A/c

You are requested to prepare the Balance Sheet of the company after completion of the Scheme.

(MTP 10 Marks Apr'24) (RTP Nov'18) (Same concept different figures- RTP May'22 & Nov'20)

Answer 17

Balance Sheet of Radhika Ltd. (and Reduced) as on 1.4.2024

		Particulars	Notes	₹
I.		Equity & Liabilities		
A		Shareholders' Fund		
	a	Share Capital	1	3,16,800
	b	Reserves & Surplus	2	1,10,200
B		Non-Current Liabilities		
	a	Long Term Borrowings	3	7,86,000
C		Current Liabilities		
	a	Trade Payables		3,60,000
	b	Short Term borrowings: Bank OD		2,34,000
		Total		18,07,000
II.		Assets		
A		Non-Current Assets		
	a	Property, Plant & Equipment	4	7,09,000
	b	Intangible assets: Patents		45,000
B		Current Assets		
	a b	Inventory (5,10,000-65,000)		4,45,000
	c	Trade Receivable	5	4,31,500
		Cash & Cash Equivalent		1,76,500
		Total		18,07,000

Notes to Accounts

	Particulars	₹
1	Share Capital	-

	Authorised, Issued, Subscribed & Paid Up Capital	
	Equity share Capital	
	15,840 Shares of ₹20 Paid up	3,16,800
	(Out of above 6,840 shares are issued for consideration other cash) (W.N 1)	
2	Reserves & Surplus	
	Capital Reserve (W.N 2)	1,10,200
3	Long Term Borrowings Secured	
a b	6% Debentures	4,50,000
	11% Debentures(70% of 4,80,000 preference shares)	3,36,000
		7,86,000
4	PPE	
	Freehold property	6,49,000
	Plant	60,000
		7,09,000
5	Trade receivable	5,00,000
	Less: Provision for Doubtful Debts	(68,500)
		4,31,500

Working notes:

1. **Computation of equity shares:**

			Equity share capital	No. of shares at ₹ 20 each
1	After the reduction to ₹ 20 each	90,000 x 20	1,80,000	9,000
2.	Equity shares allotted to preference shareholders for their ¼ arrears.	6% of 4,80,000	28,800	1,440
3.	Equity shares allotted to Directors in settlement of their loan	90% of 1,20,000	1,08,000	5,400
	Total equity shares		3,16,800	15,840

2. Calculation of capital reserve: Equity Share 7,20,000 + Preference share 1,44,000 + Freehold property 1,39,000 +Investment 74,000 + Director Loan 6,000 – Preference share dividend 28,800 - Goodwill 1,56,000 – Inventory 65,000 – Bad debts 68,500 – Profit & Loss A/c 6,42,000 = Capital Reserve 1,22,700
3. Cash balance:

		₹
Cash & cash equivalent		82,000
Add: Investment sold		1,40,000
Less: Directors Loan (1,20,000 x 5%)	6,000	
Penalty (2,50,000x 5%)	12,500	
Interest on debentures (6% on 4,50,000)	27,000	45,500
		1,76,500

Question 18 LDR

The following information is being provided by Fortunate Ltd. as on 31st March, 2022.

Particulars	Amount (₹)
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account (Dr. balance)	5,63,750
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Building at cost less depreciation	5,00,000

Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.

(iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied:

 (a) To write off the debit balance in the Profit and Loss A/c, and

 (b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital. You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction. *(RTP May'23, PYP 15 Marks Nov'19, MTP 10 Marks Nov'24) (Same concept different figures Old & New SM)*

Answer 18

In the books of Fortunate Ltd. Journal Entries

	Particulars		Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50)	Dr.	9,37,500	
	To Equity share capital A/c (₹ 5)			93,750
	To Capital reduction A/c*			8,43,750
	(Being equity capital reduced to nominal value of ₹ 5 each)			
2.	Bank A/c	Dr.	2,81,250	
	To Equity share capital			2,81,250
	(Being 3 right shares against each share was issued and subscribed)			
3.	8% Preference share capital A/c (₹ 50)	Dr.	7,50,000	
	Capital reduction A/c	Dr.	75,000	
	To 6% Preference share capital (₹ 10)			6,00,000
	To equity share capital (₹ 50)			2,25,000
	(Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)			
4.	Loan A/c	Dr.	1,87,500	
	To 6% Preference share capital A/c (15,000 x ₹ 10)			1,50,000
	To Equity share capital A/c (7,500 x ₹ 5)			37,500
	(Being loan to the extent of ₹ 1,50,000 converted into share			

	capital)			
5.	Bank A/c (25,000 x ₹5)	Dr.	1,25,000	
	To Equity share application A/c			1,25,000
	(Being shares subscribed by the directors)			
6.	Equity share application A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(Being application money transferred to capital A/c)			
7.	Loan A/c	Dr.	2,50,000	
	To Bank A/c			2,50,000
	(Being loan repaid)			
8.	Capital reduction A/c	Dr.	7,68,750	
	To Profit and loss A/c			5,63,750
	To Plant A/c			43,750
	To Trademarks and Goodwill A/c (Bal. fig.)			1,61,250
	(Being losses and assets written off to the extent required)			

Balance sheet of Fortunate Ltd. (and reduced) as on 31.3.2022

		Particulars	Notes	₹
1.	a	Equity and Liabilities		
		Shareholders' funds		
		Share capital	1	15,12,500
2.		Non-current liabilities		
	a	Long-term borrowings (7,16,250 – 1,87,500 – 2,50,000)		2,78,750
3.		Current liabilities		
	a	Trade Payables		2,58,750
	b	Other current liabilities		43,750
		Total		20,93,750
		Assets		
1.		Non-current assets		
	a	Property, Plant and Equipment	2	7,91,250
	b	Intangible assets	3	2,36,250
2.		Current assets		
	a	Inventories		5,00,000
	b	Trade receivables		4,10,000
	c	Cash and cash equivalents	4	1,56,250
		Total		20,93,750

Notes to accounts:

		₹	₹
1.	Share Capital		
	Authorized capital:		
	81,250 Preference shares of ₹ 10 each	8,12,500	
	1,87,500 Equity shares of ₹ 5 each	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	75,000, 6% Preference shares of ₹ 10 each	7,50,000	15,12,500
2.	Property, Plant and Equipment		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	7,91,250
3.	Intangible assets		
	Trademarks and goodwill		2,36,250
4.	Cash and cash equivalents		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

Note: *In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used.

Question 19

LDR

Following is the Balance Sheet of Tourma Limited as at 31st March,2023:

Particulars	Notes	₹ in lakhs
Equity and Liabilities		
1. Shareholders' funds		
A. Share Capital	1	24.00
B. Reserves and Surplus	2	(9.10)
2. Non-current liabilities		
A. Long-term borrowings	3	3.20
3. Current liabilities		
A. Trade Payables		1.15
B. Short Term Borrowings – Bank Overdraft		1.40
C. Other current liabilities	4	0.32
D. Short term provisions	5	0.42
Total		21.39
Assets		
1. Non-current assets		
A. Property, Plant and Equipment	6	7.80
B. Intangible Assets	7	1.70
C. Non-Current Investments	8	1.80
2. Current Assets		
A. Inventory		5.12
B. Trade receivables		4.32
C. Cash and cash equivalents		0.65
Total		21.39

Notes to Accounts:

		₹ in lakhs
1	Share Capital	
	Equity share capital	
	16,000 Equity Shares of ₹ 100 each	16.00
	8,000 6% Preference Shares of ₹ 100 each	8.00
		24.00
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(9.10)
		(9.10)
3	Long-term borrowings	
	3,200 10% Debentures	3.20
		3.20
4	Other current liabilities	
	Interest payable on debentures	0.32
		0.32
5	Short term provisions	
	Provision for taxation	0.42
		0.42
6	Property, Plant and Equipment	
	Plant & Machinery	5.00
	Furniture & Fixture	2.80

		7.80
7	**Intangible Assets**	
	Patents & Copyrights	1.70
		1.70
8	**Non-current Investments**	
	Investments (Market Value ₹ 1,10,000)	1.80
		1.80

As on 1st April,2023, the following scheme of reconstruction was finalized for which necessary resolution was passed and approvals were obtained from appropriate authorities. Accordingly, it was decided that:

(i) Each equity share is to be sub-divided into ten fully paid-up equity shares of ₹ 10 each. After sub-division, each shareholder shall surrender to the company 40 % of his holding, for the purpose of reissue to trade payables as necessary.

(ii) Preference shareholders would give up 30% of their capital and 12% Debentures (face value ₹ 100 each) shall be issued to them for balance holdings.

(iii) The company would issue additional 12% Debentures (face value ₹ 100 each) for ₹ 4,00,000 for meeting its working capital requirement and final settlement of Bank Overdraft at 90% of the amount.

(iv) Existing debenture holders would accept Furniture & Fixture in full settlement of their dues.

(v) Trade payables claim shall be reduced to 70%, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.

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

(vii) The taxation liability is to be settled at 50,000.

(viii) Investments value to be reduced to market price.

(ix) Balance of profit and loss account is to be written off.

(x) The value of inventories is to be increased by ₹ 32,000 and provision for Doubtful Debts is to be created at 5% of Trade Receivables.

You are required to:

(i) Pass necessary journal entries in the books of account of Tourma Limited.

(ii) Prepare Reconstruction Account, and

(iii) Prepare Balance Sheet of the company after internal reconstruction. *(PYP 20 Marks Nov'23)*

Answer 19

Journal Entries in the books of Tourma Ltd.

		Dr. ₹ In lakhs	Cr. ₹ In lakhs
Equity Share Capital (₹ 100) A/c	Dr.	16.00	
To Share Surrender A/c			6.40
To Equity Share Capital (₹ 10) A/c			9.60
(Subdivision of 16,000 equity shares of ₹ 100 each into 1,60,000 equity shares of ₹ 10 each and surrender of 64,000 of such subdivided shares as per capital reduction scheme)			
Preference Share Capital (₹ 100) A/c	Dr.	8.00	
To 12% Debentures A/c	Dr.		5.60
To Reconstruction (₹ 100) A/c			2.40
(12% Debenture issued to Preference Shareholders and 30% of the capital foregone by them)			
Bank A/c	Dr.	4.00	
To 12% Debentures (₹ 100) A/c			4.00
(Being 12% debentures issued)			
Bank Overdraft A/c	Dr.	1.40	
To Bank A/c			1.26
To Reconstruction A/c			0.14
(Being bank overdraft amount paid)			
10% Debentures A/c	Dr.	3.20	

Interest payable A/c	Dr.	0.32	
To Debenture holders A/c			3.52
(Being Interest payable on the 10% debentures credited to debenture holders A/c)			
10% Debentures A/c	Dr.	3.52	
To Furniture & fixtures A/c			2.80
To Reconstruction A/c			0.72
Trade payables A/c	Dr.	1.15	
To Reconstruction A/c			1.15
(Transferred claims of the trade payables to reconstruction account, 70% of which is being clear reduction and equity shares are being issued in consideration of the balance)			
Share Surrender A/c		6.40	
To Equity Share Capital A/c			0.805
To Reconstruction A/c			5.595
(Issued equity shares to discharge the claims of the trade payables respectively as per scheme and the balance in share surrender account is being transferred to reconstruction account)			
Provision for Taxation A/c Reconstruction A/c To Liability for taxation A/c (Being conversion of the provision for taxation into liability for taxation.)	Dr.	0.42 0.08	 0.50
Liability for taxation A/c To Cash/Bank A/c (Being taxation liability settled)		0.50	 0.50
Reconstruction A/c To Investment A/c (Being investments' value reduce to market price)	Dr.	0.70	 0.70
Inventory A/c To Reconstruction A/c To Provision for doubtful debts (4,32,000 x 5%) (Being inventory revalued and provision for doubtful debts created)	Dr. Dr.	0.32	 0.104 0.216
Reconstruction A/c To Profit and Loss A/c To Capital Reserve A/c (Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve)	Dr.	9.329	 9.10 0.229

Balance Sheet of Tourma Limited (and reduced) as at...

Particulars		Note No.	₹ In lakhs
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital		1	10.405
(b) Reserves and Surplus		2	0.229
(2) Non-Current Liabilities			
(a) Long-term borrowings		3	9.60
(3) Current Liabilities			
	Total		20.234
II. Assets			
(1) Non-current assets			
(a) Property, plant and equipment		4	5.00
(b) Intangible assets		5	1.70
(c) Non-current investments		6	1.10
(2) Current assets			

(a) Inventories		7	5.44
(b) Trade receivables		8	4.104
(c) Cash and cash equivalents (W.N)			2.89
	Total		20.234

Notes to Accounts

			₹ In lakhs
1.	Share Capital		
	Equity Share Capital		
	Issued Capital: 10.405 Equity Shares of ₹ 10 each		10.405
	(9.6 + 0.805)		
	(Of the above shares all are allotted as fully paid up		
	pursuant to capital reduction scheme by conversion of		
	equity shares without payment being received in cash)		
2.	Reserve and Surplus Capital Reserve		0.229
3.	Long-term borrowings Unsecured Loans 12% Debentures (5.60 + 4)		9.60
4.	Property, plant and Equipment Plant & Machinery		5.00
5	Intangible assets Patents & copyrights		1.70
6.	Non-Current Investments		
	Investments		1.10
7.	Inventory	5.12	
	Add: Appreciation under scheme of reconstruction	0.32	5.44
8	Trade Receivables Less: Provision for doubtful debts	4.32 0.216	4.104

Exam Insights: Very few examinees, when passing journal entries for internal reconstruction, failed to include the effect of interest payable to debenture holders in the reconstruction account. Furthermore, when settling the accounts of trade payables, examinees incorrectly transferred the amount of equity share capital to reconstruction and vice versa. These errors resulted in examinees being unable to calculate the correct amount of capital reserve.

Multiple Choice Questions (MCQs)

1. When the object of reconstruction is usually to re-organize capital or to compound with creditors or to effect economies then such type of reconstruction is called *(SM)*

(a) Internal reconstruction with liquidation
(b) Internal reconstruction without liquidation of the company
(c) External reconstruction
(d) None of the above.

Ans: (b)

2. The accumulated losses under scheme of internal reconstruction are written off against *(SM)*

(a) Capital Reduction account
(b) Share Capital account
(c) Shareholders' account
(d) Reserve and surplus.

Ans: (a)

3. Reconstruction is a process by which affairs of a company are reorganized by *(SM)*

(a) Revaluation of assets and Reassessment of liabilities.

(b) Writing off the losses already suffered by reducing the paid up value ofshares and/or varying the rights attached to different classes of shares.

(c) Both (a) and (b).

(d) None of the above.

Ans: (c)

4. For reduction of the share capital, the permission has to be sought from *(SM)*

(a) Court.

(b) Controller.

(c) State government.

(d) Shareholders.

Ans: (a)

5. In case of internal reconstruction*(SM)*

(a) Only one company is liquidated.

(b) Two or more companies are liquidated.

(c) No company is liquidated.

(d) Two companies amalgamated.

Ans: (c)

6. A process of reconstruction, which is carried out without liquidating the company and forming a new one is called (Chapter - Accounting for Reconstruction of Companies) *(MTP 2 Marks Mar'24, SM)*

(a) Internal reconstruction.

(b) External reconstruction.

(c) Amalgamation in the nature of merger.

(d) Amalgamation in the nature of purchase.

Ans: (a)

CHAPTER 15: ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES

CONCEPTS OF THIS CHAPTER	LDR Questions
• **Concept and classification of branches from accounting view**	Q 25
• **Accounting treatment**	Q 28
• **Methods of charging goods to branches**	Q 30
• **Solve problems for goods sent to branch at wholesale price**	
• **Prepare reconciliation statement of branch and head office transactions**	
• **Incorporate branch balances in head office books**	
• **Difference between integral and non-integral foreign branches**	
• **Techniques of foreign currency translation for foreign branches**	

QUICK REVIEW OF IMPORTANT CONCEPTS

METHOD OF ACCOUNTING FOR DEPENDENT BRANCHES

At cost or at selling price	Debtors method	Stock & Debtors method	Trading & P&L method
At wholesale price	Wholesale branch method		

When goods are invoiced at cost

Debtors method This method of accounting is *suitable for small sized branches*. Under this method, separate branch account is maintained for each branch to compute profit or loss made by each branch.

Proforma Branch Account

To Balance b/d Cash	By Bank A/c (Cash remitted) By Return to H.O.
Stock	
Debtors	By Balance c/d
Petty Cash	Cash
Fixed Assets	Stock
Prepaid Expenses	Debtors
To Goods sent to Branch	Petty Cash
To Bank A/c	Fixed Assets
Salaries	Prepaid Expenses
Rent	
Sundry Expenses	By Profit and Loss, A/c—Loss
To Profit & Loss A/c—Profit (if credit side is larger)	(if debit side is larger)

Stock and Debtors method : If it is desired to exercise a more detailed control over the working of a branch, the accounts of the branch are maintained under Stock and Debtors Method.

	Transaction	Account debited	Account credited
(a)	Cost of goods sent to the Branch	Branch Stock A/c	Goods sent to Branch A/c
(b)	Remittances for expenses	Branch Cash A/c	Cash A/c
(c)	Any asset (*e.g.* furniture) provided by H.O.	Branch Asset (Furniture) A/c	Asset A/c
(d)	Cost of goods returned by the branch	Goods sent to Branch A/c	Branch Stock A/c
(e)	Cash Sales at the Branch	Branch Cash A/c	Branch Stock A/c
(f)	Credit Sales at the Branch	Branch Debtors A/c	Branch Stock A/c
(g)	Return of goods by debtors to the Branch	Branch Stock A/c	Branch Debtors A/c

(h)	Cash paid by debtors	Branch Cash A/c	Branch Debtors A/c
(i)	Discount & allowance to debtors, bad debts	Branch Expenses A/c	Branch Debtors A/c
(j)	Remittances to H.O.	Cash A/c	Branch Cash A/c
(k)	Branch Expenses directly paid by H.O.	Branch Expenses A/c	Cash A/c
(l)	Expenses met by Branch	Branch Expenses A/c	Branch Cash A/c

(m) Closing Stock: Credit the Branch Stock Account with the value of closing stock at cost. It will be carried down as opening balance (debit) for the next accounting period. The Balance of the Branch Stock Account, (after adjustment therein the value of closing stock), if in credit, will represent the gross profit on sales and vice versa.

Other Steps:

(n) Transfer Balance of Branch Stock Account to the Branch Profit and Loss Account.

(o) Transfer Balance of Branch Expenses Account to the debit of Branch Profit & Loss Account.

(p) The balance in the Branch P&L A/c will be transferred to the (H.O.) Profit & Loss Account.

(q) The credit balance in the Goods sent to Branch Account is afterwards transferred to the Head Office Purchase Account or Trading Account (in case of manufacturing concerns), it being the value of goods transferred to the Branch.

Branch Trading and Profit and Loss Account (Final Accounts Method): In this method, Trading and Profit and Loss accounts are prepared considering each branch as a separate entity.

When goods are invoiced at selling price

Stock and Debtors Method - Under this method, when goods are invoiced at selling price, one additional account i.e. 'Branch Adjustment account' is also prepared in addition to all the accounts which are maintained on cost basis.

(i) Journal Entries:

	Transaction	Accounts debited	Accounts credited
(a)	Sale price of the goods sent from H.O. to the Branch	Branch Stock A/c (at selling price)	(i) Goods sent to Branches A/c (ii) Branch Adjustment A/c
(b)	Return of goods By the Branch to H.O.	(i) Goods sent to Branch A/c (ii) Branch Adjustment A/c	Branch Stock A/c
(c)	Cash sales at the Branch	Branch Cash/Bank A/c	Branch Stock A/c
(d)	Credit Sales at the Branch	Branch Debtors A/c	Branch Stock A/c
(e)	Goods returned to Branch by customers	Branch Stock A/c	Branch Debtors A/c (at selling price)
(f)	Goods lost in Transit or stolen	(i) Goods Lost in Transit A/C or Goods Stolen A/c (ii) Branch Adjustment A/c	Branch Stock A/c

(ii) Closing Stock

(iii) Elimination of unrealized profit in the closing stock

Debtors Method- Under this method, the principal accounts that will be maintained are:

- The Branch Account;
- The Goods Sent to Branch Account; and
- The Stock Reserve Account.

Entries in these accounts will be made in the following manner:

	Transaction	Account debited	Account credited
(a)	Goods sent to Branch at selling price	Branch A/c	Goods Sent to Branch A/c
(b)	'Loading being the difference between selling price and cost of goods	Goods Sent to Branch A/c	Branch A/c
(c)	Returns to H.O. at selling price	Goods Sent to Branch A/c	Branch A/c
(d)	'Loading' in respect of goods returned to H.O.	Branch A/c	Goods Sent to Branch A/c
(e)	'Loading' included in the opening stock to reduce it	Stock Reserve A/c	Branch A/c
(f)	Closing stock at selling price	Branch Stock A/c	Branch A/c
(g)	'Loading' included in closing stock to reduce it to cost	Branch A/c	Stock Reserve A/c

Trading and Profit and Loss Account (Final Accounts) Method-All items of memorandum Branch Trading and Profit and Loss Account are to be converted into cost price if the goods are invoiced to branch at selling price. Other points will remain same as this method if goods are invoiced at cost.

Goods invoiced at wholesale price to retail branches

Branch Profit Calculation:

Branch profit = Sales proceeds – Wholesale price of goods sold. The manufacturer's profit = Wholesale price – Cost.

Branch Stock/Trading Account:

Debits: (a) Opening stock at the branch, (b) Goods sent at wholesale price.

Credits: (a) Sales, (b) Closing stock at wholesale price, (c) Goods lost (valued at wholesale price).

Profit Determination: Gross profit (or loss) from the Branch Stock/Trading Account is transferred to the Branch P&L Account. After deducting shop expenses and the wholesale price of lost goods, net profit (or loss) is determined.

Stock Reserve: Closing stock is valued at wholesale price. A stock reserve (difference between wholesale price and cost) is created by debiting the Head Office P&L Account. This reserve is carried forward and adjusted in the next year.

ACCOUNTING FOR INDEPENDENT BRANCHES

The Head Office Account in branch books and Branch Account in head office books is maintained respectively.

	Transactions	Head office books		Branch books	
(i)	Dispatch of goods to branch by H.O.	Branch A/c To Good sent to Branch A/c	Dr.	Goods received from H.O. A/c To Head Office A/c	Dr.
(ii)	When goods are returned by the Branch to H.O.	Goods sent to Branch A/c To Branch A/c	Dr.	Head Office A/c To Goods received from H.O. A/c	Dr.
(iii)	Branch Expenses are paid by the Branch	No Entry		Expenses A/c To Bank or Cash A/c	Dr.
(iv)	Branch Expenses paid by H.O.	Branch A/c To Bank or cash	Dr.	Expenses A/c To Head Office A/c	Dr.
(v)	Outside purchases made by the Branch	No Entry		Purchases A/c To Bank (or) Creditors A/c	Dr.
(vi)	Sales effected by the Branch	No Entry		Cash or Debtors A/c To Sales	Dr.
(vii)	Collection from Debtors of the Branch recd. by H.O.	Cash or Bank A/c To Branch A/c	Dr.	Head office A/c To Sundry Debtors A/c	Dr.
(viii)	Payment by H.O. for purchase made by Branch	Branch A/c To Bank	Dr.	Purchases (or) Sundry Creditors A/c To Head Office	Dr.
(ix)	Purchase of Asset by Branch	No Entry		Sundry Assets To Bank (or) Liability	Dr.
(x)	Asset purchased by the Branch but Asset A/c retained at H.O. books	Branch Asset A/c To Branch A/c	Dr.	Head office To Bank (or) Liability	Dr.
(xi)	Depreciation on (x) above	Branch A/c To Branch Asset	Dr.	Depreciation A/c To Head Office A/c	Dr.
(xii)	Remittance of funds by H.O. to Branch	Branch A/c To Bank	Dr.	Bank A/c To Head Office	Dr.
(xiii)	Remittance of funds by Branch to H.O.	Reverse entry of (xii) above i.e.		Reverse entry of (xii) above	
(xiv)	Transfer of goods from one Branch to another branch	(Recipient) Branch A/c To Supplying Branch A/c	Dr.	Supplying Branch H.O. A/c to Goods sent to H.O. A/c Recipient Branch Goods Received from H.O. A/c To Head Office A/c	Dr. Dr.

ACCOUNTING FOR FOREIGN BRANCHES

- Integral Foreign Operation (IFO)
- Non-Integral Foreign Operation (NFO)

Accounting For Branches Including Foreign Branches

Items	Integral Foreign Operations	Non Integral Foreign Operations
Monetary Items (Cash, Bank Balance, Debtor, Creditor, Loans, Bills receivable, Bills Payable)	Closing rate	Closing rate
Non-Monetary Items(Fixed Assets)	Rate on date of purchase	Closing rate
Inventory	Generally, closing rate (but if rate on the date of purchase of	Closing rate

	inventory is available, then that rate)	
Profit and Loss items (revenue items)	Average rate (but if rate on the date of transaction is available, then that rate)	Average rate (but if rate on the date of transaction is available, then that rate)
Exchange Difference	Charge to P&L account.	Accumulated in Foreign Currency Translation reserve.

Question & Answers

Question 1

Why goods are marked on invoice price by the head office while sending goods to the branch? *(MTP 4 Marks Dec'24)*

Answer 1

Goods are marked on invoice price to achieve the following objectives:

(i) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and

(ii) To have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.

(iii) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

Question 2

L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. Pune branch makes a profit of one third on cost and Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of Pune branch and find out the profit or loss made by it considering the reserve for unrealised profits:

Particulars	Pune Branch ₹	Goa Branch ₹
Opening Stock	40,000	30,000
Purchases (Including Inter Branch transfers)	2,00,000	2,50,000
Sales	2,80,000	2,95,625
Chargeable Expenses	15,000	27,500
Closing Stock	30,000	43,500
Office and Administration Expenses	13,250	7,000
Selling and Distribution Expenses	15,000	10,000

Information:

(i) Opening stock at Pune Branch includes goods of ₹ 10,000 (invoice price) taken from Goa Branch,

(ii) Opening stock at Goa Branch includes goods of invoice price ₹ 17,000 taken from Pune Branch,

(iii) The Pune Branch sales includes transfer of goods to Goa Branch at selling price ₹ 20,000.

(iv) The sales of Goa Branch include transfer of goods to Pune Branch at selling price ₹ 15,000.

(v) Closing stock at Pune Branch includes goods received from Goa Branch (invoice price ₹ 5,000.

(vi) Closing stock at Goa Branch includes goods of ₹ 4,000 (invoice price). *(MTP 6 Marks Mar'22, Oct'20)*

Answer 2

Pune Branch Trading and Profit and Loss Account

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

	3,10,000		3,10,000
To Stock Reserve (for unrealised profit in Closing Stock lying at Goa Branch) (₹4,000 x 25/100)	1,000	By Gross Profit b/d	55,000
To Office & Adm. Expenses	13,250	By Stock Reserve (for unrealized profit in Opening Stock lying at Goa Branch) (₹ 17,000 x 25/100)	4,250
To Selling & Distribution Expenses	15,000		
To Net Profit	30,000		
	59,250		**59,250**

Question 3

Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31st March, 2020 and the additional information given thereafter:

	Dr. ($)	Cr. ($)
Stock on 1st April, 2019	300	-
Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	-
Bank balance	420	-
Delhi office A/c	–	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- **on 1.4.2019 @ ₹ 40 per US $**
- **on 31.3.2020 @ ₹ 42 per US $**
- **average exchange rate for the year @ ₹ 41 per US $.**

New York branch account showed a debit balance of ₹ 44,380 on 31.3.2020 in Delhi books and there were no items pending reconciliation. You are asked to prepare trial balance of New York in ₹ in the books of Ganesh Ltd. ***(MTP 4 Marks Mar'22, Oct'20)***

Answer 3

In the books of Ganesh Ltd.
New York Branch Trial Balance in (₹) as on 31st March, 2020

	Conversion rate per US $ (₹)	Dr. ₹	Cr. ₹
Stock on 1.4.19	40	12,000	
Purchases and sales	41	32,800	61,500
Sundry debtors and creditors	42	16,800	12,600
Bills of exchange	42	5,040	10,080
Sundry expenses	41	44,280	
Bank balance	42	17,640	
Delhi office A/c	–		44,380
		1,28,560	1,28,560

Question 4

Give Journal Entries in the books of Branch to rectify or adjust the following:

(1) Branch paid ₹ 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.

(2) Asset Purchased by branch for ₹ 25,000, but the Asset account was retained in H.O Books.

(3) A remittance of ₹8,000 sent by the branch has not been received by H.O.

(4) H.O collected ₹ 25,000 directly from the customer of Branch but fails to give the intimation to branch.

(5) Remittance of funds by H.O to branch ₹5,000 not entered in branch books. ***(PYP 5 Marks Jan'21)***

Answer 4

Journal Entries in Books of Branch A

	Particulars	Dr. Amount ₹	Cr. Amount ₹
(i)	Head office account Dr.	5,000	
	To Salaries account (Being the rectification of salary paid on behalf of H.O.)		5,000
(ii)	Head office account Dr.	25,000	
	To Bank / Liability A/c (Being Asset purchased by branch but Asset account retained at head office books)		25,000
(iii)	No Entry in Branch Books		
(iv)	Head office account Dr.	25,000	
	To Debtors account (Being the amount of branch debtors collected by H.O.)		25,000
(v)	Bank A/c Dr.	5,000	
	To Head Office (Remittance of Funds by H.O. to Branch)		5,000

Question 5

Karan Enterprises having its Head Office in Mangalore, Karnataka has a branch in Greenville, USA. Following is the trial balance of Branch as at 31-3-2024:

Particulars	Amount ($) Dr.	Amount ($) Cr.
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received from Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account		4,300
	28,350	28,350

(i) Fixed assets were purchased on 1^{st} April, 2020.

(ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method. ·

(iii) Closing inventory at branch is $ 700 as on 31-3-2024.

(iv) Goods received from Head Office (HO) were recorded at ₹1,85,500 in HO books.

(v) Remittances to HO were recorded at ₹1,62,000 in HO books.

(vi) HO account is recorded in HO books at ₹2,84,500.

(vii) Exchange rates of US Dollar at different dates can be taken as:

1-4-2020	₹63
1-4-2023	₹65 and
31-3-2024	₹67

Prepare the trial balance after been converted into Indian rupees inaccordance with AS-11.

(MTP 6 Marks July'24)

Answer 5

Particulars	$ (Dr.)	$ (Cr.)	Conversion Basis	Rate	₹ (Dr.)	₹ (Cr.)
Fixed Assets	8,000		Transaction Date Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received from HO	2,800		Actuals		1,85,500	
Sales		24,050	Average Rate	66		15,87,300

Purchases	11,800		Average Rate	66	7,78,800	
Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	
HO Account		4,300	Actuals			2,84,500
Exchange Rate Difference			Balancing Figure		23,800	
	28,350	**28,350**			**18,71,800**	**18,71,800**
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	

Question 6

M/s Shrikant operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.2024:

Stock at the outlet 1.4.2023	**₹ 45,000**
Goods invoiced to the outlet during the year	**₹ 4,86,000**
Gross profit made by the outlet	**₹ 90,000**
Goods lost by fire	**?**
Expenses of the outlet for the year	**₹ 30,000**
Stock at the outlet 31.3.2024	**₹ 54,000**

You are required to prepare the following accounts in the books of M/s Shrikant for the year ended 31.3.2024: [a] Outlet Stock Account [b] Outlet Profit & Loss Account ***(MTP 5 Marks Aug'24)***

Answer 6

Outlet Stock A/c

Particulars	**₹**	**Particulars**	**₹**
To balance b/d	45,000	By Sales (90,000/20 ×120)	5,40,000
To Goods sent at outlet	4,86,000	By goods lost (balancing figure)	27,000
To Gross Profit	90,000	By balance c/d	54,000
	6,21,000		6,21,000

Outlet Profit and Loss A/c

Particulars	**₹**	**Particulars**	**₹**
To Expenses	30,000	By Gross Profit	90,000
To Goods lost	27,000		
To Net Profit (balancing figure)	33,000		
	90,000		90,000

Question 7

From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31st March, 2020, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:

(i) **Goods are sent to the branch at invoice price and branch also maintains stock at the same price.**

(ii) **Sale price is cost plus 40%.**

(iii) **Invoice price is cost plus 15%.**

(iv) **Other information from accounts of branch:**

Opening Stock as on 01-04-2019	**3,45,000**
Goods sent during the year by Head Office to Branch	**16,10,000**
Sales during the year	**21,00,000**
Expenses incurred at the branch	**45,000**

(MTP 4 Marks Oct'21, May'20)

Answer 7

Branch Stock Reserve in respect of unrealized profit

on opening stock = Rs. 3,45,000 x (15/115) = Rs. 45,000
on closing stock = Rs. 2,30,000 x (15/115) = Rs. 30,000

Working Note:

	₹
Cost Price	100
Invoice Price	115
Sale Price	140
Calculation of closing stock at invoice price	₹
Opening stock at invoice price	3,45,000
Goods received during the year at invoice price	16,10,000
	19,55,000
Less: Cost of goods sold at invoice price [21,00,000 X (115/140)]	(17,25,000)
Closing stock	2,30,000

Question 8

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 ***(PYP 14 Marks Sep'24)***

Answer 8

(a) 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

(b) 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

Question 9

Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

(i) Branch incurred travelling expenses of ₹ 4,000 on behalf of other Branches, but not recorded in the books of Branch.

(ii) Goods dispatched by the Head office amounting to ₹ 8,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

(iii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 2,000.

(iv) Branch paid ₹ 2,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account. *(MTP 4 Marks, Nov'21 & Apr'23)*

Answer 9

Journal Entries in Books of Branch

			Amount in ₹	
			Dr.	Cr.
(i)	Head Office Account	Dr.	4,000	
	To Cash Account (Being expenditure incurred on account of other branch, now recorded in books)			4,000
(ii)	Goods –in- transit Account	Dr.	8,000	
	To Head Office Account (Being goods sent by Head Office still in-transit)			8,000
(iii)	Provision for Doubtful Debts A/c		2,000	
	To Head Office Account (Being the provision for doubtful debts not provided earlier, now provided for)			2,000
(iv)	Head Office Account		2,000	
	To Salaries Account (Being rectification of salary paid on behalf of Head Office)			2,000

Question 10

Give Journal Entries in the books of Branch A to rectify or adjust the following:

(i) Head Office expenses ₹ 3,500 allocated to the Branch, but not recorded in the Branch Books.

(ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ₹ 1,500.

(iii) Branch paid ₹ 2,000 as salary to a H.O. Inspector, but the amountpaid has been debited by the Branch to Salaries account.

(iv) H.O. collected ₹ 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

(v) A remittance of ₹ 15,000 sent by the Branch has not yet been received by the Head Office.

(vi) Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B. *(MTP 6 Marks Nov'24)*

Answer 10

Books of Branch A
Journal Entries

	Particulars		Dr.	Cr.
			Amount ₹	Amount ₹
(i)	Expenses account	Dr.	3,500	
	To Head office account			3,500
	(Being the allocated expenditure by the head office recorded in branch books)			
(ii)	Depreciation account	Dr.	1,500	

	To Head office account			1,500
	(Being the depreciation provided)			
(iii)	Head office account	Dr.	2,000	
	To Salaries account			2,000
	(Being the rectification of salary paid on behalf of H.O.)			
(iv)	Head office account	Dr.	10,000	
	To Debtors account			10,000
	(Being the adjustment of collection from branch debtors)			
(v)	No entry in branch books			
(vi)	Head Office account	Dr.	3,000	
	To Cash account			3,000
	(Being the expenditure on account of Branch B, recorded in books)			

Note: Entry (vi) Inter branch transactions are routed through Head Office

Question 11

Viwitzu Limited has a branch at Seattle USA. Its Trial Balance as on 31th December 2022 is as follows:

	Dr. in US $	Cr. In US $
Stock as on 01.01.2022	22,000	
Purchases	1,00,000	
Sales		1,30,500
Goods from H.O.	30,000	
Salaries	4,000	
Head Office A/c.		27,000
Sundry Debtors	2,200	
Sundry Creditors		1,500
Cash at Bank & Hand	800	
Total	1,59,000	1,59,000

The following information is given:

i) Salaries outstanding are $ 500.

ii) The Head Office sent goods to Branch for ₹ 24,00,000.

iii) The Head Office shows an amount of ₹ 21,90,000 due from Branch.

The exchange rates were as below:

- **On 1st January 2022 - ₹ 79 to 1$**
- **On 31st December 2022-₹ 83 to 1 $**
- **Average rate during the year was ₹ 79.50 to 1 $**

You are required to prepare the Seattle Branch Trial Balance incorporating adjustments given above, converting dollars into rupees. ***(PYP 5 Marks May'23)***

Answer 11

Seattle Branch Trial balance (in ₹)

Particulars	Rate as per ₹	Debit ₹	Credit ₹
Stock (01-01-2022)	79.00	17,38,000	
Purchases	79.50	79,50,000	
Sales	79.50		1,03,74,750
Goods from HO	Given	24,00,000	
Salaries ($ 4,000 + $ 500 = $ 4,500 x ₹ 79.50)[1]	79.50	3,57,750	

Head Office A/c	Given		21,90,000
Sundry Debtors	83.00	1,82,600	
Sundry Creditors	83.00		1,24,500
Cash at Bank & Hand	83.00	66,400	
Salaries Outstanding ($ 500 x ₹ 83)	83.00		41,500
Exchange gain		**36,000**	
Total		**1,27,30,750**	**1,27,30,750**

[1] The amount of outstanding salary amounting $ 500 (included in the salaries) may be converted at ₹ 83 and the salary paid during the year at ₹79.50. In that case the amount of salaries including outstanding salary debited in the trial balance will be for ₹ 3,59,500 [(4,000 X 79.5 =3,18,000) + (500 x 83= 41,500). In this case, the amount of exchange gain will be computed as ₹ 34,250.

EXAM INSIGHTS: Some of the examinees failed to prepare Foreign Branch Trial Balance account after incorporating the given adjustments, converting dollars into rupees.

Question 12

Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 2023 from the following:

1) **Goods are invoiced to the branch at cost plus 20%.**
2) **The sale price is cost plus 50%.**
3) **Other information:**

	₹
Stock as on 01.04.2022(invoice price)	**2,20,000**
Goods sent during the year (invoice price)	**11,00,000**
Sales during the year	**12,00,000**
Expenses incurred at the branch	**45,000**

Ascertain

(i) **the profit earned by the branch during the year.**
(ii) **branch stock reserve in respect of unrealized profit.** ***(MTP 6 Marks Mar'24, New SM)***

Answer 12

i. **Calculation of profit earned by the branch**

In the books of Jammu Branch

Trading Account and Profit and Loss Account

Particulars	**Amount**	**Particulars**	**Amount**
	₹		₹
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closing stock (Refer W.N.)	3,60,000
To Expenses	45,000		
To Net profit (Bal fig)	1,95,000		
	15,60,000		15,60,000

ii. **Stock reserve in respect of unrealised profit**

= ₹ 3,60,000 x (20/120) = ₹ 60,000

Working Note:

	₹	
Cost Price	100	
Invoice Price	120	
Sale Price	150	
Calculation of closing stock at invoice price	₹	
Opening stock at invoice price	2,20,000	
Goods received during the year at invoice price	11,00,000	
	13,20,000	

Less: Cost of goods sold at invoice price	(9,60,000)	[12,00,000 x (120/150)]
Closing stock	3,60,000	

Question 13

Alfa of Chennai has a branch at Mumbai to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.
Following further details are given for the year ended 31st December, 2023:

		₹
Cost of goods sent to Branch at cost		**2,00,000**
Goods received by Branch till 31-12-2023 at invoice price		**2,20,000**
Credit Sales for the year @ invoice price		**1,65,000**
Cash Sales for the year @ invoice price		**59,000**
Cash Remitted to head office		**2,22,500**
Expenses paid by H.O.		**12,000**
Bad Debts written off		**750**
Balances as on	**1-1-2023**	**31-12-2023**
	₹	**₹**
Stock	**25,000 (Cost)**	**28,000 (invoice price)**
Debtors	**32,750**	**26,000**
Cash in Hand	**5,000**	**2,500**

You are required to prepare Branch stock account and branch debtor account in the books of the head office for the year ended 31st December, 2023. ***(MTP 6 Marks Apr'24, New SM)***

Answer 13

Books of Harrison

Branch Stock Account

	₹		₹
To Balance b/d – Op Stock	30,000	By Branch Debtors (Sales)	1,65,000
To Goods Sent to Branch A/c	2,40,000	By Branch Cash	59,000
To Branch Adjustment A/c	2,000	By Balance c/d	
(Balancing Figure – Excess of Sale over Invoice Price)		Goods in Transit (₹ 2,40,000 – ₹ 2,20,000)	20,000
		Closing Stock at Branch	28,000
	2,72,000		2,72,000

Branch Debtors Account

	₹		₹
To Balance b/d	32,750	By Bad debts written off	750
To Branch Stock A/c (Sales)	1,65,000	By Branch Cash (bal. fig.)	1,71,000
		By Balance c/d	26,000
	1,97,750		1,97,750

Question 14

From the following particulars relating to Pune branch for the year ending December 31, 2024, prepare Branch Account in the books of Head office.

		₹
Stock at Branch on January 1, 2024		**10,000**
Branch Debtors on January 1, 2024		**4,000**

Branch Debtors on Dec. 31, 2024		**4,900**
Petty cash at branch on January 1, 2024		**500**
Furniture at branch on January 1, 2024		**2,000**
Prepaid fire insurance premium on January 1, 2024		**150**
Salaries outstanding at branch on January 1, 2024		**100**
Good sent to Branch during the year		**80,000**
Cash Sales during the year		**1,30,000**
Credit Sales during the year		**40,000**
Cash received from debtors		**35,000**
Cash paid by the branch debtors directly to the Head Office		**2,000**
Discount allowed to debtors		**100**
Cash sent to branch for Expenses:		
Rent	**2,000**	
Salaries	**2,400**	
Petty Cash	**1,000**	
Annual Insurance up to March 31, 2025	**600**	**6,000**
Goods returned by the Branch		**1,000**
Goods returned by the debtors		**2,000**
Stock on December 31,2024		**5000**
Petty Cash spent by branch		**850**
Provide depreciation on furniture 10% p.a.		

Goods costing ₹ 1,200 were destroyed due to fire and a sum of ₹ 1,000 was received from the Insurance Company. (*RTP Sep'24*)

Answer 14

Pune Branch Account

Particulars		**₹**	**Particulars**	**₹**	**₹**
To Opening Balance			By Opening Balance:		100
Stock		10,000	Salaries Outstanding		
Debtors		4,000	By remittances		
Petty Cash		500	Cash Sales	1,30,000	
Furniture		2,000	Cash Received from debtors	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O	2,000	
To goods sent to Branch Account		80,000	Received from Insurance Company	1,000	1,68,000
To Bank (expenses)			By Goods sent to Branch (return of goods by the branch to H.O)		1,000
Rent	2,000		By Closing Balances:		
Salaries	2,400		Stock		5,000
Petty Cash	1,000		Petty Cash		650
Insurance	600	6,000	Debtors		4,900
To Net Profit		78,950	Furniture (2,000 – 10% depreciation)		1,800
			Prepaid Insurance		150

			(1/4 x ₹600)		
		1,81,600			1,81,600

Working Note:

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

Question 15

DM Delhi has a branch in London which is an integral foreign operation of DM. At the end of the year 31st March, 2021, the branch furnishes the following trial balance in U.K. Pound:

Particulars	£	£
	Dr.	Cr.
Property, Plant & Equipment (Acquired on 1st April, 2017)	24,000	
Stock as on 1st April, 2020	11,200	
Goods from head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		96,000
	1,22,000	1,22,000

In head office books, the branch account stood as shown below:

London Branch A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	49,26,000	By Balance c/d	17,20,000
	69,36,000		69,36,000

The following further information is given:

(a) Property, Plant & Equipment are to be depreciated @ 10% p.a. on WDV.

(b) On 31st March, 2021:

Expenses outstanding	-	£ 400
Prepaid expenses	-	£ 200
Closing stock	-	£ 8,000

(c) Rate of Exchange:

1st April,2017	₹ 70 to £ 1
1st April,2017	₹ 76 to £ 1
31st March, 2017	₹ 77 to £ 1
Average	₹ 75 to £ 1

You are required to prepare: (1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees; and (2) Trading and profit and loss account for the year ended 31st March, 2021 of London branch as would appear in the books of Delhi head office of DM. ***(MTP 8 Marks Apr'22, Apr'21)***

Answer 15

Trial Balance of London Branch as on 31st March, 2021

Particulars	U.K. Pound	Rate Per U.K. Pound	Dr. (₹)	Cr. (₹)
Property, Plant & Equipment	24,000	70	16,80,000	
Stock (as on 1st April, 2020)	11,200	76	8,51,200	
Goods from Head Office	64,000	-	49,26,000	
Sales	96,000	75		72,00,000
Purchases	12,000	75	9,00,000	
Expenses (4,800 + 400 – 200)	5,000	75	3,75,000	
Debtors	4,800	77	3,69,600	
Creditors	3,200	77		2,46,400
Outstanding Expenses	400	77		30,800
Prepaid expenses	200	77	15,400	
Cash at Bank	1,200	77	92,400	
Head office Account		-		17,20,000
Difference in Exchange				12,400
			92,09,600	92,09,600

Closing stock will be (8,000 × 77) = ₹ 6,16,000

Trading and Profit & Loss A/c for the year ended 31st March, 2021

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	8,51,200	By Sales	72,00,000
To Purchases	9,00,000	By Closing Stock	6,16,000
To Goods from H.O.	49,26,000		
To Gross Profit	11,38,800		
	78,16,000		78,16,000
To Expenses	3,75,000	By Gross Profit	11,38,800
To Depreciation	1,68,000	By Profit due to Exchange difference	12,400
To Net Profit	6,08,200		
	11,51,200		11,51,200

Working Note:

Since London Branch is an integral foreign operation. Hence, (1) Property, Plant & Equipment (cost and depreciation) are translated using the exchange rate at the date of purchase of the assets. (2) Exchange difference arising on translation of the financial statement is charged to Profit and Loss Account.

Question 16

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2020.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal to 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch from head office. The following details for the year ended 31st March, 2020 are given as follows:

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2020. *(RTP May'21, May'18)*

Answer 16

In the books of Alpha Ltd.

Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	₹	Particulars	₹
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	1,280
	4,85,888		4,85,888

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	₹	Particulars	₹
To Opening Stock [₹74,736 + 1/3 of ₹ 74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c [₹ 1,23,328 x 25/100]	30,832	By Goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	40,240		
	6,06,080		6,06,080

Step 3: Calculation of Commission still due to manager

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240 x 10/100]	4,024
B	Less: 25% of cost of deficiency in stock [25% of (75% of ₹ 1,280)]	(240)
C	Commission for the year [A-B]	3,784
D	Less: Paid on account	(2,400)
E	Balance due (C-D)	1,384

Question 17

PQR has a branch at Houston (USA). Business of the Branch is carried out substantially independent by way of accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. The trial balance of the Branch as at 31st March, 2022 is as follows:

	US$	
Particulars	**Debit**	**Credit**
Office equipment (Cost)	56,400	
Opening Accumulated Depreciation (Office equipment)		5,400
Furniture and Fixtures (Cost)	36,000	
Opening Accumulated Depreciation (Furniture and Fixtures)		6,840
Opening Stock as on 1st April, 2021	24,500	
Purchases	96,500	
Sales		1,76,250
Salaries	4,250	
Carriage inward	256	
Rent, Rates & Taxes	956	
Trade receivables	12,560	
Trade payables		8,650
Cash at bank	2,540	
Cash in hand	500	

Head office Account	______	37,322
Total	2,34,462	2,34,462

Following further information are given:

(i) Salaries outstanding as on 31st March, 2022 is US$ 600.

(ii) Depreciate office equipment and furniture & fixtures @ 10% at written down value.

(iii) Closing stock as on 31st March, 2022 is US $, 24,650.

(iv) You are informed that the Head office is showing receivable from the Branch as ₹ 23,75,614 as on 31st March, 2022. No transaction in respect of the Branch is pending in Head office.

(v) Office equipment (cost) includes one office equipment of US $ 2,400 purchased on 1/04/2021.

(vi) One furniture of carrying value of US $ 450 as on 01/04/2021 (cost: US $ 500 and Accumulated depreciation: US $ 50) has been sold for US $ 405 on 31/03/2022 to Mr. M at no profit no loss. Mr. M has not paid the amount till the finalization of branch account. No entry has been passed for this sale of furniture in the above trial balance.

(vii) The rate of exchange on different dates are:

Date	1 US $ is equivalent to
1st April, 2021	₹ 64
31st December, 2021	₹ 70
31st March, 2022	₹ 75
Average for the year	₹ 72

You are required to prepare the trial Balance after incorporating adjustments given and converting US $ into rupees. *(RTP May'23)*

Answer 17

In the books of PQR

Trial Balance (in Rupees) of Houston (USA) Branch – Non-Integral foreign operation as on 31st March, 2022

	Dr. US $	Cr. US $	Conversion rate	Dr. ₹	Cr. ₹
Office Equipment	56,400		75	42,30,000	
Depreciation on Office Equipment (Accumulated) (5,400+5,100)		10,500	75		7,87,500
Depreciation	8,016		75	6,01,200	
Furniture and fixtures (36,000-500)	35,500		75	26,62,500	
Depreciation on furniture and fixtures (Accumulated) (6,840-50-45 +2,916)		9,661	75		7,24,575
Stock (1st April, 2021)	24,500		64	15,68,000	
Purchases	96,500		72	69,48,000	
Sales		1,76,250	72		126,90,000
Carriage inward	256		72	18,432	
Salaries (4,250+600)	4,850		72	3,49,200	
Rent, rates and taxes	956		72	68,832	
Salaries payable		600	75		45,000
Head Office A/c		37,322			23,75,614 (given)
Trade receivables	12,560		75	9,42,000	
Trade payables		8,650	75		6,48,750
Cash at bank	2,540		75	1,90,500	
Cash in hand	500		75	37,500	
Mr. M (Receivable for sale of furniture)	405		75	30,375	
Exchange gain (bal. fig.)					3,75,100
	2,42,983	**2,42,983**		**176,46,539**	**176,46,539**

Closing stock 24,650 US$ x ₹ 75 =₹18,48,750.

Question 18

Walkaway Footwears has its head office at Nagpur and Branch at Patna. It invoiced goods to its branch at 20% less than the list price which is cost plus 100%, with instruction that cash sales were to be made at invoice price and credit sales at catalogue price (i.e. list price).

The following information was available at the branch for the year ended 31st March,2022.

(Figures in ₹)

Stock on 1st April,2021 (invoice price)		**12,000**
Debtors on 1st April, 2021		**10,000**
Goods received from head office (invoice price)		**1,32,000**
Sales:		
Cash	**46,000**	
Credit	**1,00,000**	**1,46,000**
Cash received. from debtors		**85,000**
Expenses at branch		**17,500**
Debtors on 31st March, 2022		**25,000**
Stock on 31st March,2022 (invoice price)		**17,600**
Remittances to head office		**1,20,000**

You are required to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Branch Debtors Account for the year ended 31st March,2022. ***(PYP 10 Marks May'22)***

Answer 18

(a) In the books of walkaway footwears

Patna Branch Stock Account

	Particulars	Amount (₹)		Particulars	Amount (₹)
1.1.21	To Balance b/d Goods sent to	12,000	31.12.21	By Bank A/c (Cash sales)	46,000
31.12.21	To branch A/c	1,32,000		By Branch debtors A/c (credit sales)	1,00,000
	To Branch adjustment A/c (Surplus over invoice price)	20,000	31.12.21	By Shortage in stock A/c	400
				By Balance c/d	17,600
		1,64,000			1,64,000

Patna Branch Adjustment Account

	Particulars	Amount (₹)		Particulars	Amount (₹)
31.12.21	To Stock reserve - ₹17,600x 60/160 (closing stock)	6,600	31.12.21	By Stock reserve – ₹12,000x 60/160 (Opening stock)	4,500
	To Shortage (400x 60/160)	150		By Goods sent to branch A/c (₹1,32,000x 60/160)	49,500
	To Branch profit & loss A/c (Gross profit)	67,250		By Branch stock A/c	20,000
		74,000			74,000

Branch Profit & Loss Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch expenses A/c	17,500	By Branch adjustment A/c (Gross Profit)	67,250
To Shortage in stock A/c	250		
To Net profit (transferred to Profit & Loss A/c)	49,500		
	67,250		67,250

Branch Debtors Account

	Particulars	Amount (₹)		Particulars	Amount (₹)
1.1.21	To Balance b/d	10,000	31.12.21	By Bank A/c	85,000

31.12.21	To Branch stock A/c	1,00,000		By Balance c/d (bal. fig.)	25,000
		1,10,000			1,10,000

EXAM INSIGHTS: Most of the examinees were not able to calculate correct amounts of closing stock and stock reserve. Consequently, they failed to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Branch Debtors Account correctly.

Question 19

Modern Stores of Delhi operates a branch at Nagpur. The Head office affects all purchases and the branch is charged at cost plus 60%. All the cash received by Nagpur Branch is remitted to Delhi. The Branch expenses are met by the Branch out of an Imprest Account which is reimbursed by the Delhi Head Office every month. The Branch maintains a Sales Ledger and certain essential subsidiary records, but otherwise all branch transactions are recorded at Delhi.

The following branch transactions took place during the year ended 31st March, 2022:

	₹
Goods received from Delhi at Selling Price	1,50,000
Cash Sales	69,000
Goods returned to Delhi at Selling Price	3,000
Credit Sales (Net of returns)	63,000
Authorized Reduction in Selling Price of Goods Sold	1,500
Cash Received from Debtors	48,000
Debtors written off as irrecoverable	2,000
Cash Discount allowed to Debtors	1,500

- **On 1st April, 2021 the Stock in trade at the Branch at Selling Price amounted to ₹ 60,000 and the Debtors were ₹ 40,000.**
- **A consignment of goods sent to the Branch on 27th March,2022 with a Selling Price of ₹ 1,800 was not received until 5th April,2022 and had not been accounted for in stock.**
- **The Closing Stock at Selling Price was ₹ 72,900.**
- **The expenses relating to the Branch for the year ended 31st March,2022 amounted to 18,000.**
  You are required to prepare the Branch Stock Account, Branch Debtors Account, Branch Adjustment Account and Branch Profit and Loss Account maintained at Delhi under Stock and Debtors method. Any stock unaccounted for is to be regarded as normal wastage. ***(PYP 10 Marks Nov'22)***

Answer 19

Books of Modern Store Delhi Nagpur Branch Stock A/c

Particulars	₹	Particulars	₹
To Opening stock	60,000	By Bank A/c (Cash Sales)	69,000
To Goods sent to branch A/c	1,50,000	By Branch Debtors A/c (Credit sales)	63,000
To Goods sent to branch A/c	1,800	By Goods sent to branch A/c (Return)	3,000
		By Branch adjustment A/c (Reduction in selling price)	1,500
		By Branch adjustment A/c (Normal Loss)	600
		By Closing stock (including stock in transit of ₹ 1,800)	74,700
	2,11,800		2,11,800

Branch Debtors A/c

Particulars	₹	Particulars	₹
To Bal. b/d	40,000	By Cash/Bank A/c	48,000
To Branch Stock (Sales)	63,000	By Branch P&L A/c (Bad debts)	2,000
		By Branch P&L A/c (Discount)	1,500
		By Bal. c/d	51,500
	103,000		103,000

Branch Adjustment A/c

Particulars	₹	Particulars	₹
To Branch Stock Account (Reduction in selling price)	1,500	By Stock reserve A/c (60,000 X 60/160)	22,500
To Branch Stock Account (Normal loss*)	600	By Goods sent to branch A/c (Loading) (1,51,800 X 60/160)	56,925
To Goods sent to branch A/c (loading on returns) (3,000 X 60/160)	1,125		
To Branch P&L A/c	48,187		
To Stock reserve A/c (74,700 X 60/160)	28,013**		
	79,425		79,425

Note: * Alternatively, the loading of ₹ 225 on normal loss may be charged to Branch Adjustment A/c and cost ₹375 thereof may be charged to Branch P&L A/c.

** rounded off. Alternatively may be rounded off as ₹ 28,012.

Branch P&L A/c

Particulars	₹	Particulars	₹
To Branch expenses A/c	18,000	By Branch Adjustment A/c	48,187
To Bad debts A/c	2,000		
To Discount A/c	1,500		
To Net Profit	26,687		
	48,187		**48,187**

EXAM INSIGHTS : Most of the examinees were not able to calculate correct values of closing stock, stock reserve and normal loss. Consequently, they failed to prepare Branch Stock Account, Branch Adjustment Account. Branch Profit & Loss Account and Branch Debtors Account in the required manner.

Question 20

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

(i) Debit Balances (in USD)

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

(ii) Credit Balances (in USD)

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

The following additional information is provided:

(1) The average exchange rate during the above financial year was 1 USD = ₹ 56.

(2) The fixed assets were purchased when the exchange rate was 1 USD ₹ 55.

(3) The closing exchange rate on reporting date is 1 USD = ₹ 58.

(4) Stock item 'P' is valued at cost of USD 5,520, purchased when the exchange rate was ₹ 56.50. The present net realizable value of this itemis ₹ 2,85,000.

(5) Stock item 'Q' is carried at net realizable value of USD 1,035, but its costin USD is 1,065, It was purchased when exchange rate was 1 USD = ₹ 53.

(6) Branch Control Account as per HO books was ₹ 2,66,265.

You are required to show how it will be reflected in the books of Head Office in the form of Trial Balance, if the USA Branch Office is classified as an Integral Foreign Operation.
(PYP 6 Marks May'24)

Answer 20

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

Particular	Dr. $	Cr. $	Rate per $	₹ Dr.	₹ Cr.
Expenditure	1,03,095		56	57,73,320	
Cash & bank balance	2,175		58	1,26,150	
Debtors	7,365		58	4,27,170	
Fixed assets	27,360		55	15,04,800	
Depreciation 20%	6,840		55	3,76,200	
Inventory P	5,520		Direct	2,85,000	
Inventory Q	1,065		53	56,445	
Income		1,32,000	56		73,92,000
Creditors		15,570	58		9,03,060
HO control A/c		5,820			2,66,265
Exchange difference				12,240	
				85,61,325	85,61,325

Working Note:

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

Question 21

Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ ₹ 1,500 per tin and 20 tins of Ghee @ ₹ 5,000 per tin on 1st of every month. The Branch has incurred expenditure of ₹ 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

	Chennai H.O. Amount (₹)	Salem B.O. Amount (₹)
Purchases:		
Refined Oil	27,50,000	
Ghee	48,28,000	
Direct Expenses	6,35,800	
Expenses paid by H.O.		76,800
Sales:		
Refined Oil	24,10,000	5,95,000
Ghee	38,40,500	14,50,000
Collection during the year		20,15,000
Remittance by Branch to Head Office		19,50,000

Chennai H.O.		
Balance as on	01-04-2020 Amount (₹)	31-03-2021 Amount (₹)
Stock:		
Refined Oil	44,000	8,90,000
Ghee	10,65,000	15,70,000

Building	5,10,800	7,14,780
Furniture & Fixtures	88,600	79,740

Salem Branch Office		
Balance as on	**01-04-2020 Amount (₹)**	**31-03-2021 Amount (₹)**
Stock:		
Refined Oil	22,500	19,500
Ghee	40,000	90,000
Sundry Debtors	1,80,000	?
Cash in hand	25,690	?
Furniture & Fixtures	23,800	21,420

Additional information:

(i) Addition to Building on 01-04-2020 ₹ 2,41,600 by H.O.

(ii) Rate of depreciation: Furniture & Fixtures @ 10% and Building @ 5% (already adjusted in the above figure)

(iii) The Branch Manager is entitled to 10% commission on Branch profits (after charging his commission).

(iv) The General Manager is entitled to a salary of ₹ 20,000 per month.

(v) General expenses incurred by Head Office is 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & loss Account (excluding branch transactions) for the year ended 31st March, 2021.

(RTP May'22) (Same concept different figures Old & New SM)

Answer 21

In the books of Mr. Chena Swami
Salem Branch Account

	₹		₹
To Balance b/d Opening stock:		By Bank (Remittance to H.O.)	19,50,000
Ghee	40,000	By Balance c/d	
Refined Oil	22,500	Closing stock:	
Debtors	1,80,000	Refined oil	19,500
Cash on hand	25,690	Ghee	90,000
Furniture & fittings	23,800	Debtors (W.N. 1)	2,10,000
To Goods sent to Branch A/c		Cash on hand (W.N. 2)	44,800
Refined Oil (30 x ₹ 1,500x12)	5,40,000	Furniture & fittings	21,420
Ghee (20 x ₹ 5,000 x12)	12,00,000		
To Bank (Expenses paid by H.O.)	76,800		
To Manager's commission in profits			
10% (2,26,930x10/110)	20,630		
To Net Profit transferred			
to General P & L A/c	2,06,300		
	23,35,720		**23,35,720**

Mr. Chena Swami Trading and Profit and Loss account for the year ended 31st March, 2021 (Excluding branch transactions)

		₹		₹
To Opening Stock:			By Sales:	
Refined Oil		44,000	Refined Oil	24,10,000
Ghee		10,65,000	Ghee	38,40,500
To Purchases:			By Closing Stock:	
Refined Oil	27,50,000		Refined Oil	8,90,000
Less: Goods sent to Branch	(5,40,000)	22,10,000	Ghee	15,70,000
Ghee	48,28,000			
Less: Goods sent to Branch	(12,00,000)	36,28,000		

To Direct Expenses	6,35,800		
To Gross Profit	11,27,700		
	87,10,500		87,10,500
To Manager's Salary	2,40,000	By Gross Profit	11,27,700
To General Expenses	1,86,000	By Branch Profit transferred	2,06,300
To Depreciation	8,860		
Furniture (88,600 - 79,740)			
Building (5,10,800 + 2,41,600 - 7,14,780)	37,620		
To Net profit	8,61,520		
	13,34,000		**13,34,000**

Working Notes:

(1) **Debtors Account**

	₹		₹
To Balance b/d	1,80,000	By Cash Collections	20,15,000
To Sales made during		By Balance c/d	2,10,000
the year:		(Bal. Figure)	
Refined oil	5,95,000		
Ghee	14,50,000		
	22,25,000		**22,25,000**

(2) **Branch Cash Account**

	₹		₹
To Balance b/d	25,690	By Remittance	19,50,000
To Collections	20,15,000	By Exp.	45,890
		By Balance c/d (Bal. Figure)	44,800
	20,40,690		**20,40,690**

Question 22

Wivitsu Ltd. Has a branch at Kanpur. Goods are invoiced from head office to Branch at cost plus 50%. Branch remits all cash received to head office and all expenses are met by head office. Prepare necessary Ledger accounts in the books of Wivitsu Ltd. Under Stock and Debtors system to show profit earned at the branch for the year ending 31 st March, 2021.

Following information related to Branch is given:

Stock on 1st April, 2020 (Invoice price)	**31,200**	**Goods returned by Debtors**	**3,000**
Debtors on 1st April, 2020	**17,400**	**Surplus in stock (Invoice price)**	**600**
Goods invoiced at cost	**72,000**	**Expenses at Branch**	**13,400**
Sales at Branch: Cash sales	**20,000**	**Discount allowed to Debtors**	**700**
Credit sales	**68,200**	**Debtors on 31st March, 2021**	**14,300**

(PYP 10 Marks, Dec'21)

Answer 22

Books of Wivitsu Ltd.

Kanpur Branch Stock Account

	₹		₹
To Balance b/d – Opening Stock	31,200	By Bank A/c – Cash Sales	20,000
To Branch Debtors A/c – Sales Return	3,000	By Branch Debtors A/c - Credit Sales	68,200
To Goods sent to Branch A/c (72,000 +50% of 72,000)	1,08,000	By Balance c/d - Closing stock	54,600
To Surplus in stock	600		
	1,42,800		1,42,800

Kanpur Branch Stock Adjustment Account

	₹		₹

To Branch Profit and Loss Account	28,400	By Balance b/d (1/3 of ₹ 31,200)	10,400
To Balance c/d (1/3 of 54,600)	18,200	By Goods sent to Branch A/c (1/3 of ₹ 1,08,000)	36,000
		By Surplus in stock	200
	46,600		46,600

Goods Sent to Branch Account

	₹		₹
To Kanpur Branch Stock Adjustment A/c	36,000	By Kanpur Branch Stock A/c	1,08,000
To Purchases A/c	72,000		
	1,08,000		1,08,000

Branch Debtors Account

	₹		₹
To Balance b/d	17,400	By Bank (Bal fig.)	67,600
To Branch Stock A/c	68,200	By Branch Expenses A/c (Discount allowed)	700
		By Branch Stock - Sales Returns	3,000
		By Balance c/d	14,300
	85,600		85,600

Branch Expenses Account

	₹		₹
To Bank A/c (expenses)	13,400	By Branch Profit & Loss A/c (Transfer)	14,100
To Branch Debtors A/c (Discount allowed)*	700		
	14,100		14,100

Branch Profit & Loss Account for the year ending 31st March 2021

	₹		₹
To Branch Expenses A/c	14,100	By Branch Adjustment A/c	28,400
To Net Profit	14,700	By surplus in stock (Cost)	400
	28,800		28,800

Note: * Discount allowed to debtors may be shown in Branch Profit and Loss account directly instead of transferring it through Branch Expenses account.

EXAM INSIGHTS: Majority of the examinees were not able to prepare Goods sent to Branch Account and Branch Expenses Account. They also could not give the Branch P & L A/c in the correct manner.

Question 23

Treadmill invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding ₹ 20,000 necessary for meeting immediate requirements of cash. On 31st March, 2022 the assets at the branch were as follows:

	₹ ('000)
Cash in Hand	20
Trade Debtors	768
Stock, at Invoice Price	2,160
Furniture and Fittings	1,000

During the accounting year ended 31st March, 2023 the invoice price of goods dispatched by the head office to the branch amounted to ₹ 2 crore 64 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at ₹ 1,44,000. Other transactions at the branch during the year were as follows:

	(₹ '000)
Cash Sales	19,400
Credit Sales	6,280
Cash collected by Branch from Credit Customers	5,684

Cash Discount allowed to Debtors	116
Returns by Customers direct to Head office (at invoice price)	204
Bad Debts written off	74
Expenses paid by Branch	1,684

On 1st January, 2023 the branch purchased new furniture for ₹ 2 lakh for which payment was made by head office through a cheque.

On 31st March, 2023 branch expenses amounting to ₹ 12,000 were outstanding and cash in hand was again ₹ 20,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method.

Prepare Branch Account in the books of head office for the year ended 31st March, 2023. *(RTP Nov'23) (Same concept different figures SM)*

Answer 23

In the Head Office Books Branch Account for the year ended 31st March, 2023

	₹ '000		₹'000
To Balance b/d		By Balance b/d	
Cash in hand	20	Stock reserve ₹ 2,160 × 1/6	360
Trade debtors	768		
Stock Furniture and fittings	2,160 1,000	By Goods sent to branch A/c (Returns to H.O.) {144 + [204 -34 (loading]}	314
To Goods sent to branch A/c	26,400	By Goods sent to branch A/c (Loading on net goods sent to branch – (26,256 x 1/6)	4,376
To Bank A/c (Payment for furniture)	200		
To Balance c/d Stock reserve (2,736 x 1/6)	456	By Bank A/c (Remittance from branch to H.O.)	23,400
To Outstanding expenses	12	By Balance c/d	
To Profit and loss A/c (Net Profit)	2,192	Cash in hand	20
		Trade debtors	970
		Stock	2,736
		Furniture and fittings	1,032
	33,208		33,208

Working Notes:

1. Invoice price and cost

Let cost be	100
So, invoice price	120
Loading	20
Loading: Invoice price	= 20: 120 = 1: 6

2. Invoice price of closing stock in branch

Branch Stock Account

	₹ '000		₹ '000
To Balance b/d	2,160	By Goods sent to branch	144
To Goods sent to branch	26,400	By Branch Cash	19,400
		By Branch debtors	6,280
		By Balance c/d (Bal fig)	2,736
	28,560		28,560

Note: adjustment regarding returns by Customers direct to Head office has not been made in branch stock account.

3. Closing balance of branch debtors

Branch Debtors Account

	₹ '000		₹ '000
To Balance b/d	768	By Branch cash	5,684
To Branch stock	6,280	By Branch expenses discount	116
		By Goods sent to Branch (Returns)	204

		By Branch expenses (Bad debts)	74
		By Balance c/d (Bal fig)	970
	7,048		7,048

4. Closing balance of furniture and fittings

Branch Furniture and Fittings Account

	₹ '000		₹ '000
To Balance b/d	1,000	By Depreciation (160+8)	168
To Bank	200	By Balance c/d	1,032
	1,200		1,200

Note: Since the new furniture was purchased on 1st Jan 2023 depreciation will be for 3 months.

5. Remittance by branch to head office

Branch Cash Account

	₹ '000		₹ '000
To Balance b/d	20	By Branch expenses	1,684
To Branch stock	19,400	By Remittances to H.O.	23,400
To Branch debtors	5,684	By Balance b/d	20
	25,104		25,104

Question 24

Jolly Industries of Delhi is a trader in spices. It has a branch at Jalandhar to which Head office invoice goods at 20% on sales. The Jalandhar branch sells spices both on cash and credit. Branch remit all the cash received to Head Office Bank account; thus, all expenses of branch are also directly paid from head office. From the following information given, Prepare Branch Accounts in the Head office ledger using Stock and Debtors Method. Branch does not maintain any books of account, but send fortnightly returns to Head office.

	₹
Stock at Jalandhar Branch as on 1st April, 2022 (Cost Price)	1,00,000
Sundry Debtors at Jalandhar as on 1st April, 2022	1,10,000
Cash received from Debtors	3,45,000
Bad debts during the year	9,500
Discount allowed to Debtors	5,500
Goods received from Head Office at Invoice Price	6,00,000
Returns to Head office at Invoice Price	60,000
Normal loss of goods during transport (Out of Goods sent by H.O. to Branch)	12,000
Sales returns at Jalandhar Branch	11,000
Salaries and staff welfare expenses at Branch	54,000
Rent and taxes at Branch	9,000
Other Office Expenses	2,500
Sundry Debtors at Branch as at 31st March 2023	1,55,000
Stock at Jalandhar as on 31st March, 2023 (Cost Price)	1,20,000

Credit sales at Branch are four times of the cash Sales at Branch. ***(PYP 10 Marks Nov'23)***

Answer 24

Books of Jolly Industries, Delhi Jalandhar Branch Stock Account

Particulars	₹	Particulars	₹
To Balance b/d – Op Stock	1,25,000	By Bank A/c- Cash Sales	1,04,000
To Branch Debtors A/c – Sales Return	11,000	By Branch Debtors A/c –Credit Sales	4,16,000
To Goods Sent to Branch A/c (6,00,000 + 12,000)	6,12,000	By Goods sent to Branch (Returns to H.O.)	60,000
		By Branch Stock Adjustment A/c (Normal Loss)	12,000
		By Branch Stock Adjustment A/c (Abnormal Loss) (Bal.fig)	6,000

		By Balance c/d – Closing Stock	1,50,000
	7,48,000		7,48,000

Jalandhar Branch Stock Adjustment Account

Particulars	₹	Particulars	₹
To Goods sent to Branch A/c (1/5 of ₹ 60,000) (on returns)	12,000	By Balance b/d (20% of 1,25,000)	25,000
To Branch Stock A/c (abnormal Loss) (6,000x1/5)	1,200	By Goods sent to Branch A/c (1/5 of ₹ 6,12,000)	1,22,400
To Branch Stock A/c (Normal Loss)	12,000		
To Balance c/d(1/5 of ₹ 1,50,000)	30,000		
To Branch P & L A/c (Profit on sale) – Bal fig	92,200		
	1,47,400		1,47,400

Goods Sent to Branch Account

Particulars	₹	Particulars	₹
To Jalandhar Branch Stock Adjustment A/c	1,22,400	By Jalandhar Branch Stock A/c	6,12,000
To Jalandhar Branch Stock A/c (Returns)	60,000	By Jalandhar Branch Stock Adjustment, A/	12,000
To Purchases A/c	4,41,600		
	6,24,000		6,24,000

Branch Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,10,000	By Bank	3,45,000
To Branch Stock A/c	4,16,000	By Branch P&L A/c - Discount	5,500
		By Branch P&L A/c - Bad Debts	9,500
		By Branch Stock - Sales Returns	11,000
		By Balance c/d	1,55,000
	5,26,000		5,26,000

Branch Expenses Account

Particulars	₹	Particulars	₹
To Bank A/c (Rent & Taxes)	9,000	By Branch Profit & Loss A/c (Transfer)	65,500
To Bank A/c (Salaries &Staff Welfare expenses)	54,000		
To Bank A/c (office expenses)	2,500		
	65,500		65,500

Branch Profit & Loss Account for the year ending 31st March 2023

Particulars	₹	Particulars	₹
To Branch Expenses A/c	65,500	By Branch Stock Adj. A/c	92,200
To Branch Debtors A/c	5,500		
To Branch Debtors A/c	9,500		
To Abnormal Loss (cost)	4,800		
To Net Profit transferred to Profit & Loss A/c	6,900		
	92,200		92,200

EXAM INSIGHTS: The majority of examinees lacked an understanding of the Stock and Debtors Method, resulting in an inability to prepare branch accounts based on this method.

Question 25 LDR

M & S Co. of Lucknow has a branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (Rs. In thousand)		Canberra Branch (Aust. Dollars inthousand)	
	Dr.	Cr.	Dr.	Cr.
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep.				
Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1-4-2018	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses Commission	25		18	
Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

(i) Stock as at 31st March, 2019
Lucknow Rs. 1,50,000
Canberra A$ 3125 (all stock is out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at 5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A $ = Rs. 50
Closing rate	1 A $ = Rs. 53
Average rate	1 A $ = Rs. 51.00
For Property, Plant & Equipment	1 A $ = Rs. 46.00

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately. *(MTP Oct'19, 12 Marks, RTP Nov'22, Old & New SM) (Same concept fewer adjustments RTP Nov'20)*

Answer 25

M & S Co. Ltd. Canberra, Australia Branch Trial Balance
As on 31st Mar 2019

	($ 'thousands)			(Rs. 'thousands)	
	Dr.	Cr.	Conversion rate per $	Dr.	Cr.
Plant & Machinery (cost)	200		Rs. 46	9,200	
Plant & Machinery Dep. Reserve		130	Rs. 46		5,980

Trade receivable/payable	60	30	Rs. 53	3,180	1,590
Stock (1.4.2018)	20		Rs. 50	1,000	
Cash & Bank Balances	10		Rs. 53	530	
Purchase / Sales	20	123	Rs. 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		Rs. 51	2,295	
Rent	12		Rs. 51	612	
Office expenses	18		Rs. 51	918	
Commission Receipts		100	Rs. 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	**390**		**19,063**	**19,063**
Closing stock	3.125		53	165.625	

Trading and Profit & Loss Account for the year ended 31st March, 2019

							(Rs.'000)
	H.O.	**Branch**	**Total**		**H.O.**	**Branch**	**Total**
To Opening Stock	100	1,000.000	1,100.000	By Sales	520	6,273.000	6,793.000
To Purchases	240	1,020.000	1,260.000	By Goods sent to Branch	100	-	100.000
To Goods received from Head Office	-	100.000	100.000	By Closing Stock	150	165.625	315.625
To Wages & Salaries	75	2,295.000	2,370.000				
To Gross profit c/d	355	2,023.625	2,378.625				
	770	6,438.625	7,208.625		770	6,438.625	7,208.625
To Rent	-	612.000	612.000	By Gross profit b/d	355	2,023.625	2,378.625
To Office expenses	25	918.000	943.000	By Commission receipts	256	5,100.000	5,356.000
To Provision for doubtful debts@ 5%	14	159.000	173.000				
To Depreciation (W. N.)	460	644.000	1,104.000				
To Balance c/d	112	4,790.625	4,902.625				
	611	**7,123.625**	**7,734.625**		**611**	**7,123.625**	**7,734.625**
To Managing Partner's Salary			30.000	By Balance b/d			4,902.625
To Exchange Loss			208.000	By Branch stock reserve			4,000
To Balance c/d			4,668.625				
			4,906.625				**4,906.625**

Working Note: Calculation of Depreciation

	H. O	**Branch**
	Rs. '000	**Rs. '000**
Building. Cost	1,000	
Less: Dep. Reserve	(200)	
	800	
Depreciation @ 10% (A)	80	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	1,900	3,220
Depreciation @ 20% (B)	380	644
Total Depreciation (A+B)	460	644

Note: As the closing stock of Branch does not consist any stock transferred from M& S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&L A/c.

Question 26

Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2022 is as follows:

Particulars	US $	
	Dr.	Cr.
Office equipments	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2021)	22,400	
Purchases	96,000	
Sales	---	1,66,400
Goods sent from H.O	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account	---	45,600
Sundry Debtors	9,600	
Sundry Creditors	---	6,800
Cash at Bank	2,000	
Cash in Hand	400	
	2,18,800	2,18,800

The following further information is given:

(1) **Salaries outstanding $ 400.**

(2) **Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.**

(3) **The Head Office sent goods to Branch for ₹15,80,000.**

(4) **The Head Office shows an amount of ₹ 20,50,000 due from Branch.**

(5) **Stock on 31st March, 2022 -$21,500.**

(6) **There were no transit items either at the start or at the end of the year.**

(7) **On April 1, 2020 when the fixed assets were purchased the rate of exchange was ₹ 43 to one $. On April 1, 2021, the rate was 47 per $. On March 31, 2022 the rate was ₹ 50 per $. Average rate during the year was ₹ 45 to one $.**

Prepare Trial balance incorporating adjustments given converting dollars into rupees and Trading, Profit and Loss Account for the year ended 31st March, 2022 of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet.

(MTP 8 Marks Mar'21 & Oct'23, MTP 12 Marks Sep'22)

Answer 26

In the books of Moon Star

Trial Balance (in Rupees) of Virginia (USA) Branch as on 31st March, 2022

	Dr.	Cr.	Conversion	Dr.	Cr.
	US $	US $	rate	₹	₹
Office Equipment	43,200		50	21,60,000	
Depreciation on Office Equipment	4,800		50	2,40,000	
Furniture and fixtures	2,880		50	1,44,000	
Depreciation on furniture and fixtures	320		50	16,000	
Stock (1st April, 2021)	22,400		47	10,52,800	
Purchases	96,000		45	43,20,000	
Sales		1,66,400	45		74,88,000
Goods sent from H.O.	32,000			15,80,000	
Carriage inward	400		45	18,000	
Salaries (3,200+400)	3,600		45	1,62,000	

Outstanding salaries		400	50		20,000
Rent, rates and taxes	800		45	36,000	
Insurance	400		45	18,000	
Trade expenses	400		45	18,000	
Head Office A/c		45,600			20,50,000
Trade debtors	9,600		50	4,80,000	
Trade creditors		6,800	50		3,40,000
Cash at bank	2,000		50	1,00,000	
Cash in hand	400		50	20,000	
Exchange difference (bal. fig.) transferred to foreign currency translation reserve account					4,66,800
	2,19,200	2,19,200		1,03,64,800	1,03,64,800

Trading and Profit and Loss Account of Virginia Branch for the year ended 31st March, 2022

	₹		₹
To Opening stock	10,52,800	By Sales	74,88,000
To Purchases	43,20,000	By Closing stock	10,75,000
To Goods from Head Office	15,80,000	(21,500 US $ × 50)	
To Carriage inward	18,000		
To Gross profit c/d	15,92,200		
	85,63,000		85,63,000
To Salaries	1,62,000	By Gross profit b/d	15,92,200
To Rent, rates and taxes	36,000		
To Insurance	18,000		
To Trade expenses	18,000		
To Depreciation on office equipment	2,40,000		
To Depreciation on furniture and fixtures	16,000		
To Net Profit c/d	11,02,200		
	15,92,200		15,92,200

Question 27

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

Patna branch furnishes you with its trial balance as on 31st March, 2022 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1st April, 2021	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Plant	240	-
Bank Balance	420	-
U.S.A. Office A/c	-	1,620
	3,360	3,360

Information:

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

(b) **Unsold stock of Patna branch was worth ₹ 4,20,000 on 31st March, 2022.**

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

- **On 01.04.2021 @ ₹ 55 per US $**

- On 31.03.2022 @ ₹ 60 per US $
- Average exchange rate for the year @ ₹ 58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2022 and the balance sheet as on that date of Patna branch as would appear in the books of USA head office of Wivtsu & Co. You are informed that Patna branch account showed a debit balance of US $ 29845.35 on 31.3.2022 in USA books and there were no items pending reconciliation. *(MTP 12 Marks Oct'22 & Aug'18, 12 Marks) (Same concept different figures PYP May'19 8 Marks, Old & New SM)*

Answer 27

M/s Wivtsu & Co. Patna Branch Trial Balance in (US $) as on 31st March, 2022

	Conversion rate per US $ (₹)	Dr. US $	Cr. US $
Stock on 1.4.21	55	5,454.55	–
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	-
Sundry charges	58	2,758.62	-
Plant	–	6,000.00	-
Bank balance	60	7,000.00	-
USA office A/c	–	-	29,845.35
		59,535.01	59,535.01

Trading and Profit & Loss Account for the year ended 31st March,2022

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

Balance Sheet of Patna Branch as on 31st March, 2022

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

Question 28 LDR

On 31st March, 2022 Chennai Branch submits the following Trial Balance to its Head Office at Lucknow:

Debit Balances	₹ in lacs
Furniture and Equipment	18

Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 2021	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

Additional Information:

Stock on 31st March, 2022 was valued at ₹ 62 lacs. On 29th March, 2022 the Head Office dispatched goods costing ₹ 10 lacs to its branch. Branch did not receive these goods before 1st April, 2022. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch ₹ 1 lac for centralized services for which the branch has not passed the entry.

You are required to :(i) pass Journal Entries in the books of the Branch to make the necessary adjustments and (ii) prepare Final Accounts of the Branch including Balance Sheet.

(MTP 12 Marks Mar'23, RTP May'19, RTP May'20, Old & New SM)

Answer 28

(i) **Books of Branch**

Journal Entries

			(₹ in lacs)
		Dr.	Cr.
Goods in Transit A/c	Dr.	10	
To Head Office A/c			10
(Goods dispatched by head office but not received by branch before 1st April, 2022)			
Expenses A/c	Dr.	1	
To Head Office A/c			1
(Amount charged by head office for centralised services)			

(ii) Trading and Profit & Loss Account of the Branch for the year ended 31st March, 2022

	₹ in lacs		₹ in lacs
To Opening Stock	60	By Sales	360
To Goods received from		By Closing Stock	62
Head Office 288			
Less : Returns (5)	283		
To Carriage Inwards	7		
To Gross Profit c/d	72		
	422		422
To Salaries	25	By Gross Profit b/d	72
To Depreciation on Furniture	2		
To Rent	10		

To Advertising	6		
To Telephone, Postage & Stationery	3		
To Sundry Office Expenses	1		
To Head Office Expenses	1		
To Net Profit Transferred to			
Head Office A/c	24		
	72		72

Balance Sheet as on 31st March, 2022

Liabilities	₹ in lacs		Assets	₹ in lacs	
Head Office	80		Furniture & Equipment	20	
Add : Goods in transit	10		Less : Depreciation	(2)	18
Head Office Expenses	1		Stock in hand		62
Net Profit	24		Goods in Transit		10
		115	Debtors		20
Outstanding Expenses		3	Cash at bank and in hand		
					8
		118			118

Question 29

Lal & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020:

	Amount (₹)
Goods received from Head office at Invoice Price	4,20,000
Goods returned to Head office at Invoice Price	30,000
Cash sales for the year 2019-20	92,500
Credit Sales for the year 2019-20	3,12,500
Stock at Branch as on 01-04-2019 at Invoice price	36,000
Sundry Debtors at Patna branch as on 01-04-2019	48,000
Cash received from Debtors	2,19,000
Discount allowed to Debtors	3,750
Goods returned by customer at Patna Branch	7,000
Bad debts written off	2,750
Amount recovered from Bad debts previously written off as Bad	500
Rent, Rates & taxes at Branch	12,000
Salaries & wages at Branch	36,000
Office Expenses (at Branch)	4,600
Stock at Branch as on 31-03-2020 at cost price	62,500

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit. ***(RTP Nov'21, PYP 10 Marks Nov'20)***

Answer 29

Branch Stock Account

		₹			₹	₹	₹
1.4.19	To Balance b/d (opening stock)	36,000	31.3.20	By Sales:			
31.3.20	To Goods Sent to Branch A/c	4,20,000		Cash		92,500	
				Credit	3,12,500		
	To Branch P&L	47,000		Less: Return	(7,000)	3,05,500	3,98,000
				By Goods sent to			30,000

				branch - returns			
				By Balance c/d (closing stock)			75,000
		5,03,000					5,03,000
1.4.20	To Balance b/d	75,000					

Branch Debtors Account

		₹			₹
1.4.19	To Balance b/d	48,000	31.3.20	By Cash	2,19,000
31.3.20	To Sales	3,12,500		By Returns	7,000
				By Discounts	3,750
				By Bad debts	2,750
				By Balance c/d	1,28,000
		3,60,500			3,60,500
1.4.20	To Balance b/d	1,28,000			

Branch Expenses Account

		₹			₹
31.3.20	To Salaries & Wages	36,000	31.3.20	By Branch P&L A/c	59,100
	To Rent, Rates &Taxes	12,000			
	To Office Expenses	4,600			
	To Discounts	3,750			
	To Bad Debts	2,750			
		59,100			59,100

Branch Profit & Loss Account for year ended 31.3.20

		₹			₹
31.3.20	To Branch Expenses A/c	59,100	31.3.20	By Branch stock	47,000
	To Net Profit transferred to General P & L A/c	46,900		By Branch Stock Adjustment account	58,500
				By Baddebts recovered	500
		1,06,000			**106,000**

Branch Stock Adjustment Account for year ended 31.3.20

		₹			₹
31.3.20	To Goods sent to branch (30,000x1/6) -returns	5,000	31.3.20	By Balance b/d (36,000x1/6)	6,000
	To Branch P & L A/c	58,500		By Goods sent to branch (4,20,000x1/6)	70,000
	To Balance c/d (75,000x1/6)	12,500			
		76,000			76,000

Question 30

LDR

Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2020 the Branch Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors Balance	62,000	Debtors Balance	2,24,000
Head Office	1,88,000	Building Extension A/c	
		Closed by transfer to H.O. A/c	-
		Cash at Bank	26,000
	2,50,000		2,00,000

During the six months ending on 30-09-2020, the following transactions took place at Noida:

	₹		₹
Sales	2,78,000	Manager's salary	16,400
Purchases	64,500	Collections from debtors	2,57,000

Wages Paid	**24,000**	**Discounts allowed**	**16,000**
Salaries (inclusive of advance of 5,000)	**15,600**	**Discount earned**	**4,600**
General Expenses	**7,800**	**Cash paid to creditors**	**88,500**
Fire Insurance (Paid for one year)	**11,200**	**Building Account (further payment)**	**14,000**
Remittance to H.O.	**52,900**	**Cash in Hand**	**5,600**
		Cash at Bank	**47,000**

Set out the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2020. Also give journal entries in the Noida books. ***(PYP Jul'21,10 Marks) (Same concepts different figures Old & New SM) (MTP 10 Marks Sep'23)***

Answer 30

Journal Entries in the Books of Noida Branch

Particulars		Debit (₹)	Credit (₹)
Salary Advance A/c	Dr.	5,000	
To Salaries A/c			5,000
(Being the amount paid as advance adjusted by debit to Salary Advance A/c)			
Prepaid Insurance A/c (11,200 X 6/12)	Dr.	5,600	
To Fire Insurance A/c			5,600
(Being the six months premium transferred to the Prepaid Insurance A/c)			
Head Office A/c	Dr.	1,44,900	
To Purchases A/c			64,500
To Wages A/c			24,000
To Salaries A/c (15,600 – 5000)			10,600
To General Expenses A/c			7,800
To Fire Insurance A/c (11,200 X 6/12)			5,600
To Manager's Salary A/c			16,400
To Discount Allowed A/c			16,000
(Being the transfer of various revenue accounts to the HO A/c for closing the accounts)			
Sales A/c	Dr.	2,78,000	
Discount Earned A/c	Dr.	4,600	
To Head Office A/c			2,82,600
(Being the transfer of various revenue accounts to HO)			
Head Office A/c	Dr.	14,000	
To Building A/c			14,000
(Being the transfer of amounts spent on building extension to HO A/c)			

Head Office Account

2020	Particulars	Amount (₹)	2020	Particulars	Amount (₹)
Sept 30	To Cash Remittance	52,900	April 1	By Balance b/d	1,88,000
	To Sundries* (Revenue)	1,44,900		By Sundries* (Revenue)	2,82,600
	To Building A/c	14,000			
	To Balance c/d	2,58,800			
	Total	4,70,600		Total	4,70,600

* Instead of using Sundries (Revenue) A/c, the concerned revenue accounts can be posted in the ledger.

Balance Sheet of Noida Branch As at 30th Sept 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	33,400	Debtors	2,29,000
Head Office A/c	2,58,800	Salary Advance	5,000
		Prepaid Insurance	5,600
		Building Extension A/c transferred to HO	

		Cash in Hand	5,600
		Cash at Bank	47,000
Total	2,92,200	Total	2,92,200

Working Notes

Cash and Bank Account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	26,000	By Wages	24,000
To Collection from debtors	2,57,000	By Salaries	15,600
		By Insurance	11,200
		By General Expenses	7,800
		By HO A/c	52,900
		By Manager's Salary	16,400
		By Creditors	88,500
		By Building A/c	14,000
		By Balance c/d	
		- Cash in Hand	5,600
		- Cash at bank	47,000
Total	2,83,000	Total	2,83,000

Debtors Account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	2,24,000	By Cash Collection	2,57,000
To Sales A/c	2,78,000	By Discount (Allowed)	16,000
		By Balance c/d	2,29,000
Total	5,02,000	Total	5,02,000

Creditors Account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Cash A/c	88,500	By Balance b/d	62,000
To Discount (Earned)	4,600	By Purchases	64,500
To Balance c/d	33,400		
Total	1,26,500	Total	1,26,500

Note:

Since the date of payment of fire insurance has not been mentioned in the Question, it is assumed that it was paid on 01 April 2020. Alternative Answer considering otherwise also possible.

EXAM INSIGHTS: Most of the examinees could not give the Head Office Account in Noida Books and the Branch Balance Sheet. They also did not give correct journal entries in the Noida books.

Multiple Choice Questions (MCQs)

1. If goods are invoiced to branches at cost, trading results of branch can be ascertained by *(SM)*

(a) Debtors method. (b) Stock and debtor's method.
(c) Either (a) or (b). (d) Both (a) or (b).

Ans: (c)

2. Under branch trading and profit loss account method *(SM)*

(a) H.O prepares profit and loss account. (b) Each branch is treated separate entity.
(c) Both (a) and (b). (d) Either (a) or (b).

Ans: (c)

3. Goods may be invoiced to branch at ***(SM)***

(a) Cost or Selling price. (b) Wholesale price.

(c) Both (a) and (b). (d) Either (a) or (b).

Ans: (c)

4. Under debtor's method, opening balance of debtors is ***(SM)***

(a) Debited to branch account. (b) Credited to branch account.

(c) Debited to H.O account. (d) Credited to H.O account.

Ans: (a)

5. Cost of goods returned by branch will have the following effect ***(SM)***

(a) Goods sent to branch account will be debited. (b) Branch stock account will be credited.

(c) (a) and (b). (d) Either (a) or (b).

Ans: (c)

CHAPTER 16 : CASE SCENARIOS

LDR Questions
CS 5 CS 7
CS 17

Question & Answers

CS 1 *(MTP 8 Marks Mar'24)*

SEAS Ltd., the "Company", is in the business of tours and travels. It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package.

The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

The Company bought a forward contract for three months of US$ 1,00,000 on 1 March 2024 at 1 US$ = INR 83.10 when exchange rate was US$ 1 = INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US$ 1 = INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances.

The Company is evaluating below mentioned schemes:

i. **Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex - gratia payments to employees on retirement.**

ii. **Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.**

SEAS Ltd. has a subsidiary, ADI Ltd., which is in the business of construction having turnover of ₹ 200 crores. SEAS Ltd. and ADI Ltd. hold 9% and 23% respectively in an associate company, ASOC Ltd. Both SEAS Ltd. and ADI Ltd. prepare consolidated financial statements as per Accounting Standards notified under the companies (Accounting Standards) Rules, 2006.

1. **What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards? (Chapter - AS 9- Revenue Recognition)**
   (a) Gross basis.
   (b) Net basis.
   (c) Depends on the accounting policy of the Company.
   (d) Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis.

Ans:(a)

2. **Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11. (Chapter – AS 11- The Effects of Changes in Foreign Exchange rates)**
   (a) MTM (marked to market value) of contract will be recorded on 31 March 2024.
   (b) MTM (marked to market value) of contract will be computed as at 31 March 2024 and only if there is loss, it will be recorded during the year ended 31 March 2024.

(c) No accounting will be done during the year ended 31 March 2024.
(d) Premium on contract will be amortized over the life of the contract.

Ans:(d)

3. **You are requested to advise the Company in respect of the accounting requirements of above schemes related to employee benefits as to which one of those schemes should be considered as a change in accounting policy during the year. (Chapter - AS 5- Net Profit or Loss for the period, Prior period items & Changes in Accounting policies)**
   (a) 1 – Change in accounting policy. 2 – Change in accounting policy.
   (b) 1– Not a change in accounting policy. 2 – Change in accounting policy.
   (c) 1 – Not a change in accounting policy. 2 – Not a change in accounting policy.
   (d) 1– Change in accounting policy. 2 – Not a change in accounting policy.

Ans:(c)

4. **Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd. using the below mentioned options as to which one should be correct. (Chapter -AS 21- Consolidated Financial Statement)**
   (a) ADI Ltd. would be using equity method of accounting for 23% in ASOC Ltd. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically equity account 23% and separately account for the balance 9% as per AS 13.
   (b) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically account 23% and separately account for the balance 9%.
   (c) ADI Ltd. would account for 23% share in ASOC Ltd using equity method of accounting. SEAS Ltd. would consolidate ADI Ltd. and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd. using equity method of accounting in consolidated financial statements.
   (d) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and using equity method of accounting 23% in ASOC Ltd. and separately account for the balance 9% as per AS 13.

Ans:(c)

CS 2	*(MTP 8 Marks Mar'24)*

On 1st April, 2022, Shubham Limited purchased some land for ₹ 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of ₹ 2 lakhs incurred for the purpose of acquisition of this land. Construction work could start on 1st May, 2022 and Shubham Limited provides you the details of the following costs incurred in relation to its construction:

	₹
Preparation and levelling of the land	**80,000**
Employment costs of the construction workers (per month)	**29,000**
Purchase of materials for the construction	**21,24,000**
Cost of relocating employees to new factory for work	**60,000**
Costs of inauguration ceremony on 1st January, 2023	**80,000**
Overhead costs incurred directly on the construction of the factory (per month)	**25,000**
General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 15,000 only) and raised objection for the balance amount.	

The construction of the factory was completed on 31st December, 2022 and production could begin on 1st February, 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

The construction of the factory was partly financed by a loan of ₹ 28 lakhs borrowed on 1st April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of ₹ 25,000 on the temporary investment of the proceeds.

You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land)

and interest cost to be capitalized based on nine months' period. *[4 MCQs of 2 Marks each: Total 8 Marks]*
Based on the information given in the above scenario, answer the following multiple-choice questions:

1. **Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building? (Chapter - AS 10-Property, Plant & Equipment)**
   (a) ₹ 2,00,000 incurred as legal cost
   (b) ₹ 60,000 – costs of relocating employees
   (c) ₹ 80,000 costs of inauguration ceremony
   (d) ₹ 24,000 – allocated general overhead cost

Ans:(a)

2. **What amount of employment cost of construction workers will be capitalized to the cost of factory building? (Chapter - AS 10-Property, Plant & Equipment)**
   (a) ₹ 2,90,000
   (b) ₹ 3,48,000
   (c) ₹ 2,32,000
   (d) ₹ 29,000

Ans:(c)

3. **What is the amount of net borrowing cost capitalized to the cost of the factory? (Chapter - AS 16-Borrowing Costs)**
   (a) ₹ 1,89,000
   (b) ₹ 1,68,000
   (c) ₹ 1,44,000
   (d) ₹ 1,64,000

Ans:(d)

4. **What will be the carrying amount (i.e. value after charging depreciation) of the factory in the Balance Sheet of Shubham Limited as at 31st March, 2023? (Chapter - AS 10-Property, Plant & Equipment)**
   (a) ₹ 30,00,000
   (b) ₹ 57,78,125
   (c) ₹ 27,78,125
   (d) ₹ 58,00,000

Ans:(b)

CS 3 (Chapter 12 Buyback of Securities) *(MTP 8 Marks Mar'24)*

Kesar Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Kesar Ltd.'s Balance Sheet as of 31 st March, 2023:

A. **Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) - ₹ 12,50,000**
B. **Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;**
C. **Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000**
D. **Land and building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000**

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

1. **By using the Shares Outstanding Test, the number of shares that can be bought back**
   (a) 1,25,000
   (b) 31,250
   (c) 25,000
   (d) 30,000

Ans:(b)

2. **By using the Resources Test determine the number of shares that can be bought back:**
   (a) 25,000
   (b) 31,250

(c) 28,750
(d) 39,062

Ans:(d)

3. By using the Debt Equity Ratio Test determine the number of shares that can be bought back:

(a) 25,000
(b) 31,250
(c) 28,750
(d) 39,062

Ans:(c)

4. On the basis of all three tests determine Maximum number of shares that can be bought back:

(a) 25,000
(b) 31,250
(c) 28,750
(d) 39,062

Ans:(c)

CS 4 *(MTP 6 Marks Apr'24)*

Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:

- **It has acquired land for installing Plant for ₹ 50,00,000**
- **It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.**
- **The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.**
- **The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.**
- **On November 1, 2023, the construction activities of the plant were interrupted as the local people alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.**
- **With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.**
- **The rate of depreciation on Plant is 10%.**

Based on the above information, answer the following questions. ***[4 MCQs of 2 Marks each: Total 8 Marks]***

1. Which of the following expenses cannot be included in the cost of plant: (Chapter 5.2: AS 10-Property, Plant & Equipment)

(a) Cost of Land
(b) Construction material and labour cost
(c) Head office expenses
(d) Borrowing cost

Ans: (c)

2. How much amount of borrowing cost can be capitalized with the plant: (Chapter 5.4: AS 16-Borrowing Costs)

(a) ₹ 3,00,000
(b) ₹ 2,00,000
(c) ₹ 7,00,000
(d) ₹ 6,00,000

Ans: (b)

3. The amount of depreciation to be charged for the year end March 31, 2024 (Chapter 5.2: AS 10-Property, Plant & Equipment

(a) ₹ 4,30,000
(b) ₹ 9,30,000
(c) ₹ 9,80,000
(d) Nil

Ans: (d)

CS 5	*(MTP 10 Marks Apr'24)*	LDR

Beloved Finance Ltd. is a financial enterprise which is in the business of lending loan to small businesses and earn interest on loans.

- **During the year the Company has lend 50 crores and earned ₹ 1.5 crore as interest on loans.**
- **The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of ₹ 20 lacs.**
- **The Company also acquired a gold loan unit for ₹ 10 crore during the year and the Company provided interest free loan of ₹ 15 crore to its wholly-owned subsidiary.**
- **The Company paid a total income tax of ₹ 75 lacs for the year.**

Based on the above information, answer the following questions. ***[5 MCQs of 2 Marks each: Total 10 Marks]***

1. **In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore earned on earned on loans given by the Company will be disclosed as: (Chapter 4.2: AS 3- Cash Flow Statement)**
   (a) Cash Flow from Operating Activities
   (b) Cash Flow from Investing Activities
   (c) Cash Flow from Financing Activities
   (d) Non-cash Items

Ans: (a)

2. **In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as: (Chapter 4.2: AS 3- Cash Flow Statement)**
   (a) Cash Flow from Operating Activities
   (b) Cash Flow from Investing Activities
   (c) Cash Flow from Financing Activities
   (d) Non-cash Items

Ans: (a)

3. **In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as: (Chapter 4.2: AS 3- Cash Flow Statement)**
   (a) Cash Flow from Operating Activities
   (b) Cash Flow from Investing Activities
   (c) Cash Flow from Financing Activities
   (d) Non-cash Items

Ans: (b)

4. **In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year will be disclosed as: (Chapter 4.2: AS 3- Cash Flow Statement)**
   (a) Cash Flow from Operating Activities
   (b) Cash Flow from Investing Activities
   (c) Cash Flow from Financing Activities
   (d) Non-cash Items

Ans: (a)

5. **Is any specific disclosures required to made in relation to the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard: (Chapter 4.4: AS 18- Related Party Disclosures)**
   (a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements.
   (b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures
   (c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments
   (d) No specific disclosures are required.

Ans: (b)

CS 6	(MTP 6 Marks Apr'24) (Chapter 12: Buyback of Securities)

Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

- Equity Share Capital: The company has a total of ₹ 30,00,000 invested in equity shares, each valued at ₹ 10 and fully paid.
- Reserves & Surplus: Kumar Ltd. has accumulated reserves and surplus totaling ₹49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹ 6,20,000).
- Loan Funds: The company has acquired loan funds amounting to ₹ 42,00,000 to support its operational and growth initiatives.

Buy-Back Decision:

Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of ₹30 per share.

In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations.

Based on the above information, answer the following questions.

1. What is the minimum equity Kumar Ltd. needs to maintain after buy- back, according to the Debt Equity Ratio Test?
   (a) ₹ 12,95,000
   (b) ₹ 21,00,000
   (c) ₹ 32,50,000
   (d) ₹ 6,00,000

Ans: (b)

2. What is the maximum permitted buy-back of equity for Kumar Ltd.?
   (a) ₹ 38,85,000
   (b) ₹ 42,00,000
   (c) ₹ 12,95,000
   (d) ₹ 59,85,000

Ans: (a)

3. How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?
   (a) 43,000
   (b) 1,29,500
   (c) 2,00,000
   (d) 78,000

Ans: (b)

CS 7	(MTP 8 Marks July'24) (Chapter 12 AS Buyback of Securities)	LDR

Super Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:
Equity Shares of ₹10 each fully paid up: ₹17,00,000
Reserves & Surplus:
Revenue Reserve: ₹23,50,000
Securities Premium: ₹ 2,50,000
Profit & Loss Account: ₹2,00,000
Infrastructure Development Reserve: ₹ 1,50,000
Secured Loan:
9% Debentures: ₹38,00,000
Unsecured Loan: ₹8,50,000
Property, Plant & Equipment: ₹58,50,000
Current Assets: ₹34,50,000
Super Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 30 per

share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets.

Answer the following questions based on the above information:

1. As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed
   (a) 20% of its total paid-up capital and free reserves
   (b) 25% of its total paid-up capital and free reserves
   (c) 25% of its total paid-up capital
   (d) 20% of its total paid-up capital

Ans: (b)

2. How many shares can Super Ltd. buy back according to the Shares Outstanding Test?
   (a) 35,000 shares
   (b) 42,500 shares
   (c) 37,500 shares
   (d) 54,375 shares

Ans: (b)

3. What is the maximum number of shares that can be bought back according to the Resources Test?
   (a) 35,000 shares
   (b) 42,500 shares
   (c) 37,500 shares
   (d) 54,375 shares

Ans: (c)

4. According to the Debt Equity Ratio Test, what is the maximum numberof shares that can be bought back?
   (a) 35,000 shares
   (b) 42,500 shares
   (c) 37,500 shares
   (d) 54,375 shares

Ans: (d)

CS 8 (MTP 8 Marks July'24) (Chapter 9.1 AS 12-Accounting for Government Grants)

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

Answer the following questions based on the above information:

1. The land received from Government, free of cost should be presented at:
   (a) ₹75 Lakhs
   (b) ₹30 Lakhs
   (c) ₹10 Lakhs
   (d) ₹45 Lakhs

Ans: (c)

2. As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:
   (a) It should be recognised in the profit and loss statement as per therelated cost.
   (b) It will be treated as capital reserve.
   (c) It will be treated as deferred income.
   (d) It will not be recognised in the financial statements.

Ans: (b)

3. As per AS 12, how the Government Grant of ₹15 Lakhs with a condition to purchase machinery may

be presented as:

(a) Capital Reserve
(b) Shareholders Fund
(c) Deferred Income
(d) Income in statement of profit and loss as received.

Ans: (c)

4. **Which of the above grants are required to be recognized in the statement of profit and loss on a systematic and rational basis over the useful lifeof the asset:**
   (a) Land received as Grant
   (b) Government Grant of ₹30 Lakhs
   (c) Government Grant of ₹ 15 Lakhs with a condition to purchase machinery
   (d) Noe of the above

Ans: (c)

CS 9	(MTP 8Marks July'24) (Chapter 4.2 AS 3- Cash Flow Statement)

Axis limited is a manufacturing company. It purchased a machinery costing ₹ 10 Lakhs in April 2023. It paid ₹ 4 lakhs upfront and paid the remaining ₹ 6,00,000 as deferred payment by paying instalment of ₹ 1,05,000 for the next 6 months. During the year, the Company sold a land which was classified as its 'property, plant and equipment' for ₹ 25,00,000 and paid ₹ 1,00,000 as income tax as long term capital gain on such sale. During the year, the Company also received income tax refund along with interest.

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

Ans: (c)

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

Ans:(d)

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

Ans:(b)

4. **How should the interest on income tax refunds should be disclosed in the Cash Flows Statement:**
   (a) Cash flows from Operating Activities
   (b) Cash flows from Investing Activities
   (c) Cash flows from Financing Activities
   (d) No disclosure in Cash Flow Statement

Ans: (b)

CS 10	(MTP 8 Marks Aug'24) (Chapter 5.1 AS 2- Valuation of Inventory)

Anshul manufacturers purchased 20,000 Kg. of raw material at ₹170 per Kg. Direct transit cost incurred ₹ 5,00,000 and normal transit loss is 3%. Anshul manufacturers actually received 19,000 kg of raw material. During the year it consumed 17,600 kg of raw material.

Further information:

(i) The purchase price includes ₹15 per kg as GST in respect of which full credit is allowed and will be availed by Anshul manufacturers.

(ii) Assume that there is no opening stock.

Answer the following questions based on above:

1. What will be the cost of material:
   - (a) ₹36,00,000
   - (b) ₹34,00,000
   - (c) ₹39,00,000
   - (d) ₹31,00,000

Ans: (a)

2. what will be the value of the closing stock:
   - (a) ₹1,70,000
   - (b) ₹1,85,500
   - (c) ₹2,38,000
   - (d) ₹2,59,700

Ans: (d)

3. What will be the cost per Kg of raw material:
   - (a) ₹180
   - (b) ₹183.6
   - (c) ₹185.5
   - (d) ₹189.4

Ans: (c)

4. How much amount as abnormal loss will be debited in P&L:
   - (a) ₹ 72,000 approx
   - (b) ₹ 73,440 approx
   - (c) ₹ 74,200 appox
   - (d) ₹ 75,760 approx

Ans: (c)

CS 11 (MTP 8 Marks Aug'24) (Chapter 12 AS Buyback of Securities)

Aazad Ltd. has the following particulars:

Particulars	₹ (lacs)
10% Preference Share Capital (₹ 10 each)	2,500
Equity Share Capital of ₹ 10 each	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit & Loss A/c	300
Cash	1,650
Investments (Market Value ₹ 1,500 lacs)	3,000

The company decides to redeem all it's preference shares at a premium of 10% and buys back 25% of equity shares @ ₹ 15 per share. Investments amounting to Market Value of ₹ 1,000 lakhs sold at ₹ 3,000 lakhs and raises a bank loan of ₹ 2,000 lakhs. Answer the following questions based on above:

1. The amount of Profit/Loss on Sale of Investment is:

(a) ₹ 1,500 lakhs Profit
(b) ₹ 1,000 lakhs Profit
(c) ₹ 2,000 lakhs Loss
(d) ₹ 1,000 lakhs Loss

Ans: (b)

2. Securities Premium available for Buyback after redemption of Preference Shares

(a) ₹ 550 lakhs
(b) ₹ 800 lakhs
(c) Can't utilize securities premium for buyback
(d) ₹ 350 lakhs

Ans: (a)

3. Total amount to be transferred to Capital Redemption Reserve:

(a) ₹ 2,000 lakhs
(b) ₹ 4,500 lakhs
(c) ₹ 2,500 lakhs
(d) ₹ 1,750 lakhs

Ans: (c)

4. Cash balance after buyback

(a) ₹ 1,150 lakhs
(b) ₹ 2,200 lakhs
(c) ₹ 3,250 lakhs
(d) ₹ 900 lakhs

Ans: (d)

CS 12	(MTP 8 Marks Aug'24) (Chapter 5.6 AS 26- Intangible Assets)

On April 1, 2022, Hello Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is ₹ 25,00,000 and the time required is 15 months. The company was also required to pay ₹ 100,000 annually after implementation for maintenance and normal updation of ERP. The implementation work started in June, 2022 and could not be finished in 15 months. The ERP was implemented on May 2024. Due to delay in implementation the vendor refunded ₹ 2,00,000. The Company recognised the intangible asset 'SAP ERP' on September 2023 (15 months from June 2022). After two years, the Company has got the SAP ERP more upgraded with latest version and additional features and functions which also increased its speed and usage to Hello Limited for ₹ 7,00,000.

1. On which date the Intangible asset should be recognised:

(a) April 2022 (When it was decided that SAP ERP is to be implemented)
(b) June 2022 (When the implementation work started)
(c) September 2023 (When the implementation work should have completed as per agreed terms)
(d) May 2024 (When the SAP actually got implemented)

Ans: (d)

2. At what amount the SAP ERP should be initially recognised as intangible asset:

(a) ₹ 25,00,000
(b) ₹ 26,00,000
(c) ₹ 23,00,000
(d) ₹ 32,00,000

Ans: (c)

3. How should the annual maintenance and updation expenses should be accounted for:

(a) Should be capitalised with 'Intangible Asset'
(b) Should be recognised as a separate 'Intangible Asset'
(c) Should be recognised as expense in Profit and Loss annually.
(d) No accounting is required

Ans: (c)

4. During the implementation period, how the expenditure incurred will be accounted for:

(a) It will be expensed in profit and loss as and when incurred
(b) It will be recognised as an asset 'Intangible asset under development'
(c) It will only be disclosed in notes to accounts and will be recognised when complete
(d) It will be recognised as an item of Property, Plant and Equipment

Ans: (b)

CS 13 (RTP May'24)

RTS Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of equipments/components. The Company has a contract with the Indian Railways for a brake component which is structured such that:

- **The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.**
- **Railways sends an order for a defined quantity.**
- **The Company manufactures the required quantity and informs Railways for carrying out the inspection.**
- **Railways representatives visit the Company's factory and inspect the components, and mark each component with a quality check sticker.**
- **Goods once inspected by Railways, are marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location.**
- **The Company raises an invoice once it dispatches the goods.**

The management of RTS is under discussion with the auditors of the Company in respect of accounting of a critical matter as regards its accounting with respect subsequent events i.e. events after the reporting period. They have been checking as to which one of the following events after the reporting period provide evidence of conditions that existed at the end of the reporting period?

i. **Nationalization or privatization by government**
ii. **Out of court settlement of a legal claim**
iii. **Rights issue of equity shares**
iv. **Strike by workforce**
v. **Announcing a plan to discontinue an operation**

The Company has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed ₹ 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent.
RTS has a subsidiary, A Ltd, which is evaluating its production process wherein normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input was ₹ 1,000. The entire quantity of waste was on stock at the end of the financial year.

1. **When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006? Would your answer be different if inspection is normally known to lead to no quality rejections? (Chapter 8.2 AS 9- Revenue Recognition)**
   (a) Revenue should be recognized on dispatch of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
   (b) Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
   (c) Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections.
   (d) Revenue should be recognized on delivery of the component to the Railways' stockyard. The assessment would change where inspection is normally known to lead to no quality rejections.

Ans: (b)

2. **In respect of A Ltd, state with reference to Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006, what would be value of the inventory to be recorded in the books of accounts? (Chapter 5.1 AS 2- Valuation of Inventory)**
   (a) ₹ 4,700,000.
   (b) ₹ 5,000,000.
   (c) ₹ 4,950,000.

(d) ₹ 4,947,368.

Ans: (d)

3. **Please guide regarding the accounting treatment of both the grants mentioned above in line with the requirements of Accounting Standard 12. (Chapter 9.1 AS 12-Accounting for Government Grants)**
   (a) Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct.
   (b) Distribution of dividend out of grant is incorrect. In the second case, not recording land in the books of accounts is correct.
   (c) Distribution of dividend out of grant is correct. In the second case, land should be recorded in the books of accounts at a nominal value.
   (d) Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value.

Ans: (d)

CS 14	(RTP Sep'24) (Chapter 8.2: AS Revenue recognition)

Suman Ltd. is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products.

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd. for its resort. Suman Ltd. sold 5 AC to Beach resort for ₹ 45,000 each which includes installation fees of ₹ 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered ₹ 500 per AC as trade discount. Beach resort placed order on March 15, 2024 and made payment on March 20, 2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024.

1. **How much revenue should be recognized by the Company as on March 31, 2024:**
   (a) ₹ 2,25,000
   (b) ₹ 2,17,500
   (c) ₹ 2,00,000
   (d) ₹ 2,30,000

Ans: (b)

2. **How much revenue should be recognised by the Company in the financial year 2024-25:**
   (a) ₹ 5000
   (b) ₹ 2,20,000
   (c) ₹ 10,000
   (d) ₹ 2,40,000

Ans: (a)

3. **What will be the accounting for trade discount:**
   (a) The same will be recognised separately in the profit and loss.
   (b) The trade discounts are deducted in determining the revenue.
   (c) Trade discount will be recognised after one year, when the warranty will be over.
   (d) Trade discount will be recognised after installation is complete.

Ans: (b)

4. **Is the Company required to do any accounting for 1 year warranty provided by it:**
   (a) No accounting treatment is required till some warranty claim is actually received by the Company.
   (b) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.
   (c) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made.
   (d) As the Company is not charging separately for the warranty provided, there is no need to create any provision.

Ans: (b)

CS 15	(RTP Jan'25) (Chapter 5.7: AS 28 Impairment of Assets)

Surya Ltd. Has a two fixed asset, FA1 is being carried in the balance sheet for ₹ 600 lakhs and FA 2 is being carried at ₹ 300 lakhs

As at 31st March 2024, the value in use for FA 1 is ₹ 500 lakhs and the net selling price is ₹ 550 lakhs. The Company did upward revaluation last year for ₹ 20 lakhs for FA 1.

As at 31st March 2024, the value in use for FA 2 is ₹ 350 lakhs and the net selling price is ₹ 320 lakhs.

1. How much is the total Impairment loss for current year for FA 1:
   (a) ₹ 100 Lakhs
   (b) ₹ 50 Lakhs
   (c) ₹ 30 lakhs
   (d) Nil

Ans: (b)

2. How much impairment loss will be charged to profit and loss for current year for FA1:
   (a) ₹ 100 Lakhs
   (b) ₹ 50 Lakhs
   (c) ₹ 30 lakhs
   (d) Nil

Ans: (c)

3. How much is the total Impairment loss for current year for FA 2:
   (a) ₹ 50 Lakhs
   (b) ₹ 30 Lakhs
   (c) ₹ 20 lakhs
   (d) Nil

Ans: (d)

4. What will be the carrying value on 1st April 2024 for FA 1:
   (a) ₹ 550 Lakhs
   (b) ₹ 530 Lakhs
   (c) ₹ 520 lakhs
   (d) ₹ 500 lakhs

Ans: (a)

CS 16 (PYP 8 Marks Sep'24)

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? (Chapter 5.1 AS 2- Valuation of Inventory)
   (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

Ans : (b)

2. **Cost of Self Constructed Asset as per AS 10 will be? (Chapter 5.2 AS 10-Property, Plant & Equipment)**
   (a) ₹ 2,92,500
   (b) ₹ 2,77,500
   (c) ₹ 3,05,000
   (d) ₹ 2,90,000

Ans : (c)

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 ? (Chapter 5.4 AS 16-Borrowing Costs)**
   (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.

Ans : (a)

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.? (Chapter 5.3 AS 13-Accounting for Investments)**
   (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.

Ans : (d)

CS 17	*(PYP 12Marks Sep'24)*	LDR

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

1. **What is the amount to be recognized as Revenue as per AS 9 in the books of Kay Ltd. as on 31 March, 2024? (Chapter 8.2 AS 9- Revenue Recognition)**
   (a) ₹ 23,50,000
   (b) ₹ 1,50,000
   (c) ₹ 23,00,000
   (d) ₹ 1,00,000

Ans : (a)

2. **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? (Chapter AS 29- Provisions, Contingent Liabilities & Contingent Assets)**
   (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

Ans : (c)

3. **What is the treatment of insolvency of Sheetal Enterprises in the Books of Kay Ltd. as on 31st March, 2024 as per AS 4? (Chapter AS 4- Contingencies & Events occurring after the Balance sheet Date)**
   (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.

Ans : (a)

4. **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? (Chapter AS 4- AS 18- Related Party Disclosures)**
   (a) Q Ltd.
   (b) R Ltd.
   (c) Q Ltd. and R Ltd.
   (d) Neither of Q Ltd. or R Ltd.

Ans : (c)

5. **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: (Chapter AS 19- Leases)**

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

Ans : (b)

6. **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: (Chapter AS 20- EPS)**
   (a) 1,34,500 shares
   (b) 1,65,500 shares
   (c) 1,76,167 shares
   (d) 1,23,833 shares

Ans : (b)

CS 18	(PYP 10 Marks Sep'24)

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-

1. The amount of Cash Flow from operating activity is: (Chapter 4.2 AS 3- Cash Flow Statement)
   (a) ₹ 2,000
   (b) ₹ 5,000
   (c) ₹ 12,000
   (d) ₹ 15,000

Ans : (b)

2. The amount of Cash Flow from investing Activity is (Chapter 4.2 AS 3- Cash Flow Statement)
   (a) ₹ 28,000
   (b) ₹ 25,000
   (c) ₹ 15,000
   (d) ₹ 22,000

Ans : (d)

3. What is the amount of closing Cash and Cash equivalents as on 1 April, 2023 ? (Chapter 4.2 AS 3- Cash Flow Statement)
   (a) ₹1,92,500
   (b) ₹ 92,500
   (c) ₹ 1,27,000
   (d) ₹ 1,98,500

Ans : (a)

4. The Balance of Equity Share Capital after internal reconstruction is: (Chapter 14 Accounting for Reconstruction of Companies)

(a) ₹ 6,50,000
(b) ₹ 4,50,000
(c) ₹ 5,50,000
(d) ₹ 7,50,000

Ans : (c)

5. "Fixed Asset held for sale" will be classified in the Balance Sheet as per Schedule III of the Companies Act as: (Chapter 11.1 Preparation of Financial Statements)

(a) Deferred Tax Assets
(b) Current Asset
(c) Non-Current Asset
(d) Long term Investments

Ans : (b)

CS 19	(MTP 8 Marks Nov'24) (Chapter 7.3: AS 11- The Effects of Changes in Foreign Exchange rates)

Fly Ltd. made a sale of INR 7,00,000 to Wings International in May 2023 and recognised Trade Receivables which was initially recorded at the prevailing exchange rate on the date of sales, transaction recorded at US$ 1= ₹ 79.4. The Company also took a loan from U.S Company for ₹ 10,00000 in December 2023 which was initially recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US$ 1= ₹ 81.1.
On 31st March 2024, exchange rate was US$ 1 = ₹ 83.3

1. What will be the closing balance of Trade Receivables on 31st March 2024:

(a) ₹ 700,000
(b) ₹ 7,14,978 approx
(c) ₹ 7,34,383 approx
(d) ₹ 7,50,000 approx

Ans: (c)

2. How much is the reporting difference (gain or loss) in case of Trade Receivable:

(a) Gain of ₹ 34,383 approx
(b) Loss of ₹ 34,383 approx
(c) Gain of ₹ 19,395 approx
(d) Loss of ₹ 19,395 approx

Ans: (a)

3. What will be the closing balance of Loan as on 31st March 2024:

(a) ₹ 10,00,000
(b) ₹ 10,27,127 approx
(c) ₹ 9,79,002 approx
(d) ₹ 10,79,002 approx

Ans: (b)

4. How much is the reporting difference (gain or loss) in case of Loan:

(a) Gain of ₹ 48,087 approx
(b) Loss of ₹ 48,087 approx
(c) Gain of ₹ 27,127 approx
(d) Loss of ₹ 27,127 approx

Ans: (c)

CS 20	(MTP 8 Marks Nov'24) (Chapter 5.3 AS 13-Accounting for Investments)

X Ltd. purchased 3,000 shares of Amazing Ltd. in December 2023 @ ₹ 100 each and paid brokerage @ 1%. In May 2024, Amazing Ltd. issued bonus shares at one for every three shares held by shareholders. X Ltd. sold 1000 shares in September 2024 at ₹ 110 each. After issue of bonus, shares were quoted at ₹ 95. In December 2024, the shares were quoted at ₹ 70.

1. What would be the carrying cost of investments in Amazing Ltd. after sale of shares as per AS 13:
   (a) ₹ 3,03,000
   (b) ₹ 2,27,250
   (c) ₹ 3,00,000
   (d) ₹ 3,30,000

Ans: (b)

2. What is the cost of bonus shares:
   (a) ₹ 1,00,000
   (b) ₹ 1,10,000
   (c) Nil
   (d) ₹ 1,01,000

Ans: (c)

3. What is the Profit on sale of bonus shares:
   (a) ₹ 100,000
   (b) ₹ 75,750
   (c) ₹ 34,250
   (d) ₹ 1,01,000

Ans: (c)

4. What would be the carrying cost of investments in Amazing Ltd. in quarter ending in December 2024 as per AS 13:
   (a) ₹ 2,10,000
   (b) ₹ 2,27,250
   (c) ₹ 2,20,000
   (d) ₹ 3,00,000

Ans: (a)

CS 21	(MTP 8 Marks Nov'24) (Chapter 10.2 AS 23- Accounting for Investments in Associates in Consolidated Financial Statements)

Sun Limited has acquired 40% share in Moon Ltd. for ₹ 500,000 on 01.07.2023. Moon Ltd. is holding 40% stake in Star Limited. Now, sun limited can exercise significant influence on Moon Limited. Moon limited declared dividend of ₹ 80,000 for the Financial Year 2022-23 on 15.09.2023. For the year 2023-24, Moon Ltd. earned profit of ₹ 4,00,000 and declared dividend for ₹ 90,000 on 15.09.2024.

1. With respect to relationship between Companies, it can be said that:
   (a) Star Ltd. is associate of Sun Ltd.
   (b) Moon Ltd. and Star Ltd. both are associates of Sun Ltd.
   (c) Moon Ltd. is an associate of Sun Ltd.
   (d) Sun Ltd. is Parent of both Moon Ltd. and Star Ltd.

Ans: (c)

2. What will be the carrying amount of investment in Separate Financial Statements of Sun Limited as on 31.03.2024?
   (a) ₹ 5,00,000
   (b) ₹ 5,80,000
   (c) ₹ 4,68,000
   (d) ₹ 5,32,000

Ans: (c)

3. **What will be the carrying amount of investment in Consolidated Financial Statements of Sun Limited as on 31.03.2024?**
   (a) ₹ 9,00,000
   (b) ₹ 5,88,000
   (c) ₹ 4,52,000
   (d) ₹ 6,20,000

Ans: (b)

4. **As per AS 23, the existence of significant influence by an investor is usually evidenced in one or more of the following ways:**
   (i) participation in policy making processes
   (ii) interchange of managerial personnel
   (iii) right to receive dividend
   (iv) provision of essential technical information
   (a) All the statements are correct
   (b) Statements (i), (ii) and (iii) are correct
   (c) Statements (ii), (iii) and (iv) are correct
   (d) Statements (i), (ii) and (iv) are correct

Ans: (d)

CS 22 **(MTP 8 Marks Dec'24) (Chapter 5.2 AS 10-Property, Plant & Equipment)**

Excellence Ltd. is a Real Estate Company which constructs residential and commercial projects for selling. The Company has commenced a new project and the expenses incurred are as follows:

- **The cost of land acquired for Project is ₹ 10 crore**
- **Cost of construction incurred is ₹ 25 crores.**
- **The Company also incurred cost of ₹ 10 lacs for various administrative meetings in relation to planning of the building.**
- **The construction of building completed and at the end of the year 1, the net realisable value of the building was ₹ 40 crore.**
- **At the beginning of the next year (year 2), the Company decided to use the building as its corporate office.**
- **The Company further incurred ₹ 50 lacs for making necessary changes in the structure for using it as corporate office in accordance with government norms for commercial spaces. Without these changes the office cannot be set up.**
- **Ignore the effect of depreciation, if any.**

In view of above information, answer the following issues:

1. **At the end of Year 1, how the building should be classified:**
   (a) Inventory
   (b) Investments
   (c) Property, Plant and Equipment
   (d) Intangible Asset

Ans : (a)

2. **At the end of Year 1, at value Project should be recognised:**
   (a) ₹ 40 Crore
   (b) ₹ 35 Crore
   (c) ₹ 35.10 Crore
   (d) ₹ 25 Crore

Ans : (b)

3. **At the end of Year 2, when the intention is to use the building as corporate office, it should be classified as:**

(a) Inventory
(b) Investments
(c) Property, Plant and Equipment
(d) Intangible Assets

Ans : (c)

4. At the end of Year 2, the Project should be valued at:

(a) ₹ 40 Crore
(b) ₹ 35.50 Crore
(c) ₹ 35.10 Crore
(d) ₹ 25 Crore

Ans : (b)

CS 23 **(MTP 8 Marks Dec'24) (Chapter 9.1 AS 12-Accounting for Government Grants)**

Supercool ltd. is a manufacturing company, engaged in manufacturing eco- friendly equipment. On April 1, 2023, the Company received a grant of ₹ 20 crore from the Government (which is 25% of the total capital of the Company) for various purposes that the company deems fit and no repayment is required to be made to Government.

The Company also borrowed ₹ 10 crore from financial Institutions and interest paid on the same during the year is ₹ 1 lac.

The Company acquired plant and machinery from the funds for ₹ 10 crore and
₹ 1 crore was spent on its installation and assembly.

₹ 10 lacs were spent on professional fees necessary for installation and operating of the machine. The Company also spent ₹ 50 lacs on revenue expenditure.

The Plant and Machinery was ready for its intended use on September 30, 2023)

The depreciation on plant and machinery is charged @10%.

1. The grant of ₹ 20 crores received by the Company should be presented as:

(a) Grants related to Revenue
(b) Grants related to Specific Fixed Assets
(c) Capital Reserve
(d) Other Income

Ans : (c)

2. At what value the plant and machinery acquired should be recognised as at 31st March 2024:

(a) ₹ 11.10 Crore
(b) ₹ 11 Crore
(c) ₹ 10.54 Crore
(d) ₹ 11.60 Crore

Ans : (c)

3. The revenue expenditure of ₹ 50 lacs should be recognised as:

(a) Part of Plant and Machinery
(b) Part of Grant
(c) Revenue expenditure in the Profit and Loss
(d) Deducted from loan

Ans : (c)

4. Which of the following statement is true:

(a) Plant and Machinery has been acquired out of Government Grant so the same should be disclosed at Nil value.
(b) Plant and Machinery belongs to Financial Institution
(c) Plant and Machinery belong to the Company and should be recognised as its Property, Plant and Equipment
(d) Plant and Machinery should not be disclosed in the financial statements of the Company at all

Ans : (c)

Super Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:
Equity Shares of ₹ 10 each fully paid up: ₹ 17,00,000 Reserves & Surplus:
Revenue Reserve: ₹ 23,50,000 Securities Premium: ₹ 2,50,000
Profit & Loss Account: ₹ 2,00,000
Infrastructure Development Reserve: ₹ 1,50,000 Secured Loan:
9% Debentures: ₹ 38,00,000 Unsecured Loan: ₹ 8,50,000
Property, Plant & Equipment: ₹ 58,50,000 Current Assets: ₹ 34,50,000
Super Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 30 per share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets.
Answer the following questions based on the above information:

1. **As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed**
   (a) 20% of its total paid-up capital and free reserves
   (b) 25% of its total paid-up capital and free reserves
   (c) 25% of its total paid-up capital
   (d) 20% of its total paid-up capital

Ans : (a)

2. **How many shares can Super Ltd. buy back according to the Shares Outstanding Test?**
   (a) 35,000 shares
   (b) 42,500 shares
   (c) 37,500 shares
   (d) 54,375 shares

Ans : (b)

3. **What is the maximum number of shares that can be bought back according to the Resources Test?**
   (a) 35,000 shares
   (b) 42,500 shares
   (c) 37,500 shares
   (d) 54,375 shares

Ans : (c)

4. **According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?**
   (a) 35,000 shares
   (b) 42,500 shares
   (c) 37,500 shares
   (d) 54,375 shares

Ans : (d)