CA (INTER-New Syllabus)

ADVANCE ACCOUNTS

IMPORTANT QUESTIONS LIST

SUPER 111 QUESTIONS

MAY -25 EXAMS

NOTE FROM AUTHOR:

1. **Dear students as you know advance accounts is a very vast subject with a poll of questions.**
2. **We have selected super questions from this poll after considering Past exams papers, RTPs, MTPs and Study material.**
3. **We have prepared this list after considering all the factors and according to the past trends of ICAI.**
4. **We have provided you solutions along with working notes which will save your time.**
5. **We have tried to cover more then 90% topics which in our belief are the most important topics.**
6. **Please solve all the questions once before exam. You will see many questions and topics coming from super 111.**
7. **In case of any queries please reach out to us we are 24*7 committed to our students.**

Question-1)

Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9.

a) Delivery is delayed at buyer's request but buyer takes title and accepts billing.

b) Instalment Sales.

c) Trade discounts and volume rebates.

d) Insurance agency commission for rendering services.

e) Advertising commission.

Answer

Delivery is delayed at buyer's request and buyer takes title and accepts billing : Revenue should be recognized notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made. However, the item must be on hand, identified and ready for delivery to the buyer at the time the sale is recognized rather than there being simply an intention to acquire or manufacture the goods in time for delivery.
Instalment sales: When the consideration is receivable in instalments, revenue attributable to the sales price exclusive of interest should be recognized at the date of sale. The interest element should be recognized as revenue, proportionately to the unpaid balance due to the seller.

Trade discounts and volume rebates: Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.
Insurance agency commissions for rendering services: Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

Advertising commission: Revenue should be recognized when the service is completed. For advertising agencies, media commissions will normally be recognized when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognized when the project is completed.

Question-2)

A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom-made machine Rs.1,00,000. At the end of 20X1-X2, before delivery of the machine, A Ltd. had to change its method ofproduction. The new method will not require the machine ordered and it will be scrapped after delivery.The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 20X1-X2. (RTP May'20, May'23 & Nov '23)

Answer:

A liability is recognized when outflow of economic resources in settlement of a present obligation can beanticipated and the value of outflow can be reliably measured. In the given case, A Ltd. should recognizea liability of Rs.1,00,000 to Gamma Ltd.When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset. In the present- case, flow of future economic benefit from the machine to the enterprise is improbable.

The entire amountof purchase price of the machine should be recognized as an expense.

Journal entry

Loss on change in production method	Dr.	1,00,000	
To Gamma Ltd.			1,00,000
(Loss due to change in production method)			
Profit and loss A/c	Dr.	1,00,000	
To Loss on change in production method			1,00,000
(Loss transferred to profit and loss account)			

Question-3)

Mrs. A is showing the consolidated aggregate opening balance of equity, liabilities and assets of ₹ 6lakh, 4lakh and 10 lakhs respectively. During the current year Mrs. A has the following transactions:

1. **Received 20% dividend on 10,000 equity shares of ₹ 10 each held as investment.**
2. **The amount of ₹ 70,000 is paid to creditors for settlement of ₹ 90,000.**
3. **Salary is pending by ₹ 20,000.**
4. **Mrs. A's drawing ₹ 20,000 for her personal use.**

You are required to prepare the statement of the effect of aforesaid each transaction on closing balance sheet in the form of Assets – Liabilities = Equity after each transaction. (PYP 5 Marks, Dec '21)

Ans:-

Effect of each transaction on Balance sheet of Mrs. A is shown below:

Transactions	**Assets ₹ lakh**	**-**	**Liabilities ₹ lakh**	**=**	**Equity ₹ lakh**
Opening	10.00	–	4.00	=	6.00

(1) Dividend earned	10.20 [10.00+0.20]	–	4.00	=	6.20 [6.00+0.20]
(2) Settlement of Creditors	9.50 [10.20-0.70]	–	3.10 [4.00-0.90]	=	6.40 [6.20+0.20]
(3) Salary Outstanding	9.50	–	3.30 [3.10+0.20]	=	6.20 [6.40-0.20]
(4) Drawings	9.30 [9.50-0.20]	–	3.30	=	6.00 [6.20-0.20]

Question-4)

Balance sheet of a trader on 31st March, 20X1 is given below:

Liabilities	₹	Assets	₹
Capital	60,000	Property, Plant and Equipment	65,000
Profit and Loss Account	25,000	Stock	30,000
10% Loan	35,000	Trade receivables	20,000
Trade payables	10,000	Deferred expenditure	10,000
		Bank	5,000
	1,30,000		1,30,000

Additional information:

1. **The remaining life of Property, Plant and Equipment is 5 years. The pattern of use of the asset iseven. The net realizable value of Property, Plant and Equipment on 31.03.X2 was ₹60,000.**
2. **The trader's purchases and sales in 20X1-X2 amounted to ₹ 4 lakh and ₹ 4.5 lakh respectively.**
3. **The cost and net realizable value of stock on 31.03.X2 were ₹ 32,000 and ₹ 40,000respectively.**
4. **Expenses (including interest on 10% Loan of ₹ 3,500 for the year) amounted to ₹ 14,900.**
5. **Deferred expenditure is amortised equally over 4 years.**
6. **Trade receivables on 31.03.X2 is ₹ 25,000, of which ₹ 2,000 is doubtful. Collection of another**
7. **₹ 4,000 depends on successful re-installation of certain product supplied to the customer.**

8. **Closing trade payable is ₹ 12,000, which is likely to be settled at 5% discount.**

9. **Cash balance on 31.03.X2 is ₹ 37,100.**

10. **There is an early repayment penalty for the loan ₹ 2,500.**

You are required to prepare Profit and Loss Accounts and Balance Sheets of the trader in both cases:-
(i) assuming going concern
(ii) not assuming going concern.

Ans:-

Profit and Loss Account for the year ended 31st March, 20X2

	Case (i)	Case (ii)		Case (i)	Case (ii)
	₹	₹		₹	₹
To Opening Stock To Purchases	30,000 4,00,000	30,000 4,00,000	By Sales By Closing Stock	4,50,000 32,000	4,50,000 40,000
To Expenses To Depreciation	14,900 13,000	14,900 5,000	By Trade payables		600
To Provision for doubtful debts To Deferred expenditure To Loan penalty To Net Profit (b.f.)	2,000 2,500 19,600	6,000 10,000 2,500 22,200			
	4,82,000	4,90,600		4,82,000	4,90,600

Balance Sheet as at 31st March, 20X2

Liabilities	Case (i) ₹	Case (ii) ₹	Assets	Case (i) ₹	Case (ii) ₹
Capital	60,000	60,000	Property, Plant and Equipment	52,000	60,000
Profit & Loss A/c	44,600	47,200	Stock	32,000	40,000
10% Loan	35,000	37,500	Trade receivables (less provision)	23,000	19,000
Trade payables	12,000	11,400	Deferred	7,500	Nil

			expenditure Bank	37,100	37,100
	1,51,600	1,56,100		1,51,600	1,56,100

Question-5)

HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12months up to 31.03.2019. The company now wants to change it and make provision based on technical evaluation during the year ending 31.03.2020. Total value of stock on 31.3.20 is Rs. 120 lakhs. Pro-vision required based on technical evaluation amounts Rs. 3.00 lakhs. However, provision required based on 12 months (no issues) is Rs. 4.00 lakhs. You are required to discuss the following points in the light of Accounting Standard (AS)-1:

1. **Does this amount to change in accounting policy?**
2. **Can the company change the method of accounting?**
3. **Explain how it will be disclosed in the annual accounts of HIL Ltd. for the year 2019-20. (MTP 5 MarkMarch '21, MTP 5 Marks April '22 & MTP 5 Marks April '23) (PYP Nov '18, 5 Marks, PYP 5 Marks Dec'21)**

Ans:-

The decision of making provision for non−moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non−moving inventories should be made but the basis for making provision will not constitute accounting policy. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

In the given case, considering the total value of inventory, the change in the amount of required provi-sion of non−moving inventory from Rs. 4 lakhs to Rs. 3 lakhs are also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of HIL Ltd. for the year 2019−20 in the following manner:"The company has provided for non−moving inventories on the basis of technical evaluation unlike pre- ceding years. Had the same method been followed as in the previous year, the profit for the year and the value of net assets at the end of the year would have been lower by Rs. 1 lakh."

Question-6)

In the books of Rani Ltd., closing inventory as on 31.03.2020 amounts to ₹1,75,000 (valued based on FIFO method). The Company decides to change from FIFO method to weighted average method for ascertaining the costs of inventory from the year 2019-20. On the basis of weighted average method, clos- ing inventory as on 31.03.2020 amounts to ₹1,59,000. Realizable value of the inventory as on 31;03;2020

amounts to ₹2,07 ,000. Discuss disclosure requirements of change in accounting policy as per AS 1
(MTP Nov '21, 5 Marks, MTP Oct'18 5 Marks, RTP May 23, PYP 5 Marks Dec'21, Old & New SM)

Ans:-

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Rani Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

"The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2019−20, the company has changed to weighted average meth- od, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by ₹16,000 (1,75,000 — 1,59,000)."

Question-7)

Kumar Ltd. had made a rights issue of shares in 2017. In the offer document to its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on 31 st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the man-aging director, decided not to provide for "after sales expenses" during the warranty period; Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to Rs. 600 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017 (MTP Apr'19, Aug'18, Oct'22 5 Marks)

Ans:-

As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

So far, the company has been providing 2% of sales for meeting "after sales expenses during the warrantyperiod. With the improved method of production, the probability of defects occurring in the productshas reduced considerably. Hence, the company has decided not to make provision for such expenses butto account for the same as and when expenses are incurred. Due to this change, the profit for theyear is increased by Rs. 12 crores than would have been the case if the old policy were to continue.

Question-8)

You are required to comment on the following cases as per the provisions of Accounting Standard-1

'Disclosure of Accounting Policies':

(1) Bee Limited has not complied with AS-2 "Valuation of inventories" and the same is disclosed inthe Notes on Accounts. Management is of the view that the financial statements give a true andfair view as non-compliance with AS-2 is disclosed.

(2) Cee Limited sold its Office Building for Rs. 10,00,000 on 1st March, 2023. The buyer has paid the full amount and taken possession of the building. The book value of the Office Building is Rs. 4,00,000. On 31st 2023, documentation and legal formalities are pending. The company has notrecorded the disposal and the amount received is shown as an advance.

(3) Dee Limited has prepared its accounts on cash basis and the same is not disclosed.

(4) Jee Limited disclosed significant accounting policies adopted in the preparation of financial statements, in the Directors' Report. (PYP 5 Marks May '23)

Ans:-

(1) As per AS−I disclosure of accounting policies is not a remedy for wrong or inappropriate treatmentin accounting. In the given case the financial statement does not give a true and fair view as theyare not in compliance with AS−2.

(2) Considering the substance over form as per AS−I, documentation and legal formalities representthe form of the transaction, although the legal title has not been transferred, the economic realityand substance are that the rights and beneficial interest in the Office Building have been trans- ferred. Therefore, recording of acquisition/ disposal (by the transferee and transferor respectively) would in substance represent the transaction entered into.

(1) Accrual is a fundamental accounting assumption. If it is not followed by the company, the facts should be disclosed under AS−I. Hence the company should disclose the fact that the cash basis of accounting has been followed in the notes on accounts.

(2) The practice followed by the company is not correct. It should be disclosed as part of financialstatements (The director's report is not part of financial statements).

Question-9)

What do you mean by the term "cash and cash equivalent" as per AS 3? From the followinginformation of XYZ Limited, calculate cash and cash equivalent as on 31-03-2019.

Particulars	Amount (₹)
Cash balance with Bank	10,000
Fixed Deposit created on 01-11-2018 and maturing on15-07-2019	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund made on01-03-2019 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India	$ 1,000
(Conversion Rate: on the day of deposit ₹ 69/USD; ₹ 70/USD as on 31-03-2019)	
Debentures purchased of ₹ 10 lacs of A Ltd., which are redeemable on 31st October, 2019	90,000
Shares of Alpha Ltd. purchased on 1st January, 2019	60,000

(MTP 5 Marks Oct 20)

Ans:-

As per AS 3, Cash and cash equivalents consists of: (i) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (ii) Cash equivalents, which are short term, highly liquidinvestments that are readily convertible into known amounts of cash and are subject to insignificant riskor change in value. A short−term investment is one, which is due for maturity within three months fromthe date of acquisition. Investments in shares are not normally taken as cash equivalent, because of uncertainties associated with them as to realizable value.

Computation of Cash and Cash Equivalents as on 31st March, 2019

	₹
Cash balance with bank	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.19	1,00,000
Bank balance in foreign currency account ($1,000 x ₹ 70)	70,000
	1,80,000

Note: Fixed deposit, Shares and Debentures will not be considered as cash and cash equivalents.

Question-10)

Ridgeway Limited, a Non-Financial company has the following activities:

(i) **Dividend paid for the year.**

(ii) **TDS on interest income earned on investments made.**

(iii) **Loans and advances given to suppliers and interest earned from them.**

(iv) **Deposit with bank for a term of two years.**

(v) **Highly liquid Marketable Securities (without risk of change in value).**

(vi) **Investments made and dividends earned on them.**

(vii) **Insurance claims received against loss of stock or loss of profits.**

(viii) **Loans and advances given to subsidiaries and interest earned from them.**

(ix) **Issue of Bonus Shares.**

(x) **Term loan repaid.**

You are required to classify the above activities in Cash Flow Statement as per 'AS-3'; (PYP 5 Marks Nov '22)

Ans:-

No.		Activities
(i)	Dividend paid for the year	Financing
(ii)	TDS on interest income earned on investments made	Investing
(iii)	Loans and advances given to suppliers and inter-est earned from them	Operating
(iv)	Deposit with bank for a term of two years	Investing
(v)	Highly liquid Marketable Securities(withoutrisk of change in value)	Cash Equivalent
(vi)	Investments made and dividends earned onthem	Investing
(vii)	Insurance claims received against loss ofstock	Operating
	or loss of profits	
(viii)	Loans and advances given to subsidiariesand interest earned from them	Investing
(ix)	Issue of Bonus Shares	No Cash Inflow/Cash outflow
(x)	Term Loan repaid	Financing

Question-11)

On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2023 (Using direct method):

(i) **Total sales for the year were ₹ 796 crores out of which cash sales amounted to ₹ 524 crores.**

(ii) **Receipts from credit customers during the year, totalled ₹ 268 crores;**

(iii) **Purchases for the year amounted to ₹ 440 crores out of which credit purchase was 80%;Balance increditors as on 1.4.2022 ₹ 168 crores 31.3.2023₹ 184 crores**

(iv) **Suppliers of other consumables and services were paid ₹ 38 crores in cash;**

(v) **Employees of the enterprises were paid 40 crores in cash.**

(vi) **Fully paid 9% Preference shares of the face value of ₹ 64 crores were redeemed; Equity shares ofthe face value of ₹ 40 crores were allotted as fully paid up at premium of 20%;**

(vii) **10% Debentures of ₹ 40 crores at a premium of 10% were redeemed; Debenture holders were issuedequity shares in lieu of their debentures. ₹ 52 crores were paid by way of income tax.**

(viii) **A new machinery costing ₹ 50 crores was purchased in part exchange of an old machinery; The book value of the old machinery was ₹ 26 crores. Through the negotiations, the vendor agreed totake over the old machinery at a higher value of ₹ 30 crores. The balance was paid in cash to thevendor.**

(ix) **Investment costing ₹ 36 cores were sold at a loss of ₹ 4 crores;**

(x) **Dividends totaling ₹ 30 crores was also paid;**

(xi) **Debenture interest amounting ₹ 4 crore was paid;**

(xii) **Non-cash expenditure incurred during the current year was 1.2 crores.**

(xiii) **Dividends declared during the current year was 15% on equity share capital (ESC = '120 crores);**

(xiv) **On 31st March 2022, Balance with Bank and Cash on hand totalled ₹ 4 crores. (RTP Nov '23)**

Ans:-

Cash flow statement (using direct method) for the year ended 31st March, 2023

	(₹ in crores)	**(₹ in crores)**
Cash flow from operating activities		
Cash sales	524	
Cash collected from credit customers	268	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(502)	
Cash from operations	290	
Less: Income tax paid	(52)	
Net cash from operating activities		238
Cash flow from investing activities		
Net Payment for purchase of Machine (50 – 30)	(20)	
Proceeds from sale of investments	32	
Net cash from investing activities		12
Cash flow from financing activities		
Redemption of Preference shares	(64)	

Proceeds from issue of Equity shares	48	
Debenture interest paid	(4)	
Dividend Paid	(30)	
Net cash used in financing activities		(50)
Net increase in cash and cash equivalents		200
Add: Cash and cash equivalents as on 1.04.2022		4
Cash and cash equivalents as on 31.3.2023		204

Working Note:

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

	(₹ in crores)
Opening Balance in creditors Account	168
Add: Purchases (440x .8)	352
Total	520
Less: Closing balance in Creditors Account	184
Cash paid to suppliers of goods	336
Add: Cash purchases (440x .2)	88
Total cash paid for purchases to suppliers (a)	424
Add: Cash paid to suppliers of other consumables and services (b)	38
Add: Payment to employees (c)	40
Total cash paid to suppliers of goods & services and to employees[(a)+ (b) +(c)]	502

Question-12)

The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments: (₹ in Crore)

Particulars	A	B	C	D	E	Total
Segment Assets	**40**	**15**	**10**	**10**	**5**	**80**
Segment Results	**(95)**	**5**	**5**	**(5)**	**15**	**(75)**
Segment Revenue	**310**	**40**	**30**	**40**	**30**	**450**

The Chief Accountant is of the opinion that segment “A” alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS 17 ‘Segment Reporting’. (MTP 5 Marks March ’23) (RTP May ’20 & May ‘23) (PYP 5 Marks, Jan 21) (PYP 5 Marks May ’23)

Ans:-

As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

1. Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

2. Its segment result whether profit or loss is 10% or more of:

   - The combined result of all segments in profit; or

   - The combined result of all segments in loss,whichever is greater in absolute amount; or

3. Its segment assets are 10% or more of the total assets of all segments.

Further, if the total external revenue attributable to reportable segments constitutes less than 75% oftotal enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

Accordingly,

1. On the basis of revenue from sales criteria, segment A is a reportable segment.

2. On the basis of the result criteria, segments A & E are reportable segments (sincetheir re- sults in absolute amount is 10% or more of ₹ 100 crore).

3. On the basis of asset criteria, all segments except E are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be report-
edupon in accordance with AS 17.

Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong.

Question-13)

Calculate the segment results of a manufacturing organization from the following information: (RTP Nov 18 & New SM)

Segments	A	B	C	Total
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in5:4: 2 basis)				1,10,000
Revenue from transactions with othersegments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000

Enterprise expenses (allocated in5: 4: 2 basis)				**77,000**
Expenses on transactions with othersegments				
Transaction from B	**75,000**		**30,000**	
Transaction from C	**6,000**	**40,000**		
Transaction from A		**18,000**	**82,000**	

Calculation of segment result

Segments	**A**	**B**	**C**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in5: 4: 2 basis)	50,000	40,000	20,000	1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000
Total segment revenue as per AS 17(A)	6,60,000	4,15,000	2,70,000	13,45,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in5 : 4 : 2 basis)	35,000	28,000	14,000	77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	1,05,000
Transaction from C	6,000	40,000		46,000
Transaction from A		18,000	82,000	1,00,000
Total segment expenses as per AS 17(B)	4,16,000	2,36,000	2,01,000	8,53,000
Segment result (A-B)	2,44,000	1,79,000	69,000	4,92,000

Question-14)

At the time calculating diluted earnings per share, effect is given to all dilutive potential equity sharesthat are outstanding during the period". Comment and also calculate the basic and diluted earnings per share for the year 2020-21 from the following

information:

(i)	Net profit after tax for the year	₹ 64,12,500
(ii)	No. of equity shares outstanding	15,00,000
(iii)	No. of 9% convertible debentures of ₹ 100 issued on 1stJuly,2020	75,000
(iv)	Each debenture is convertible into 8 Equity Shares	
(v)	Tax relating to interest expenses	35%

(PYP 5 Marks Dec'21)

Ans:-

In calculating diluted earnings per share, effect is given to all dilutive potential equity shares that wereoutstanding during the period;" As per AS 20 'Earnings per Share', the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding* during theperiod should be adjusted for the effects of all dilutive potential equity shares for the purpose of calculation of diluted earnings per share. Basic EPS for the year 2020−21= 64,12,500/15,00,000 = ₹ 4;275or ₹ 4;28

Computation of diluted earnings per share for year 2020-21

Adjusted net profit for the current year will be (64,12,500 + 5,06,250 — 1,77,188) = ₹ 67,41,562No. of equityshares resulting from conversion of debentures: 6,00,000 Shares (75,000 × 8) Weighted average no. of equity shares used to compute diluted EPS:

(15,00,000 X12/12+ 6,00,000X9/12)

= 19,50,000 Shares

Diluted earnings per share: (67,41,562/19,50,000) = ₹

3;46Working Note:

Interest expense for 9 months = 75,00,000×9%×9/12 =₹

5,06,250Tax expense 35 % on interest is ₹1,77,188

(5,06,250 x 35%)

*Weighted average number of equity shares outstanding during the period is increased by the weightedaverage number of additional equity shares which would have been outstanding assuming the conver-sion of all dilutive potential equity shares.

Question-15)

NAT, a listed entity, as on 1st April,2021 had the following capital structure:

	₹
10,00,000 Equity Shares having face value of ₹ 1 each	**10,00,000**
10,00,000 8% Preference Shares having face value of ₹ 10 each	**1,00,00,000**

During the year 2021-2022, the company had profit after tax of ₹ 90,00,000

On 1st January,2022, NAT made a bonus issue of one equity share for every 2 equity shares outstand-ing as at 31st December,2021.

**On 1st January,2022, NAT issued 2,00,000 equity shares of ₹ 1 each at their full market price of ₹ 7.60
per share.
NAT's shares were trading at ₹ 8.05 per share on 31st March,2022.**

Further it has been provided that the basic earnings per share for the year ended 31st March,2021 waspreviously reported at ₹ 62.30.

You are required to:

Calculate the basic earnings per share to be reported in the financial statements of NAT for the yearended 31st March,2022 including the comparative figure, in accordance with AS-20 Earnings Per Share.

Explain why the bonus issue of shares and the shares issue at full market price are treated differently inthe calculation of the basic earnings per share? (PYP 5 Marks May'22)

Ans:-

I. Calculation of Basic Earnings per share for the year ended 31stMarch, 2022 including thecomparative figure:

Earnings for the year ended 31st March, 2021 = EPS x Number of shares outstanding during 2020 −2021

= ₹ 62;30 x 10,00,000 equity shares

= ₹ 6,23,00,000

(a) Adjusted Earnings per share after taking into consideration bonus issue

Adjusted Basic EPS = Earnings for the year 2020−2021 / Total outstanding shares +Bonusissue

= ₹ 6,23,00,000 / (10,00,000+ 5,00,000)

= ₹ 6,23,00,000 / 15,00,000

= ₹ 41;53 per share

(b) Basic EPS for the year 2021−2022

Basic EPS = Total Earnings – Preference Shares Dividend) / (Total shares outstanding at thebeginning
+ Bonus issue + weighted average of the shares issued in January, 2022)

= (₹ 90,00,000 – ₹ (1,00,00,000 x 8%) / (10,00,000 + 5,00,000 + (2,00,000 x 3/12))

= ₹ 82,00,000 / 15,50,000 shares

= ₹ 5;29 per share

II. In case of a bonus issue, equity shares are issued to existing shareholders for no additional consideration. Therefore, the number of equity shares outstanding is increased without an in-creasein resources. Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2021, the earliest period reported.However, the share issued at full market price does not carry any bonus element and usually results in a proportionate change in the resources available to the enterprise. Therefore, it is taken into consideration from the time it has been issued i.e. the time− weighting factor is con-sidered based on the specific shares outstanding as a proportion of the total number of days in the period.

Question-16)

Sincere Corporation is dealing in seasonal product. Sales pattern of the product quarter-wise is as follows:

1st quarter 30th June	**10%**
2nd quarter 30th September	**10%**
3rd quarter 31st December	**60%**
4th quarter 31st March	**20%**

Information regarding the 1st quarter ended on 30th June, 20X1 is as follows:

Sales 80 crores

Salary and other expenses	60 crores
Advertisement expenses (routine)	4 crores
Administrative and selling expenses	8 crores

While preparing interim financial report for first quarter Sincere Corporation wants to defer Rs. 10 croresexpenditure to third quarter on the argument that third quarter is having more sales, therefore, the thirdquarter should be debited by more expenditure. Considering the seasonal nature of business and the expenditures are uniform throughout all quarters, calculate the result of the first quarter as per AS 25.Also give a comment on the company's view.

Ans:-

Particulars	**(₹ In crores)**	
Result of first quarter ended 30th June, 20X1		
Turnover	80	
Other Income	Nil	
Total (a)		80
Less: Changes in inventories		Nil
Salaries and other cost		60

Administrative and selling Expenses (4+8)		12
Total (b)		72
Profit (a)-(b)		8

According to AS 25, the Income and Expense should be recognized when they are earned and incurred respectively. Therefore, seasonal incomes will be recognized when they occur. Thus, the company's viewisnot as per AS 25.

Question-17)

Accountants of Poornima Ltd. showed a net profit of Rs. 7,20,000 for the third quarter of 20X1 after incorporating the following:

(i) Bad debts of Rs. 40,000 incurred during the quarter. 50% of the bad debts have been deferred tothe next quarter.

(ii) Extra ordinary loss of Rs. 35,000 incurred during the quarter has been fully recognized in thisquarter

(iii) Additional depreciation of Rs. 45,000 resulting from the change in the method of chargeof depreciation assuming that Rs. 45,000 is the charge for the 3rd quarter only.

Ascertain the correct quarterly income.

Ans:-

In the above case, the quarterly income has not been correctly stated. As per AS 25 "Interim

Financial Reporting", the quarterly income should be adjusted and restated as follows:

Bad debts of Rs. 40,000 have been incurred during current quarter. Out of this, the company hasdeferred50% (i.e.) Rs. 20,000 to the next quarter. Therefore, Rs. 20,000 should be deducted fromRs. 7,20,000. The treatment of extra-ordinary loss of Rs. 35,000 being recognized in the samequarteris correct.

Recognising additional depreciation of Rs. 45,000 in the same quarter is in tune with AS 25.Hence noadjustments are required for these two items.

Poornima Ltd should report quarterly income as Rs.7,00,000 (Rs.7,20,000 — Rs.20,000).

Question-18)

Omega Ltd. has a normal wastage of 4% in the production process. During the year 2019-20, the Company used 12,000 MT of raw material costing Rs. 150 per MT. At the end of the year 630 MT ofwastage was ascertained in stock. The accountant wants to know

how this wastage is to be treatedinthe books.You are required to compute the amount of normal and abnormal loss and treatment thereof in linewith AS 2 "Valuation of inventories". (MTP 5 Marks, May '20, April '19, Oct '18, Old & New SM)

Ans:-

As per para AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, Labour andother production costs are excluded from cost of inventories and such costs are recognized asexpenses in the period in which they are incurred. The normal loss will be included in determin-ing the cost of inventories (finished goods) at the year end.

Amount of Normal Loss and Abnormal Loss:

Material used 12,000 MT @ Rs. 150 = Rs.
18,00,000Normal Loss (4% of 12,000 MT) 480
MT

Net quantity of material	11,520MT
Abnormal Loss in quantity	150 MT (630 MT less 480 MT)
Abnormal Loss	Rs. 23,437.50

[150 units @ Rs. 156.25 (Rs.18,00,000/11,520)] Amount of Rs. 23,437.50 will be charged to the Profit and Loss statement.

Question-19)

Explain the accounting treatment in following independent cases:-

(i) "**In determining the cost of inventories, it is appropriate to exclude certain costs and rec-ognize them as expenses in the period in which they are incurred". Provide examples ofsuch costs as per AS 2 'Valuation of Inventories'. (MTP 2.5 Marks April 21 & Oct '23, RTP May'22, Old & New SM)**

(ii) **X Limited purchased goods at the cost of Rs. 40 lakhs in October, 2020. Till March, 2021,75% of the stocks were sold. The company wants to disclose closing stock at Rs. 10 lakhs.The expected sale value is Rs. 11 lakhs and a commission at 10% on sale is payable to theagent. Advise, what is the correct value of closing stock to be disclosed as at 31.3.2021.(MTP 2.5 Marks April 21 & Oct '23)**

Ans:-

(i) As per AS 2 'Valuation of Inventories', certain costs are excluded from the cost of the inventories and are recognized as expenses in the period in which incurred. Examples of such costs are:

- abnormal amount of wasted materials, Labour, or other production costs;
- storage costs, unless those costs are necessary in the production process prior to afurther production stage;
- administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
- selling and distribution costs.

(ii) As per AS 2 “Valuation of Inventories”, the inventories are to be valued at lower of cost or net realizablevalue. In this case, the cost of inventory is Rs. 10 lakhs. The net realizable value is 11,00,000 Rs. 90%

= Rs. 9,90,000. So, the stock should be valued at Rs. 9,90,000.

Question-20)

A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. Thecompany provides you following information for the year ended 31st March, 2017.

	Rs. Per unit
Raw Material X	
Cost price	**380**
Unloading Charges	**20**
Freight Inward	**40**
Replacement cost	**300**
Chemical Y	
Material consumed	**440**
Direct Labour	**120**
Variable Overheads	**80**

Additional Information:

(i) Total fixed overhead for the year was Rs. 4,00,000 on normal capacity of 20,000 units.

Closing balance of Raw Material X was 1,000 units and Chemical Y was Rs. 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when Net realizable value of Chemical Y is Rs. 800 per unit. (MTP Aug. ‘18, 5 Marks, RTP Nov’18) (RTP Nov’20)

Ans:

When Net Realizable Value of the Chemical Y is Rs. 800 per unit NRV is greater than thecost of Finished Goods Y i.e. Rs. 660 (Refer W.N.)Hence, Raw Material and Finished Goods are to be valued at cost Value of Closing Stock:

	Qty.	Rate (Rs.)	Amount (Rs.)
Raw Material X	1,000	440	4,40,000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

Working Note:

Statement showing cost calculation of Raw Material X and Chemical Y

Raw Material X	**Rs.**
Cost Price	380
Add: Freight Inward	40
Unloading charges	20
Cost	440
Chemical Y	Rs.
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (Rs.4,00,000/20,000 units)	20
Cost	660

Question-21)

The inventory of Rich Ltd. as on 31st March, 2020 comprises of Product – A: 200 units and Product – B: 800 units.

Details of cost for these products are:

Product – A: Material cost, wages cost and overhead cost of each unit are Rs. 40, Rs. 30 and Rs. 20 respectively, Each unit is sold at Rs. 110, selling expenses amounts to 10% of selling costs.

Product – B: Material cost and wages cost of each unit are Rs. 45 and Rs. 35 respectively and normal selling rate is Rs. 150 each, however due to defect in the manufacturing process 800 units of Product-B were expected to be sold at Rs. 70. You are requested to value closing inventory according to AS 2 after considering the above. (RTP May '21)

Ans:-

According to AS 2 'Valuation of Inventories', inventories should be valued at the lower of cost and netrealizable value.

a) Product – A

Material cost	Rs. 40 x 200 = 8,000	
Wages cost	Rs. 30 x 200 = 6,000	
Overhead	Rs. 20 x 200 = 4,000	
Total cost		Rs. 18,000

Realizable value [200 x (110-11)]		Rs. 19,800
Hence inventory value of Product -A		Rs. 18,000

Product – B

Material cost	Rs. 45 x 800 = 36,000	
Wages cost	Rs. 35 x 800 = 28,000	
Total cost		Rs. 64,000
Realizable value (800 x 70)		Rs. 56,000
Hence inventory value of Product-B		Rs. 56,000
Total Value of closing inventory i.e. Product A + Product B (18,000+ 56,000)		Rs. 74,000

Question-22)

Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period, the company will move its production facilities to another (tem-porary) site.

The following incremental costs will be incurred:

Setup costs of Rs. 5,00,000 to install machinery in the new location.Rent of Rs. 15,00,000

Removal costs of Rs. 3,00,000 to transport the machinery from the old location to the temporarylo-cation.

Mohan Ltd. wants to seek your guidance as whether these costs can be capitalized into the cost of thenew building. You are required to advise in line with AS 10 "Property, Plant and Equipment". (MTP 5Marks May 20, April 21, March 18, Oct '18 & Apr'22 & Oct '22) (Old & New SM)

Ans:-

Constructing or acquiring a new asset may result in incremental costs that would have been avoided ifthe asset had not been constructed or acquired. These costs are not be included in the cost of the assetif they are not directly attributable to bringing the asset to the location and condition necessary for it tobe capable of operating in the manner intended by management.The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the accompany. These costs do not meet that requirement of AS 10 "Property, Plant andEquipment" and cannot, therefore, be capitalized.

Question-23)

ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

Cost of the plant (cost per supplier's invoice plus taxes)	Rs. 25,00,000

Initial delivery and handling costs	Rs. 2,00,000
Cost of site preparation	Rs. 6,00,000
Consultants used for advice on the acquisition of the plant	Rs. 7,00,000
Interest charges paid to supplier of plant for deferred credit	Rs. 2,00,000
Estimated dismantling costs to be incurred after 7 years	Rs. 3,00,000
Operating losses before commercial production	Rs. 4,00,000

Please advise ABC Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised). (MTP Aug. '18, 5 Marks)(Same concept lesser adjustments MTP 5 Marks Nov'21, MTP 5 Marks Mar'23, Old &New SM, RTP May'19, Nov'18 & Nov '23)

Ans:-

According to AS 10 (Revised), the following costs can be capitalized:

Cost of the plant	Rs. 25,00,000
Initial delivery and handling costs	Rs. 2,00,000
Cost of site preparation	Rs. 6,00,000
Consultants' fees	Rs. 7,00,000
Estimated dismantling costs to be incurred after 7 years	Rs. 3,00,000
	Rs. 43,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying as-set) of Rs.2,00,000 and operating losses before commercial production amounting to Rs.4,00,000 arenot regarded as directly attributable costs and thus cannot be capitalized. They should be written off tothe Statement of Profit and Loss in the period they are incurred.

Question-24)

Star Limited purchased machinery for ₹ 6,80,000 (inclusive of GST of ₹ 40,000). Input credit is available for entire amount of GST paid. The company incurred the following other expense for installation. Cost of preparation of site for installation 21,200Total Labour charges56,000 (200 out of the total of 500 men hours worked, were spent on installation of the machinery)

Spare parts and tools consumed in installation	**5,000**
Total salary of supervisor	**26,000**
(Time spent for installation was 25% of the total time worked)	
Total technical expense	**34,000**
(1/10 relates to the plant installation)	
Test run and experimental production expenses	**18,000**
Consultancy charges to architect for plant set up	**11,000**

Depreciation on assets used for installation	**12,000**

The machine was ready for use on 15.01.2021 but was used from 01.02.2021. Due to this delay further expenses of ₹ 8,900 were incurred. Calculate the value at which the plant should be capitalized in the books of Star Limited (RTP May 23)

Ans:-

a) Calculation of Cost of Plant

Particulars		**Rs.**
Purchase Price	Given	6,80,000
Add: Site Preparation Cost	Given	21,200
Labour charges	(56,000×200/500) Given	22,400
Spare parts		5,000
Supervisor's Salary	25% of Rs. 26,000	6,500
Technical costs	1/10 of Rs. 34,000	3,400
Test run and experimental production charges	Given	18,000
Architect Fees for set up	Given	11,000
Depreciation on assets used for installation	Given	12,000
Total Cost of Asset		7,79,500
Less: GST credit receivable		(40,000)
Value to be capitalized		7,39,500

Note: Further Expenses of ₹ 8,900 from 15.1.2021 to 1.2.2021 to be charged to profit and loss A/c asplant was ready for production on 15.1.2021.

Question-25)

A Ltd. had following assets. Calculate depreciation for the year ended 31st March, 2020 for each Asset as per AS 10 (Revised):

(i) **Machinery purchased for ₹ 10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is ₹ 10 lakhs.**

(ii) **Land for ₹ 50 lakhs.**

(iii) **A Machinery is constructed for ₹ 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2019, but the company does not begin using the machine until 31st March, 2020.**

(iv) **Machinery purchased on 1st April.2017 for ₹ 50,000 with useful life of 5 years and residual value is NIL. On 1st April, 2019, management decided to use this asset for further 2 years only. (PYP 5 Marks Nov 20)(MTP 5 Marks Sep '23)**

Ans:-

		₹
(i)	Machinery purchased on 1/4/15 for ₹ 10 lakhs (having residual value of ₹ 10lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there isno depreciable amount and depreciation is correctly zero.	Nil
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii)	Machinery constructed for own use (₹ 5,00,000/10) Reason: The entity should begin charging depreciation from the date the ma-chine is ready for use i.e. 1st April,2019. The fact that the machine was not usedfor a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv)	Machinery having revised useful life Reason: The entity has charged deprecia- tion using the straight-line method at ₹ 10,000 per annum i.e (50,000/5 years). On 1st April,2019 the asset's net book value is [50,000 – (10,000 x 2)] i.e. ₹ 30,000.The remaining useful life is 2 years asper revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depre- ciation for the next 2 years at ₹ 15,000 per annum i.e. (30,000 / 2 years).	15,000

Question-26)

I. **A Limited has contracted with a supplier to purchase machinery which is to be installed atits new plant in four months' time. Special foundations were required for the machinery which were to beprepared within this supply lead time. The cost of the site preparation andlaying foundations were ₹ 2,10,000. These activities were supervised by an Architect during the entire period, who is employed for this purpose at a salary of ₹ 35,000 per month. Themachinery was purchased for ₹ 1,27,50,000 and a sum of ₹ 2,12,500 was incurred towardstransportation charges to bring the machinery to the plant site. An Engineer was appoint- ed at a fees of ₹ 37,500 to supervise the installation of the machinery at the plant site. Youare required to ascertain the amount at which the machinery should be capitalized in thebooks of A Limited. (PYP 2.5 Marks Jul'21)**

II. **B Limited, which operates a major chain of retail stores, has acquired a new store location.The newlocation requires substantial renovation expenditure. Management expects thatthe renovation will last for 4 months during which the store will be closed. Management has prepared the budgetfor this period including expenditure related to construction andre-modelling costs, salary of staffwho shall be preparing the store before its opening andrelated utilities cost. How would such expenditure be treated in the books of B Limited ?(PYP 2.5 Marks, July,21))**

Ans:-

Statement Showing the Computation of the amount at which the Machinery should be capitalized in the books of A Limited

Particulars		(₹)
Purchase cost of machinery	Given	1,27,50,000
Add: Site Preparation Cost	Given	2,10,000
Architect's Salary	Specific / Attributable overheads for 4 months (₹ 35,000 x 4)	1,40,000
Initial Delivery Cost	Transportation	2,12,500
Professional Fees for Installation	Engineer's Fees	37,500
Total Cost of Machinery to be capitalized		1,33,50,000

Management should capitalize the costs of construction and re modelling the store, be-cause they are necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by management. The store cannot be openedwithout incurring the re modelling expenditure, and thus the expenditure should be considered part of the asset. However, if the cost of salaries, utilities and storage of goods are in the nature of operating expenditure that would be incurred if the store wasopen, then these costs are not necessary to bring the store to the condition necessaryfor it to be capable of operating in the manner intended by management and should beexpensed.

Question-27)

Akash Ltd. had 4,000 equity share of X Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on 1st April 2018. On 1st September 2018, Akash Ltd. acquired 1,000 equity shares of X Limited ata premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing share holders.

The terms of bonus and right issue were -

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on30th September, 2018.

(2) Right shares are to be issued to the existing shareholders on 1st December, 2018. The com- pany issued two right shares for every seven shares held at 25% premium. No dividend, waspayable on these shares. The whole sum being payable by 31st December, 2018.

(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the re- maining rights for Rs. 8 per share.
Dividend for the year ended 31st March 2018, at the rate of 20% was declared by the compa-ny andreceived by Akash Ltd., on 20th January 2019.On 1st February 2019, Akash Ltd., sold half of its share holdings at a premium of Rs. 4 per

share.

(5) The market price of share on 31.03.2019 was Rs. 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2019 and determine the value of shares held on that date assuming the investment as current investment.(MTP Oct. '19, 10 Marks)

Ans:-

a) Investment Account-Equity Shares in X Ltd.

Date		**No. of shares**	**Divi-dend**	**Amount**	**Date**		**No. of shares**	**Divi-dend**	**Amount**
			Rs.	**Rs.**				**Rs.**	**Rs.**
2018					2019				
April 1	To Balance b/d	4,000	–	60,000	Jan. 20	By Bank(dividend)		8,000	2,000
Sept 1	To Bank	1,000	–	14,000	Feb. 1	By Bank	4,000		56,000
Sept.30	To Bonus Issue	2,000		——	Mar. 31	By Balance c/d	4,000		42,250
Dec.1	To Bank (Right)	1,000	–	12,500					
2019									
Feb. 1	To Profit & Loss A/c			13,750					
Feb. 1	To Profit & Loss A/c (Dividend income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		42,250					

Working Notes:

	Rs.
(Rs. 60,000 + Rs. 14,000 + Rs. 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2018	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250

Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

1. **Cost of shares sold. Amount paid for 8,000 shares**

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. **Value of investment at the end of the year**

1. Closing balance will be valued based on lower of cost (Rs. 42,250) or net realizable value (Rs.13 x4,000).Thus investment will be valued at Rs. 42,250.

Calculation of sale of right entitlement

1,000 shares x Rs. 8 per share = Rs. 8,000

Amount received from sale of rights will be credited to P & L A/c as per AS 13

2. **Dividend received on investment held as on 1st April, 2018**

= 4,000 shares x Rs. 10 x 20%

= Rs. 8,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1st Sep. 2018

= 1,000 shares x Rs. 10 x 20% = Rs. 2,000 will be adjusted to Investment A/c

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2018 and dividend pertains to the year ended 31.3.2018.

Question-28)

Smart Investments made the following investments in the year 2017-18:
12% State Government Bonds having face value

Rs. 100Date Particulars

01.04.2017 Opening Balance (1200 bonds) book value of Rs. 1,26,000

02.05.2017 Purchased 2,000 bonds @ Rs. 100 cum interest

30.09.2017 Sold 1,500 bonds at Rs. 105 ex interest Interest on the bonds is received on 30th Juneand 31st Dec. each year. Equity Shares of X Ltd.

15.04.2017	**Purchased 5,000 equity shares @ Rs. 200 on cum right basis Broker-age of 1% was paid in addition (Face Value of shares Rs. 10)**
16.08.2017	**03.06.2017 The company announced a bonus issue of 2 shares for every 5shares held.** **The company made a rights issue of 1 share for every 7 shares held**
22.8.2017	**at Rs. 250 per share.** **The entire money was payable by 31.08.2017.** **Rights to the extent of 20% was sold @ Rs. 60. The remaining rights**

02.09.2017	were subscribed. Dividend @ 15% for the year ended 31.03.2017 was received on 16.09.2017
15.12.2017	Sold 3,000 shares @ Rs. 300. Brokerage of 1% was incurred extra.
15.01.2018	Received interim dividend @ 10% for the year 2017-18
31.03.2018	The shares were quoted in the stock exchange @ Rs. 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average costmethod is followed. (MTP Aug. '18, 12 Marks, Old & New SM)

Ans:-

In the books of Smart Investments

a) 12% Govt. Bonds for the year ended 31st March, 2018

Dat	Particulars		Nos.	Income	Amount	Date	Particulars		Nos.	Income	Amount
1.4.1	To	Opening balance b/d	1,200	3,600	1,26,000	30.6.17	By	Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.1	To	Bank A/c	2,000	8,000	1,92,000	30.9.17	By	Bank A/c	1,500	4,500	1,57,500
31.3.1	To	P & L A/c (Interest)		27,400		31.12.17	By	Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
	To	P & L A/c (Profit on Sale)			8,437.50	31.3.18	By	Bal. c/d	1,700	5,100	1,68,937.50
			3,200	39,000	3,26,437.50				3,200	39,000	3,26,437.50

Investments in Equity shares of X Ltd. for year ended 31.3.2018

Date	Particu -lars	Nos.	In-com	Amount	Date	Particulars	Nos.	In-com	Amount

			e					e	
15.4.17 3.6.17 31.8.17 31.3.18	To Bank A/c To Bo-nus Issue To Bank A/c To P & L A/c	5,000 2,000 800	– 4,800	10,10,000 – 2,00,000 4,28,500	16.9.17 15.12.17 15.1.18 31.3.18	By Bank (Divi-dend) By Bank (Sale) By Bank (interim dividend) By Bal. c/d	– 3,000 4,800	– – 4,800	7,500 8,91,000
		7,800	4,800	16,38,500			7,800	4,800	16,38,500

Working Notes:

1. **Profit on sale of bonds on 30.9.17**

   = Sales proceeds — Average costSales proceeds = Rs. 1,57,500

   Average cost = Rs. [(1,26,000+1,92,000) x 1,500/3,200] = 1,49,062.50Profit = 1,57,500– Rs. 1,49,062.50=Rs. 8,437.50

2. **Valuation of bonds on 31st March, 2018**

   Cost = Rs. 3,18,000/3,200 x1,700 = 1,68,937.50

3. **Cost of equity shares purchased on 15/4/2017**

   = Cost + Brokerage

   = (5,000 x Rs. 200) + 1% of (5,000 x Rs. 200) = Rs. 10,10,000

4. **Sale proceeds of equity shares on 1 5/12/2017**

   = Sale price – Brokerage

   = (3,000 x Rs. 300) – 1% of (3,000 x Rs. 300) = Rs. 8,91,000.

5. **Profit on sale of shares on 15/12/2017**

= Sales proceeds — Average costSales proceeds = Rs.

8,91,000Average cost = Rs. [(10,10,000+2,00,000 -7,500) x

3,000/7,800]

= Rs. [12,02,500 x 3,000/7,800] = 4,62,500 Profit = Rs. 8,91,000 – Rs. 4,62,500=Rs. 4,28,500.

6. **Valuation of equity shares on 31st March, 2018**

   Cost =Rs. [12,02,500 x 4,800/7,800] = Rs. 7,40,000 Market Value = 4,800 shares ×Rs. 220 =Rs. 10,56,000

Closing stock of equity shares has been valued at Rs.7,40,000 i.e. cost being lower than themarket
value.

Note: If rights are not subscribed for but are sold in the market, the sale proceeds are taken to theprofitand loss statement as per para 13 of AS 13 "Accounting for Investments".

Question-29)

A Ltd. purchased on 1st April, 2022 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108.On 1st July, 2022 A Ltd. purchased another ₹ 1,00,000 debentures @ ₹ 112 cum interest. On 1st October, 2022 ₹ 80,000 debentures were sold @ ₹ 105. On 1st December, 2022, C Ltd. give option forconversion of8% convertible debentures into equity share of ₹ 10 each. A Ltd. received 5,000 equity shares in C Ltd. inconversion of 25% debentures held on that date. The market price of debenture andequity share in C Ltd.on 31st December, 2022 is ₹ 110 and ₹ 15 respectively. Interest on debenture ispayable each year on 31 stMarch, and 30th September. Prepare investment account in the books of A Ltd. on average cost basisfor the accounting year ended 31st December, 2022. (MTP 8 Marks April 23 ,April '22 ,April '21 & Oct '23)(RTP May 19)

Investment Account for the year ending on 31st December, 2022Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Partic u-lars	Nominal value Rs.	Inter-est Rs.	Cost Rs.	Date	Particulars	Nominal Value Rs.	interest Rs.	Cost (Rs.)
1.4.22	To Bank A/c	2,00,000	–	2,16,000	30.09.2022	By Bank A/c	–	12,000	
1.7.22	To Bank A/c	1,00,000	2,000	1,10,000		[7 3,00,000			
	(W.N.1)					x 8% x			
						(6/12]			
31.12.22	To P & LA/c		14,033	–	1.10.2022	By Bank A/ c	80,000		84,000
	[Inter-est]				1.10.2022	By P & LA/c (loss) (W.N.3)			2,933
					1.12.2022	By Bank A/c (Ac-crued interest		733	

						) (T 55,000 x 08 x 2/12)			
					1.12.2022	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.2022	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (Rs.)	Date	Particulars	Cost (Rs.)
1.12.2022	To 8 % debentures	59,767	31.12.2022	By balance c/d	59,767

Working Notes:

- Cost of Debenture purchased on 1st July = Rs. 1,12,000 — Rs. 2,000 (Interest) = Rs. 1,10,000
- Cost of Debentures sold on 1st Oct. = (Rs.2,16,000 + Rs. 1,10,000) x 80,000/3,00,000
- Loss on sale of Debentures = Rs. 86,933— Rs.84,000 Nominal value of debentures convertedintoequity shares [(Rs. 3,00,000 — 80,000) x.25]
- Interest received before the conversion of debentures
- Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733
- Cost of Debentures converted = (Rs. 2,16,000 + Rs. 1,10,000) x 55,000/3,00,000 = Rs. 59,767
- Cost of closing balance of Debentures = (Rs. 2,16,000 + Rs.1,10,000) x 1,65,000 / 3,00,000 = Rs. 1,79,300
- Closing balance of Debentures has been valued at cost.

■ 5,000 equity Shares in C Ltd. will be valued at cost of Rs. 59,767 being lower than the marketvalueRs. 75,000 (Rs. 15 x5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at thetime of conversion.

Question-30)

On 1st April, 2019, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of ₹ 4,50,000(Face Value ₹ 10 per share). On 22nd June, 2019, he purchased another 5000 shares of the same compa-ny for ₹ 80,000. The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2019.

On 31st August, 2019 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of ₹ 15 per share. Due date for the payment was 30th September, 2019, Mr.Vijay sub- scribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a considerationof ₹ 2 per share.

On 31stOctober,2019, Vijay received dividends from X Ltd. @ 20% for the year ended 31 st March, 2019. Dividend for the shares acquired by him on 22ndJune,2019 to be adjusted against the cost of purchase.

On 15th November, 2019 Vijay sold 20,000 Equity shares at a premium of ₹ 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2020 assuming the shares are being valued at average cost.(MTP 8 Marks,Oct'21 & MTP 10 Marks May'20,Old & New SM)

Answer:

Books of Vijay Investment Account (Scrip: Equity Shares in X Ltd.)

		No.	Amount			No.	Amount
			₹				₹
1.4.2019 22.6.2019	To Bal b/d To Bank	30,000 5,000	4,50,000 80,000	31.10.2019	By Bank (divi-dend	——	10,000
10.8.2019 30.9.2019	To Bonus ToBank (Rights Shares)	5,000 10,000	-1,50,000		on shares acquired on 22/6/2019)		
15.11.2019	To Profit		32,000	15.11.2019	By Bank	20,000	3,00,000
	(on sale ofshares)				(Sale of shares)		
				31.3.2020	By Bal. c/d	30,000	4,02,000
		50,000	7,12,000			50,000	7,12,000

Working Notes:

(1) Bonus Shares30,000+50,000)/7=5,000 shares

(2) Rights shares= $\frac{(30,000+5,000+5,000)}{8} \times 3 = 15,000$ share

(3) Rights shares sold = 15,000×1/3 = 5,000 shares

(4) Dividend received = 30,000×10×20% = ₹60,000 will be taken to P&L statement

(5) Dividend on shares purchased on 22.6.2019= 5,000×10×20% = ₹ 10,000 is adjusted to Investment A/c

(6) Profit on sale of 20,000 shares

= Sales proceeds – Average

Cost Sales proceeds =Rs.3,00,000

Average cost =

$$=₹\frac{(4,50,000+80,000+1,50,000-10,000)}{50,000} \times 20,000 = Rs.\,2,68,000$$

Profit = ₹ 3,00,000– ₹2,68,000= ₹32,000.

(7) Cost of shares on 31.3.2020

$$=₹\frac{(4,50,000+80,000+1,50,000-10,000)}{50,000} \times 30,000 = Rs.\,4,02,000$$

(8) Sale of rights amounting ₹ 10,000 (₹ 2 x 5,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

Question-31)

Gopal holds 2,000, 15% Debentures of ₹ 100 each in Ritu Industries Ltd. as on April 1, 2021 at a cost of ₹2,10,000. Interest is payable on June, 30th and December, 31st each year. On May 1, 2021, 1,000 debentures are purchased cum-interest at ₹ 1,07,000. On November 1, 2021, 1,200 debentures are sold ex-in-terest at ₹ 1,14,600. On November 30, 2021, 800 debentures are purchased ex-interest at ₹ 76,800. On December 31, 2021, 800 debentures are sold cum-interest for ₹ 1,10,000. You are requiredto prepare theInvestment Account showing value of holdings on March 31, 2022 at cost, using FIFO Method. (MTP 10Marks Oct '22 & April '19)

Ans:-

Investment Account of Gopal For the year ended 31.3.2022

(Script: 15% Debentures in Ritu Industries Ltd.)

(Interestpayable on 30th June and 31st December)

Date	articu-lars	Nominal Value ₹	Inter-est ₹	Cost ₹	Date	articu-lars	Nominal Value ₹	Inter-est ₹	Cost ₹
1.04.21	To Balance A/c	2,00,000	7,500	2,10,000	30.06.21	By Bank A/c	–	22,500	
1.05.21	To Bank A/c	1,00,000	5,000	1,02,000	1.11.21	By Bank A/c	1,20,000	6,000	1,14,600
30.11.21	To Bank A/c	80,000	5,000	76,800	1.11.21	By Profit& Loss A/c	–	–	11,400
31.12.21	To Profit& Loss A/c			20,000	31.12.21	By Bank A/c	80,000	6,000	1,04,000
31.03.22	To Profit & Loss A/c (Bal. fig.)		37,250		31.12.21	By Bank A/c	–	13,500	–
					31.12.21	By Bank A/c	–	6,750	–
					31.3.22		1,80,000	-	1,78,800
		3,80,000	54,750	4,08,800			3,80,000	54,750	4,08,800

Working Notes:

(i) Accrued Interest as on 1st April, 2021 = ₹ 2,00,000 $X \frac{15}{100} \times \frac{3}{12}$ = Rs. 7,500

(ii) Accrued Interest as on 1.5.2021 = ₹ 1,00,000 $X \frac{15}{100} \times \frac{4}{12}$ = Rs. 5,000

(iii) Cost of Investment for purchase on 1st May = ₹ 1,07,000 – ₹ 5,000 = ₹ 1,02,000

(iv) Interest received as on 30.6.2021 = ₹ 3,00,000X $\frac{15}{100} \times \frac{6}{12}$ = Rs. 22,500

(v) Accrued Interest on debentures sold on 1.11.2021 = ₹ 1,20,000 $X \frac{15}{100} \times \frac{4}{12}$ = Rs. 6,000

(vi) Accrued Interest = ₹ 80,000 $x \frac{15}{100} \times \frac{5}{12}$ = Rs. 5,000

(vii) Accrued Interest on sold debentures 31.12.2021 = ₹ 80,000 $x \frac{15}{100} \times \frac{6}{12}$ = Rs. 6,000

(viii) Sale Price of Investment on 31st Dec. 2021 = ₹ 1,10,000-₹ 6,000 = ₹ 1,04,000

(ix) Loss on Sale of Debenture on 1.11.2021

Sale Price of debenture	1,14,600
Less: Cost Price of debenture2,10,000 / 2,00,000 x Rs.1,20,000	1,26,000
Loss on sale	11,400

(x) Accrued interest as on 31.12.2021 = ₹ 1,80,000 $x \frac{15}{100} \times \frac{6}{12}$ = Rs. 13,500

(xi) Accrued Interest = ₹ 1,80,000 $x \frac{15}{100} \times \frac{3}{12}$ = ₹6,750

(xii) Cost of investment as on 31st March = ₹ 1,02,000 + ₹ 76,800 = ₹ 1,78,800

(xiii) Profit on debentures sold on 31st December

= ₹ 1,04,000 –(₹ 2,10,000x800/2,000) = ₹ 20,000

(x) Accrued interest as on 31.12.2021 = ₹ 1,80,000 $x \frac{15}{100} \times \frac{6}{12}$ = Rs. 13,500

(xi) Accrued Interest = ₹ 1,80,000 $x \frac{15}{100} \times \frac{3}{12}$ = ₹6,750

(xii) Cost of investment as on 31st March = ₹ 1,02,000 + ₹ 76,800 = ₹ 1,78,800

(xiii) Profit on debentures sold on 31st December

= ₹ 1,04,000 –(₹ 2,10,000x800/2,000) = ₹ 20,000

Question-32)

Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. State the values, at which the investments have to be reclassified in the following cases:

(i) Long term investments in Company A, costing Rs.8.5 lakhs are to be re-classified as cur- rent. The company had reduced the value of these investments to Rs.6.5 lakhs to recognizea permanent decline in value. The fair value on date of transfer is Rs.6.8 lakhs.

(ii) Current investment in Company C, costing Rs.10 lakhs are to be re-classified as long term

as the company wants to retain them. The market value on date of transfer is Rs.12 lakhs.Certain long term investments no longer considered for holding purposes, to be reclassified as currentinvestments. The original cost of these investments was Rs.18 lakhs but had been written down to Rs.12 lakhs to recognize permanent decline as per AS 13. (RTP May 20)

Ans:-

As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current in-vestments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re- classified current investment should be carried at Rs.6.5 lakhs in the books.

(ii) In this case, reclassification of current investment into long-term investments will be made atRs.10 lakhs as cost is less than its market value of Rs.12 lakhs.

In this case, the book value of the investment is Rs.12 lakhs, which is lower than its cost i.e. Rs.18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified currentinvestment should be carried at Rs.12 lakhs.

Question-33)

U Limited has obtained a term loan of ₹ 620 lacs for a complete renovation and modernization of its Factory on 1st April, 2020. Plant and Machinery was acquired under the modernization scheme and in-stallation was completed on 30th April, 2021. An expenditure of ₹ 564 lacs was incurred on this Plant andMachinery and the balance loan of ₹ 56 lacs has been used for working capital purposes. The companyhas paid total interest of ₹ 68.20 lacs during financial year 2020-2021 on the above loan. The accoun-tant seeks your advice how to account for the interest paid in the books of accounts. Willyour answerbe different, if the whole process of renovation and modernization gets completed by 28th February,2021? (MTP 5 Marks , Oct '21)

Ans:-

Borrowing Cost: As per AS 16 'Borrowing Costs', borrowing costs that are directly attributable to the ac-quisition, construction or production of a qualifying asset should be capitalized as part of the cost of thatasset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Borrowing costs should be expensed except where they are directly attributable to acquisition, construc-tion or production of qualifying asset. Qualifying Asset: A qualifying asset is an asset that necessarily takes a substantial period of time(ordinarily, a period of twelve months unless a shorter or longer period can be justified on the basis of the facts and circumstances of the case) to get ready for its intended use or sale.

(i) When construction of asset completed on 30th April, 2021

The treatment for total borrowing cost of ₹ 68.20 lakhs will be as follows:

Purpos e	Nature	Interest be tocapi- talized ₹ in lakhs	Interest to be charged to profitandloss account ₹ in lakhs
Plant and machinery	Qualifying asset	[68.20 x (564/620)]	
Under Modernization		= 62.04	
and renovation			
schem e			
Working Capital	Not a qualifying		[68.20 x (56/620)]
	asset		= 6.16
		62.04	6.16

When construction of assets is completed by 28th February, 2019
In this scenario, when the process of renovation gets completed in less than 12 months, the plant andma-chinery will not be considered as qualifying assets (until and unless the entity specifically considersthat the asset took substantial period of time for completing their construction) and the whole of interest willbe required to be charged off / expensed off to Profit and loss account.

Question-34)

Omega Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2021-22 forits residential project at 4%. The interest is payable at the end of the Financial Year. At the time of availment of loan exchange rate was Rs. 56 per US $ and the rate as on 31st March, 2022 was Rs. 62 perUS $. If Omega Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2022 as per applicable Accounting Standards. (MTP 5 Marks Sep‘22,Mar’18, Mar’19, MTP 4 Marks March 21 & Oct ‘23, RTP May ’21)

Ans:-

Interest for the period 2021-22

= US $ 10 lakhs x 4% × Rs. 62 per US$ = Rs. 24.80 lakhs

Increase in the liability towards the principal amount

= US $ 10 lakhs × Rs. (62 - 56) = Rs. 60 lakhs

Interest that would have resulted if the loan was taken in Indian currency

= US $ 10 lakhs × Rs. 56 x 10.5% = Rs. 58.80 lakhs

Difference between interest on local currency borrowing and foreign currency borrowing = Rs.

58.80 lakhs - Rs. 24.80 lakhs = Rs. 34 lakhs.

Therefore, out of Rs. 60 lakhs increase in the liability towards principal amount, only Rs. 34 lakhs will beconsidered as the borrowing cost. Thus, total borrowing cost would be Rs. 58.80 lakhs being the aggregate of interest of Rs. 24.80 lakhs on foreign currency borrowings plus the exchange difference tothe extent ofdifference between interest on local currency borrowing and interest on foreign currency borrowing of Rs.34 lakhs.

Hence, Rs. 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 andtheremaining Rs. 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

Question-35)

Suhana Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.05.2021, to be utilized as under:

Particulars	Amount (₹ in lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2022, construction of the factory building was completed and machinery was installed andready for it intended use. Total interest on debentures for the financial year ended 31.03.2022 was ₹ 11,00,000. During the year 2021-22, the company had invested idle fund out of money raised from de-bentures in banks' fixed deposit and had earned an interest of ₹ 2,00,000. Explain the treatmentof interest under Accounting Standard 16 and also explain nature of assets. (MTP 5 Marks Oct '22, MTP Oct.'18, MTP Aug. '18, MTP Oct. '19, 5 Marks, RTP May 20)

Ans:-

As per AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construc-tion or production of a qualifying asset should be capitalised as part of the cost of that asset.The amountof borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Oth- er borrowing costs should be recognised as an expense in the period in which theyare incurred. Also AS16 "Borrowing Costs" states that to the extent that funds are borrowed specifically for the purpose of ob- taining a qualifying asset, the amount of borrowing costs eligible forcapitalisation on that asset should bedetermined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost

= ₹ 11,00,000 — ₹ 2,00,000 =9,00,000

Sr. No.	Particulars	Nature of assets	Interestto be Capitalized (₹)	Interest to be chargedto Profit & Loss Ac- count (₹)
i	Construction of factory building	Qualifying Asset*	9,00,000x40/100 = ₹ 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = ₹ 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = ₹ 2,25,000
	Total		₹ 3,60,000	₹ 5,40,000

Question-36)

ABC Limited has started construction of an asset on 1st December, 2021, which continues till 31stMarch, 2022 (and is expected to go beyond a year). The entity has not taken any specific borrow- ings to finance the construction of the asset but has incurred finance costs on its general borrowings during the construction period. The directly attributable expenditure at the beginning of the monthon this asset was ₹ 10 lakh in December 2021 and ₹ 4 lakh in each of the months of January to March 2022. At the beginning of the year, the entity had taken Inter Corporate Deposits of ₹ 20 lakh at 9% rate of interest and had an overdraft of ₹ 4 lakh, which increased to ₹ 8 lakh on 1st March, 2022. Interestwas paid on the overdraft at 10% until 1st January, 2022 and then the rate was increased to 12%. You are required to calculate the annual capitalization rate for computation of borrowing cost in accor-dance with AS 16 'Borrowing Costs'. (5 Marks Nov'21 & April 23)

Ans:-

Calculation of capitalization rate on borrowings other than specific borrowings

Nature of general borrowings	Period of Outstanding balance	Amount of loan(Rs.)	Rate of interestp.a.	Weighted average amount of Interest (Rs.)
	a	b	c	d=[bXc)X(a/12)]
9% Debentures	12 months	20,00,000	9%	1,80,000
Bank overdraft	9 months	4,00,000	10 %	30,000
	2 months	4,00,000	12 %	8,000
	1 month	8,00,000	12 %	8,000
		36,00,000		2,26,000

Weighted average cost of borrowings

=(20,00,000 x(12/12))+(4,00,000 x(11/12))+(8,00,000 x (1/12)} = 24,33,334

Capitalisation rate = [(Weighted average amount of interest / Weighted average of general borrowings)x 100] = [(2,26,000 / 24,33,334) x 100] = 9.29% p.a.

Question-37)

First Ltd. began construction of a new factory building on 1st April, 2017. It obtained Rs. 2,00,000 as a special loan to finance the construction of the factory building on 1st April, 2017 at an interest rateof 8% per annum. Further, expenditure on construction of the factory building was financed through

Other non-specific loans. Details of other outstanding non-specific loans were:

Amount (Rs.)	Rate of Interest per annum
4,00,000	9%
5,00,000	12%
3,00,000	14%

The expenditures that were made on the factory building construction were as follows:

Date	Amount (Rs.)
1st April, 2017	3,00,000
31st May, 2017	2,40,000
1st August, 2017	4,00,000
31st December, 2017	3,60,000

The construction of factory building was completed by 31st March, 2018. As per the

provisions of AS16,
you are required to:

(1) Calculate the amount of interest to be capitalized.

(2) Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory building. (PYP May '19, 5 Marks)

Ans:-

(i) Computation of average accumulated expenses

		Rs.
Rs. 3,00,000 x 12 / 12	=	3,00,000
Rs. 2,40,000 x 10 / 12	=	2,00,000
Rs. 4,00,000 x 8 / 12	=	2,66,667
Rs. 3,60,000 x 3 / 12	=	90,000
		8,56,667

Calculation of average interest rate other than for specific borrowings

Amount of loan (Rs.)	**Rate of interest**	**Amount of interest (₹)**
4,00,000	9%	= 36,000
5,00,000	12%	= 60,000
3,00,000	14%	= 42,000
Weighted average rate of interest $\left(\frac{1,38,000}{12,00,000} \times 100\right)$	11.5%	1,38,000

Amount of interest to be capitalized

Interest on average accumulated expenses:	**Rs.**
Specific borrowings (Rs. 2,00,000 x 8%)	= 16,000
Non-specific borrowings (Rs. 6,56,667* x 11.5%)	= 75,517
Amount of interest to be capitalised	= 91,517

a) Total expenses to be capitalized for building

	Rs.
Cost of building Rs. (3,00,000 + 2,40,000 +4,00,000 +3,60,000)	13,00,000
Add: Amount of interest to be capitalized	91,517

	13,91,517

Journal Entry

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.2018	Building A/c Dr.	13,91,517	
	To Building WIP* A/c		13,00,000
	To Borrowing costs A/c (Being amount of cost of building and borrowing cost thereon capitalized)		,517

Question-38)

ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being Rs. 10,00,000. The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays Rs. 3,50,000. Thelessee has guaranteed a residual value of Rs. 50,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be Rs. 35,000 only. The implicit rate of re-turn is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and thefinance charges for each year. (MTP 5 Marks Apr'19, Oct'19, Mar'19, RTP May 20, RTP Nov 18)

Ans:-

As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inceptionof afinance lease. Such recognition should be at an amount equal to the fair value of the leased assetat theinception of lease. However, if the fair value of the leased asset exceeds the present value of minimumlease payment from the standpoint of the lessee, the amount recorded as an asset and liability should bethe present value of minimum lease payments from the stand point of the lessee.

Value of machinery

In the given case, fair value of the machinery is Rs. 10, 00,000 and the net present value of minimum lease payments is Rs. 10, 07,020 (Refer working Note). As the present value of the machine is more than the fair value of the machine, the machine and the corresponding liability will be recorded at value of Rs. 10,00,000.

Calculation of finance charges for each year

Year	Finance charge	Payment	Reduction in out-standing liability	Outstand-ingliability
1st year beginning	(Rs.) -	(Rs.) -	(Rs.) -	(Rs.) **10,00,000**
End of 1st year	1,60,000	3,50,000	1,90,000	8,10,000

End of 2nd year	1,29,600	3,50,000	2,20,400	5,89,600
End of 3rd year	94,336	3,50,000	2,55,664	3,33,936
End of 4th year	53,430	3,50,000	2,96,570	37,366
Working Note:				

Present value of minimum lease

paymentsAnnual lease rental x PV

factor

Rs. 3,50,000 x (0.8621 + 0.7432 + 0.6407+ 0.5523) Rs. 9,79 ,405

Present value of guaranteed residual value Rs. 50,000 x (0.5523) Rs. 27,615

Rs. 10,07,020

Question-39)

A Ltd. sold machinery having WDV of Rs. 40 lakhs to B Ltd. for Rs. 50 lakhs and the same machinery wasleased back by B Ltd. to A Ltd. The lease back is operating lease. Explain the accounting treatment asper AS 19 in the following cases:

(i) Sale price of Rs. 50 lakhs is equal to fair value.

(ii) Fair value is Rs. 45 lakhs and sale price is Rs. 38 lakhs.

(iii) Fair value is Rs. 40 lakhs and sale price is Rs. 50 lakhs.

(iv) Fair value is Rs. 46 lakhs and sale price is Rs. 50 lakhs

(v) Fair value is Rs. 35 lakhs and sale price is Rs. 39 lakhs. (MTP 5 Marks Mar'18, Oct'18, PYP 5 Marks, May '18) (Same concept different figures PYP 5 Marks Jan 21, MTP 5 Marks Oct'20, MTP 5 Marks Oct'21, Old & New SM)

Ans:-

Following will be the treatment in the given cases:

(i) When sale price of Rs. 24 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of Rs. 4 lakhs (i.e. 24 — 20) in its books.

(ii) When fair value is Rs. 20 lakhs & sale price is Rs. 24 lakhs then profit of Rs. 4 lakhs is to be deferred and amortised over the lease period.

(iii) When fair value is Rs. 22 lakhs & sale price is Rs. 25 lakhs, profit of Rs. 2 lakhs (22 - 20) tobe immediately recognised in its books and balance profit of Rs.3 lakhs (25-22) is tobe amortised/deferred over lease period.

(iv) When fair value of leased machinery is Rs. 25 lakhs & sale price is Rs. 18 lakhs, then loss of Rs. 2 lakhs(20–18) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.

(v) When fair value is Rs. 18 lakhs & sale price is Rs. 19 lakhs, then the loss of Rs. 2 lakhs (20-18) to be immediately recognised by A Ltd. in its books and profit of Rs. 1 lakhs (19-18) should be amortised/deferred over lease period.

Question-40)

You are required to give the necessary journal entry at the inception of lease to record the assettakenon finance lease in books of lessee from the following information:

Lease period = 5 years;

Annual lease rents = Rs. 50,000 at the end of each year.Guaranteed residual value = Rs. 25,000

Fair Value at the inception (beginning) of lease = Rs. 2,00,000

Interest rate implicit on lease is = 12.6% (Discounted rates for year 1 to 5 are .890, .790, .700 , .622 and .552 respectively). (MTP 5 Marks April 21, April 22)

Answer:-

Present value of minimum lease payment is computed below:

Year	MLP Rs.	DF (12.6%)	PV Rs.
1	50,000	0.890	44,500
2	50,000	0.790	39,500
3	50,000	0.700	35,000
4	50,000	0.622	31,100
5	50,000	0.552	27,600
5	25,000	0.552	13,800
			1,91,500

Present value of minimum lease payment = Rs. 1,91,500 Fair value of leased asset = Rs. 2,00,000As perAS 19, on the date of inception of Lease, Lessee should show it as an asset and corresponding liabil- ity at lower of Fair value of leased asset at the inception of the lease and present value of minimum lease payments from the standpoint of the lessee. The accounting entry at the inception oflease to record the asset taken on finance lease in books of lessee is suggested below:

	Rs.	Rs.
Asset A/c Dr. To Lessor (Lease Liability) A/c (Being recognition of finance lease as asset and liability)	1,91,500	1,91,500

Question-41)

Classify the following into either operating lease or finance lease with reason:

(1) Economic life of asset is 10 years, lease term is 9 years, but asset is not acquired at theEnd of lease term.

(2) Lessee has option to purchase the asset at lower than fair value at the end of lease term.

(3) Lease payments should be recognized as an expense in the statement of Profit & Loss

of a lessee.

(4) Present Value (PV) of Minimum Lease Payment (MLP) = "X" Fair value of the asset is "Y"And X = Y.

(5) Economics life of the asset is 5 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee. (PYP 5 Marks, Nov '19)

Ans:-

(i) The lease will be classified as a finance lease, since a substantial portion of the life of the asset iscovered by the lease term.

If it becomes certain at the inception of lease itself that the option will be exercised by the lessee,it is a Finance Lease.

(ii) It is an operating lease under which lease payments are recognized as expense in the profit andloss account of lessee to have better matching between cost and revenue.

(iii) The lease is a finance lease if X = Y, or where X substantially equals Y.

(iv) Since the asset is of special nature and has been procured only for the use of lessee, it is a financelease.

Question-42)

A machine was given on 3 years operating lease by a dealer of the machine for equal annual leaserentals to yield 30% profit margin on cost of Rs. 2,25,000. Economic life of the machine is 5 years and output from the machine is estimated as 60,000 units, 75,000 units, 90,000 units, 1,20,000 units and 1,05,000 units consecutively for 5 years. Straight line depreciation in proportion of output is consideredappropriate. You are required to compute the following as per AS-19.

(i) Annual Lease Rent

(ii) Lease Rent income to be recognized in each operating year and Depreciation for 3 years lease (PYP 5 Marks Dec'21, MTP 4 Marks March 21 , MTP 4 Marks May20, Old & New SM)

Ans:-

Annual lease rent

Total lease rent

= 130% of Rs. 2,25,000 X Output during lease period/ Total output

= 130% of Rs. 2,25,000 x (60,000 +75,000+ 90,000)/(60,000 + 75,000 + 90,000 + 1,20,000 + 1,05,000)

= 2,92,500 x 2,25,000 units/4,50,000 units = Rs. 1,46,250

Annual lease rent = Rs. 1,46,250 / 3 = Rs. 48,750

Lease rent Income to be recognized in each operating year

Total lease rent should be recognized as income in proportion of output during lease period, i.e. inthe proportion of 60,000 : 75,000 : 90,000 or 4:5:6

Hence income recognized in years 1, 2 and 3 will be as:

Year 1 Rs. 39,000,

Year 2 Rs. 48,750 and

Year 3 Rs. 58,500.

Depreciation for three years of lease

Since depreciation in proportion of output is considered appropriate, the depreciable amount Rs.2,25,000 should be allocated over useful life 5 years in proportion of output,

i.e. in proportion of 60 :75: 90 : 120 : 105 .
Depreciation for year 1 is Rs. 30,000, year 2 = 37,500 and year 3 = 45,000

Question-43)

Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred Rs. 10 lakh on research during first 5 months of the financial year 2020 -21. The development of the process began on 1st September, 2020 and up to 31st March, 2021, a sum of Rs. 8 lakhs were incurred as Devel- opment Phase Expenditure, which meets assets recognition criteria. From 1st April, 2021, the Company has implemented the new process design and it is likely that this will result in after tax saving of Rs. 2lakhs per annum for next five years. The cost of capital is 10%. The present value of annuity factor of Rs.1 for 5 years @ 10% is 3.7908. Decide the treatment of Research and Development Cost of the project as per AS 26. (MTP 5 Marks April 21)
Ans:-

Research Expenditure – According to AS 26 'Intangible Assets', the expenditure on research of new processdesign for its product Rs. 10 lakhs should be charged to Profit and Loss Account in the year in which it isincurred. It is presumed that the entire expenditure is incurred in the financial year 2020 -

Hence, it should be written off as an expense in that year itself.

Cost of internally generated intangible asset — it is given that development phase expenditure amount- ing Rs. 8 lakhs incurred up to 31st March, 2021 meets asset recognition criteria. As per AS 26, for mea- surement of such internally generated intangible asset, fair value should be estimated by discounting estimated future net cash flows.

Savings (after tax) from implementation of new design for next 5 years	Rs. 2 lakhs p.a.
Company's cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908

Present value of net cash flows (Rs. 2 lakhs x 3.7908)	Rs. 7.582 lakhs

The cost of an internally generated intangible asset would be lower of cost value Rs. 8 lakhs or presentvalue of future net cash flows Rs. 7.582 lakhs.

Hence, cost of an internally generated intangible asset will be Rs. 7.582 lakhs. The difference of Rs. 0.418 lakhs (i.e. Rs. 8 lakhs — Rs. 7.582 lakhs) will be amortized by Plymouth for the financial year 2020-21. Amortization - The company can amortise Rs. 7.582 lakhs over a period of five years by charging Rs. 1.516 lakhs per annum from the financial year 2021 -2022 onwards.

Question-44)

During 2019-20, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:

Particular	Rs.
Completion of detailed program and design (Phase 1)	**50,000**
Coding and Testing (Phase 2)	**40,000**
Other coding costs (Phase 3 & 4)	**63,000**
Testing costs (Phase 3 & 4)	**18,000**
Product masters for training materials (Phase 5)	**19,500**
Packing the products (1,500 units) (Phase 6)	**16,500**

After completion of phase 2, it was established that the product is technically feasible for the market.You are required to state how the above referred cost to be recognized in the books of accounts. (MTP5 Marks May '20, Oct'21 & April '23, Old & New SM)

Ans:-

As per AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been estab- lished upon completion of detailed program design or working model. In this case, Rs. 90,000 would berecorded as an expense (Rs. 50,000 for completion of detailed program design and Rs. 40,000 for coding and testing to establish technological feasibility/asset recognition criteria).

Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (63,000+ 18,000+ 19,500) = Rs. 1,00,500. Pack-ing cost Rs. 16,500 should be recognized as expenses and charged to Profit & Loss A/c.

Question-45)

PIL Ltd. is showing an intangible asset at Rs. 72 lakhs as on 31-3-2022. This asset was acquired for Rs. 120 lakhs as on 01-04-2016 and the same was used from that date. The company has been followingthe policy of amortization of the intangible assets over a period of 15 years, on straight line basis. You are required to comment on the accounting

treatment of asset with reference to AS 26 "Intangible As- sets" and also give the necessary rectification journal entry in the books. (MTP 5 Marks April 22, MTP 4 Marks March'21, RTP Nov '21)

Ans:-

As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. The Company has been following the policy of amortization of the intangible asset over a periodof 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26. Accordingly, the company would be required to restate the carrying amount of intangible asset ason 31.3.2022 at Rs. 48 lakhs i.e. Rs. 120 lakhs less Rs. 72 lakhs (Rs. 120 Lakhs / 10 years x 6 years = 72 Lakhs).The difference of Rs. 24 Lakhs (Rs. 72 lakhs — Rs. 48 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of Rs. 48 lakhs will be amortized over remaining 4 years by amor- tizing Rs. 12 lakhs per year.

The necessary journal entry (for rectification) will be Revenue Reserves Dr.	Rs. 24 Lakhs	
To Intangible Assets		Rs. 24 Lakhs

Question-46)

Surya Ltd. had the following transactions during the year ended 31 st March, 2021.

(i) **It acquired the business of Gomati Limited on a going concern basis for ₹ 25,00,000 on 1stJune,2020. The fair value of the Net Assets of Gomati Limited was ₹ 18,75,000. Surya Ltd. be-lieves that due to popularity of the products of Gomati Limited in the market, its goodwill exists.**

(ii) **On 20th August, 2020, Surya Ltd. incurred cost of ₹ 6,00,000 to register the patent for its**

b) **product.Surya Ltd. expects the Patent's economic life to be 8 years.**

(iii) **On 1st October, 2020, Surya Ltd. has taken a franchise to operate an ice cream parlourfrom Volga Ltd. for ₹ 4,50,000 and at an Annual Fee of 10 % of Net Revenues (after deduct-ing expenditure). The franchise expires after six years. Net Revenue for the year ended31st March, 2021 amounted to ₹ 1,50,000.**

Surya Ltd. follows an accounting policy to amortize all Intangibles on Straight Line basis (SLM) over the maximum period permitted by the Accounting Standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business is to be amortized over 5 years (SLM).Prepare an extract showing the Intangible Assets section in the Balance Sheet of Surya Ltd. as at31st March, 2021. (MTP 5 Marks Oct'22, RTP May '21)

Ans:-

Surya Ltd.

Balance Sheet (Extract relating to intangible asset) as on 31st March 2021

	Note No.	₹
Assets (1) Non-current assets Intangible assets	1	14,00,000

Notes to Accounts (Extract)

		₹	₹
1.	Intangible assets Goodwill (Refer to note1) Patents (Refer to Note2) Franchise (Refer to Note 3)	5,00,000 5,25,000 3,75,000	14,00,000

Working Notes:

		₹
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	25,00,000
	Less: Fair value of net assets acquired	(18,75,000)
	Goodwill	6,25,000
	Less: Amortization. over 5 years (as per SLM)	(1,25,000)
	Balance to be shown in the balance sheet	5,00,000
(2)	Patent	6,00,000
	Less: Amortization (over 8 years as per SLM)	(75,000)
	Balance to be shown in the balance sheet	5,25,000
(3)	Franchise	4,50,000
	Less: Amortization (over 6 years)	(75,000)
	Balance to be shown in the balance sheet	3,75,000

Question-47)

M/s. Pasa Ltd. is developing a new production process. During the financial year ended 31st March, 2019, the total expenditure incurred on the process was Rs. 80 lakhs. The production process met thecriteria for recognition as an intangible asset on 1st November, 2018. Expenditure incurred till this date was Rs. 42 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2020 was Rs. 90 lakhs. As on

31.03.2020, the recoverable amount of know how embodied in theprocess is estimated to be Rs. 82 lakhs. This includes estimates of future cash outflows and inflows.

You are required to work out :

(1) What is the expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2019 ?

(2) What is the carrying amount of the intangible asset as on 31st March, 2019?

(3) What amount of expenditure to be charged to Profit and Loss Account for theyear ended 31st March,2020 ?What is the carrying amount of the intangible asset as on 31st March, 2020?

(PYP 5 MarksNov 20 & Dec '21) (MTP 5 Marks Sep'22 & Sep '23)

Ans:-

As per AS 26 'Intangible Assets'

(i) Expenditure to be charged to Profit and Loss account for the year ending 31.03.2019

Rs. 42 lakhs is recognized as an expense because the recognition criteria were not met until 1st No-vember, 2018. This expenditure will not form part of the cost of the production process recognizedas an intangible asset in the balance sheet.

(ii) Carrying value of intangible asset as on 31.03.2019

At the end of financial year, on 31st March 2019, the production process will be recognized (i.e.carrying amount) as an intangible asset at a cost of Rs. 38 (80-42) lakhs (expenditure in- curred since the date the recognition criteria were met, i.e., from 1st November 2018)

(iii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2020

	(Rs. in lacs)
Carrying Amount as on 31.03.2019	38
Expenditure during 2019 – 2020	90
Book Value	128
Recoverable Amount	(82)
Impairment loss to be charged to Profit and lossaccount	46

Rs. 46 lakhs to be charged to Profit and loss account for the year ending 31.03.2020.

(iv) Carrying value of intangible asset as on 31.03.2020

	(Rs. in lacs)
Book Value	128
Less: Impairment loss	(46)
Carrying amount as on 31.03.2020	82

Question-48)

Swift Ltd. acquired a patent at a cost of Rs. 80,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset at Rs. 10,00,000 per annum. Thecompany had amortized the patent at 10,00,000 per annum in first two years on the basis of economic benefits derived from the product manufactured under the patent. After two years it was found that the product life-cycle may continue for another 5 years from then. The patent was renewable and Swift Ltd. got it renewed after expiry of five years. The net cash flows from the product during these 5 years were expected to be Rs. 36,00,000, Rs. 46,00,000, Rs. 44,00,000, Rs. 40,00,000 and Rs. 34,00,000. Find out the amortization costof the patentfor each of the years.

Ans:-

Swift Limited amortised Rs. 10,00,000 per annum for the first two years i.e. Rs. 20,00,000. The remaining carrying cost can be amortised during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

S	Net cash flows Rs.	Amortisation Ratio	Amortisation Amount Rs.
I	–	0.125	10,00,000
II	–	0.125	10,00,000
III	36,00,000	0.180	10,80,000
IV	46,00,000	0.230	13,80,000
V	44,00,000	0.220	13,20,000
VI	40,00,000	0.200	12,00,000
VII	34,00,000	0.170	10,20,000
Total	2,00,00,000	1.000	80,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., Rs. 60,00,000 has been amortised in the ratio of net cash flows arising from the product of Swift Ltd.

Question-49)

Wow Ltd. is developing a new production process. During the financial year ending 31st March, 2018, the total expenditure incurred was Rs. 50 lakhs. This process met the criteria for recognition as anintangible asset on 1st December, 2017. Expenditure incurred till this date was Rs.22 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2019 was Rs. 80 lakhs. As at 31st March, 2019, the recoverable amount of know-how embodied in the process is estimated to be Rs. 72 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to calculate:

Amount to be charged to Profit and Loss A/c for the year ending 31st March, 2018 and carrying value of intangible as on that date and amount to be charged to Profit and Loss A/c and carrying value of intangibleas on 31st March, 2019.Ignore depreciation. (MTP Oct 18 4 Marks)

Ans:-

As per AS 26 'Intangible Assets'

(i) For the year ending 31.03.2018

(1) Carrying value of intangible as on 31.03.2018:

At the end of financial year 31st March 2018, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of Rs. 28 lakhs (expenditure incurredsince the date the recognition criteria were met, i.e., from 1st December 2017).

(2) Expenditure to be charged to Profit and Loss account:

The Rs. 22 lakhs is recognized as an expense because the recognition criteria were not met until 1st December 2018. This expenditure will not form part of the cost of the production process recognized in the balance sheet.

For the year ending 31.03.2019

Expenditure to be charged to Profit and Loss account:

	(Rs. in lakhs)
Carrying Amount as on 31.03.2018	28
Expenditure during 2018 –2019	80
Total book cost	108
Recoverable Amount	(72)
Impairment loss	36

Rs. 36 lakhs to be charged to Profit and loss account for the year ending 31.03.2019.

(3) Carrying value of intangible as on 31.03.2019:

	(Rs.in lakhs)
Total Book Cost	108
Less: Impairment loss	(36)
Carrying amount as on 31.03.2019	72

Question-50)

A publisher owns 150 magazine titles of which 70 were purchased and 80 were self - created. The pricepaid for a purchased magazine title is recognised as an intangible asset. The costs of creating mag-azine titles and maintaining the existing titles are recognised as an expense when incurred. Cash in-flows from direct sales and advertising are identifiable for each magazine title. Titles are managed bycustomer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to aban- don old titles before the end of their economiclives and replace them

immediately with new titles forthe same customer segment.

What is the cash-generating unit as per AS 28? (RTP May 20)(New SM)

Ans:-

It is likely that the recoverable amount of an individual magazine title can be assessed. Even though

the level of advertising income for a title is influenced, to a certain extent, by the other titles in the customersegment, cash inflows from direct sales and advertising are identifiable for each title. In addition, althoughtitles are managed by customer segments, decisions to abandon titles are made on an individual title basis.

Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent one from another and that each magazine title is a separate cash-generating unit.

Question-51)

Himalaya Ltd. which is in a business of manufacturing and export of its product. Sometimes, back in2014, the Government put restriction on export of goods exported by Himalaya Ltd. and due to thatrestriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth of ₹ 4,000lakhs for ₹ 6,000 lakh at the end of the year 2010. The difference is treated as goodwill. The useful life ofidentifiable assets is 15 years and depreciated on straight line basis. When Government put the restric-tion at the end of 2014, the company recognised the impairment loss by determining theRecoverable amount of assets for ₹ 2,720 lakh. In 2016 Government lifted the restriction imposed the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which wasestimated at ₹ 3,420 lakh.

Required:

(i) Calculation and allocation of impairment loss in 2014 and reversal of impairment loss and its allocation as per AS 28 in 2016. (PYP Nov 17)

Ans:-

Calculation and allocation of impairment loss in 2014 (Amount in ₹ lakhs)

	Goodwill	Identifiable assets	Total
Historical cost	2,000	4,000	6,000
Accumulated depreciation/amortisation (4 yrs)	(1,600)	(1,067)	(2,667)
Carrying amount before impairment	400	2,933	3,333
Impairment loss*	(400)	(213)	(613)
Carrying amount after impairment loss	0	2,720	2,720

* Notes:

1. As per para 87 of AS 28, an impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:

(a) first, to goodwill allocated to the cash-generating unit (if any); and

(b) then, to the other assets of the unit on a pro-rata basis based on the car-rying amount of eachasset in the unit.

Hence, first goodwill is impaired at full value and then identifiable assets are impaired to arrive at recoverable value.

2. Since the goodwill has arisen on acquisition of assets, AS 14 comes into the picture. As per para19 of AS 14, goodwill shall amortise over a period not exceeding five years unless a somewhatlonger period can be justified. Therefore, the amortization period of goodwill is considered as 5 years.

Carrying amount of the assets at the end of 2016 (Amount in ₹ lakhs)

End of 2016	**Goodwill**	**Identifiable assets**	**Total**
Carrying amount in 2016	0	2,225	2,225
Add: Reversal of impairment loss (W.N.2)	–	175	175
Carrying amount after reversal of impairmentloss	–	2,400	2,40 0

Working Note:

Calculation of depreciation after impairment till 2016 and reversal of impairment loss in 2016

(Amount in ₹			lakhs)
	Goodwill	Identifiable assets	Total
Carrying amount after impairment loss in2014	0	2,720	2,720
Additional depreciation (i.e. (2,720/11) x 2)	—	(495)	(495)
Carrying amount	0	2,225	2,225
Recoverable amount			3,420
Excess of recoverable amount over carrying amount			1,195

Note: It is assumed that the restriction by the Government has been lifted atthe end of the year2016. Determination of the amount to be impaired by calculating depreciated historical cost of the identifiable assets without impairment at the end of **2016**

(Amount in ₹ lakhs)

End of 2016	Identifiable assets
Historical cost	4,000

Accumulated depreciation	(266.67 x 6 years) = (1,600)
Depreciated historical cost	2,400
Carrying amount (in W.N. 1)	2,225
Amount of reversal of impairment loss	175

Notes:

1. As per para 107 of AS 28, in allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset should not be increased above the lower of:

(a) its recoverable amount (if determinable); and

(b) the carrying amount that would have been determined (net of amor-tisation or depreciation)had no impairment loss been recognized for the asset in prior accounting periods.

Hence impairment loss reversal is restricted to Rs. 175 lakhs only.

2. The reversal of impairment loss took place in the 6^{th} year. However, goodwill is amortised in 5years. Therefore, there would be no balance in the goodwill account in the 6^{th} year even with-out impairment loss. Hence in W.N. 2 above there is no column for recalculation of goodwill.

Question-52)

Samvit Ltd. has three business segments which are FMCG, Batteries and Sports Equip- ment. The Battery segment has been consistently underperforming and Samvit Ltd. af-ter several discussions with labour unions have finally decided on closure of this segment. Under the agreement with the labour union, the employees of the Battery Segment will earn no further benefit as the arrangement is a curtailment without settlement wherein the employees of the discontinued segment will continue to receive benefits for services rendered when the segment was functioning. As a result of the curtailment, the company's obligations that were arrived on the basis of actuarial valuations before the curtailment have come down. The following information is also furnished:

a. The value of gross obligations before the curtailment calculated on actuarial basis was Rs. 6,000 lakhs.

b. The value of unamortized past service costs is Rs. 150 lakhs.

c. The curtailment will bring down gross obligations by Rs. 750 lakhs and Samvit Ltd. anticipates a proportional decline in the value of unamortized past service costs also.

d. The fair value of plan assets on date is estimated at Rs. 4,875 lakhs.

You are required to calculate the gain from curtailment and also show the li ability to be recognizedin the Balance Sheet of Samvit Ltd. after the curtailment. (Mar 17) (MTP) (5Marks)

Ans:-

c) Gain from curtailment

	(Rs. in lakhs
Reduction in gross obligation [(750/6,000) x 100] = 12.5%	750.00
Less: Proportion of unamortised past service cost	
(12.5% of Rs. 150)	(18.75)
Gain from curtailment	731.25

The liability to be recognised after curtailment in the balance sheet of Samvit Ltd. is estimated as under:

	Rs.
Reduced gross obligation (Rs. 6,000 - Rs. 750)	5,250.00
Less: Fair value of plan assets	(4,875.00)
	375.00
Less: Unamortised past service cost (150.00 – 18.75)	(131.25)
Liability to be recognised in the balance sheet	243.75

Question-53)

Luv limited is a private Limited company. As per HR policy of Luv Limited, Grade F employees areeligible for sabbatical leave (Long term compensated absences as per AS 15). Till previous year, there were 15 employees who are eligible for Sabbatical leave and company had duly recorded theliability for long term compensated absences based on the actuarial valuation for eligible em- ployees. During the current period out of total 15 employees, 13 employees have left the organization and only 2 employees are continuing in LUV Limited. Due to budget constraint, CFO has denied to involve actuary and told finance manager to determine the liability based on the recent actuarial report available with them. Finance manager ensured the following:

- **There is no material change in interest rate**
- **There is no change in fair value of plan assets.**

Based on that, Finance manager have manually computed an amount of Rs. 5,00,000 (considering last year actuarial report as base) towards long term compensation liability without involving Actuary during the period ended 31.03.2020. Is this treatment is in line with AS 15? (RTP Nov 20)

Ans:-

As per para 58 of the AS 15, the detailed actuarial valuation of the present value of defined benefit ob-ligations may be made at intervals not exceeding three years. However, with a view that the amountsrecognized in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date, the most recent valuation is reviewed at the balance sheet date and updated to reflect any material transactions and other material changes in circumstances (including changes in interest rates) between the date of valuation and the balance sheet date. The fair value ofany plan assets is determined at each balance sheet.

Since AS-15 (Para 58) states that actuarial valuation needs to be done at least once in three years. Sincemanagement had done the actuarial valuation in Previous Year, they can go ahead with exemption for this year subject to evaluation and conclusion by management as at balance sheet date that there areno significant changes in the amount of liability compared to previous year. Hence working done by the finance manager is appropriate. It is in line with AS 15, since company had recently done the actuarial valuation in previous year and there is no material changes in the external environment.

Question-54)

The fair value of plan assets of Anupam Ltd. was ₹ 2,00,000 in respect ofemployee benefit pension plan as on 1st April, 20X1. On 30th September, 20X1 the plan paid out benefits of ₹ 25,000 and receivedinward contributions of ₹ 55,000. On 31st March, 20X2 the fair value of plan assets was₹ 3,00,000. On 1st April, 20X1 the company made the following estimates, based on its market studies and prevailing prices.

	%
Interest and dividend income (after tax) payableby fund	**10.25**
Realized gains on plan assets (after tax)	**3.00**
Fund administrative costs	**(3.00)**
Expected rate of return	**10.25**

Calculate the expected and actual returns on plan assets as on 31st March,20X2, as per AS 15.
(New SM)
Ans:-

Computation of Expected Returns on Plan Assets as on 31st March, 20X2, asper AS 15

	₹
Return on opening value of plan assets of ₹2,00,000 (heldforthe year) @ 10.25%	20,500

Add: Return on net gain of ₹ 30,000 (i.e. ₹ 55,000 – ₹ 25,000) during the year i.e. held for six months @ 5% (equivalent to 10.25% annually, compounded every six months)	1,500
Expected return on plan assets as on 31st March, 20X2	22,000

Computation of Actual Returns on Plan Assets as on 31st March, 20X2, as per AS 15

	₹	₹
Fair value of Plan Assets as on 31st March, 20X2		3,00,000
Less: Fair value of Plan as on Assets 1st April, 20X1	(2,00,000)	
Add: Contribution received as on 30th September, 20X1	55,000	(2,55,000)
		45,000
Add: Benefits paid as on 30th September, 20X1		25,000
Actual returns on Plan as on Assets as on 31st March, 20X2		70,000

Question-55)

An airline is required by law to overhaul its aircraft once in every five years. The pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. You are re-quired to comment on the validity of the treatment done by the company in line with the provisions of AS 29. (MTP 5 Marks- Oct'19, Aug'18, Nov'21 & April '23)

Ans:-

A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29. The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue op-erating the aircrafts. Even a legal requirement to overhaul does not require the company to make a pro-vision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprise can avoid the future expenditure by its future action, for example by selling the aircraft. How-ever, an obligation might arise to pay fines or penalties under the legislation aftercompletion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislationand the stringency of the enforcement regime. A provision should be recognized for the best estimate ofany fines and penalties if airline continues to operate aircrafts for morethan five years

Question-56)

Sun Ltd. has entered into a sale contract of Rs. 5 crores with X Ltd. during 2015-2016 financial year. The profit on this transaction is Rs. 1 crore. The delivery of goods to take place during the first month of2016- 2017 financial year. In case of failure of Sun Ltd. to deliver within the schedule, a compensationof Rs. 1.5 crores is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last monthof2015- 2016 financial year. As on balance sheet date (31.3.2016), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

Should Sun Ltd. provide for contingency as per AS 29? Explain.

(i)Should provision be measured as the excess of compensation to be paid over the profit? (MTP 5Marks Mar'19, Mar'18) (Same concept lesser adjustments RTP Nov'20)

Ans:-

(i) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enter- prise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision shouldbe recognized. Sun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable thatSun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amountof compensation. Therefore, Sun Ltd. should provide for the contingency amounting Rs. 1.5 crores as per AS 29.

Provision should not be measured as the excess of compensation to be paid over the profit.The goodswere not manufactured before 31st March, 2016 and no profit had accrued for the financial year 2015- 2016. Therefore, provision should be made for the full amount of com- pensation amounting Rs. 1.50 crores.

Question-57)

Saharsh Ltd. is engaged in manufacturing of electric home appliances. The company is in the pro-cess of finalizing its accounts for the year ended 31.3.2022 and needs your expert advice on the fol- lowing issues in line with the provisions of AS 29:

I.A case has been filed against the company in the consumer court and a notice for levy of a penalty of Rs. 20 lakhs has been received. The company has appointed a lawyer todefend the case for a fee of Rs. 2 lakhs. 50% of the fees has been paid and balance 50%will be paid after finalization of the case. There are 75% chances that the penalty may notbe levied.

II.The company had committed to supply a consignment worth Rs. 1 crore to one of its deal- ers by the year-end. As per the contract, if delivery is not made on time, a compensation of 15% is to be paidon the value of delayed/lost consignment. While the consignment was in transit, one of the trucks carrying goods worth Rs. 30 lakhs met with an accident. It was however covered by Insurance. According to the surveyor's

report, the policy amount is collectable, subject to 10% deduction. Beforeclosing the books of accounts, the company has received the information that the policy amount has been processed and the deal- er has also claimed the compensation for the consignment of goods worth Rs. 30 lakhs which was in transit. (MTP 5 Marks Oct '21 ,March '23 & Oct '23)

Ans:-

(i) As per AS 29, an obligation is a present obligation if, based on the evidence available, itsexistence at the balance sheet date is considered probable, i.e., more likely than not. Liabil-ity is a present obligationof the enterprise arising from past events, the settlement of whichis expected to result in an outflow from the enterprise of resources embodying economicbenefits. In the given case, there are 75% chances that the penalty may not be levied. Accordingly, Saharsh Ltd. should not make the provision for penalty. However, a provision should be made for remaining 50% fees of the lawyer in the financial statements of finan-cial year 2021-2022.

(ii) Loss due to accident Rs = 30,00,000

Insurance claim receivable by company = Rs. 30,00,000 x 90%
=Rs. 27,00,000

Loss to be recognised in the books for 2019-2020 Rs. 3,00,000 Insurance claim receivable to be re- corded in the books Rs. 27,00,000

Compensation claim by dealer against company to be provided for in the books

= Rs. 30,00,000 x 15% = Rs. 4,50,000

Question-58)

A Company dealing in software provides after sales warranty for 2 years to its customer. Based on past experience, the company has been following policy for making provision for warranties onthe invoice amount, on the remaining balance warranty period:

Less than 1 year: 3% provision

More than 1 year: 4% provision

The company has raised invoices as under:

Invoice Date	Amount (₹)
19th January, 2019	1,20,000
29th January, 2020	75,000
15th October, 2020	2,70,000

You are required to calculate the provision to be made for warranty under Accounting Standard 29 asat 31st March, 2020 and 31st March, 2021. Also compute the amount to be debited to Profit and Loss Ac-count for the year ended 31st March, 2021. (MTP 5 Marks Oct'22, PYP 5 Marks Nov '19, RTP May '23)

Ans:-

Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March, 2020 = ₹ 1,20,000 x .03 + ₹ 75,000 x .04

= ₹ 3,600 + ₹ 3,000 = ₹ 6,600

As at 31st March, 2021 = ₹ 75,000 x .03 + ₹ 2,70,000 x .04

= ₹ 2,250 + ₹ 10,800 = ₹ 13,050

Amount debited to Profit and Loss Account for year ended 31st March, 2021

	₹
Balance of provision required as on 31.03.2021	13,050
Less: Opening Balance as on 1.4.2020	(6,600)
Amount debited to profit and loss account	6,450

Note: No provision will be made on 31st March, 2021 in respect of sales amounting ₹ 1,20,000 made
on 19th January, 2019 as the warranty period of 2 years has already expired.

Question-59)

Chaos Limited is in the process of finalizing its accounts for the year ended 31st March, 2022. It seeks your advice in the following cases:

(i) **Chaos Limited entered into an agreement to supply 1 lac face masks to D Limited by 30th April, 2022 failing which it will have to pay a penalty of Rs. 10 per item not supplied. On 31st March, 2022 Chaos Limited assessed that it could only supply 50,000 face masks toD Limited by 30th April, 2022.**

(ii) **Chaos Limited has filed a court case in 2014-2015 against its competitors. It is evident toits lawyers that Chaos Limited may lose the case and would have to pay Rs. 3,00,000 be-ing the cost of litigation. No entries/provisions have been made in the books.**

A new regulation has been passed in 2021-22 by the healthcare ministry to upgrade facilities. Dead-lineset by the government is 31.03.2023. The company estimates an expenditure of Rs. 10,00,000 forthe said upgrade.

Kindly give your answer for each of above with proper reasoning according to the relevant Ac-counting Standard. Also state the principles for recognition of provision, as per AS 29. (RTPNov'22)

Ans:-

Principles for recognition of provisions:

(a) As per AS 29, “a provision shall be recognised when:

(b) an entity has a present obligation (legal or constructive) as a result of a past event;

(c) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

2) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognised.”

(i) Accounting treatment under the given **scenarios:**

(ii) In this case, there is no present obligation arising out of a past event as the goods are scheduled for delivery on 30th April, 2022 and there is no delay as at 31st March, 2022. Hence, there is no present obligation to pay the penalty in the current year. Therefore, no provision can be recognized in the instant case.

On 31st March, 2022, since it is evident to the lawyer that Chaos Limited may lose the case and also a re-liable estimate of the outflow can be made as Rs. 3,00,000, there is a present obligation. Hence, provision should be recognised for Rs. 3,00,000 for the amount which may be required to settle the obligation. Under new regulation, an entity is required to upgrade its facilities by 31st March, 2023. However, on 31st March, 2022, i.e. at the end of the reporting period, there is no obligation because there is no obligating event either for the costs of upgrading the facilities or for fines under the regulations. Hence, no provision should be recognised on 31st March, 2022 for upgrading the facilities by 31st March, 2023

Question-60)

At the end of the financial year ending on 31st March, 2022, a company finds that there are twenty lawsuits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

Particulars	**Probability**	**Loss (₹)**
In respect of five cases	**100%**	**-**
(Win) Next ten cases (Win)	**50%**	**-**
Lose (Low damages)	**40%**	**12,00,000**
Lose (High damages)	**10%**	**20,00,000**
Remaining five cases	**50%**	**-**
Win Lose (Low damages)	**30%**	**10,00,000**
Lose (High damages)	**20%**	**21,00,000**

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof as per AS – 29. (PYP 5 Marks Nov 22)

Ans:-

According to AS 29 (Revised) 'Provisions, Contingent Liabilities and Contingent Assets', contingentliability should be disclosed in the financial statements if following conditions are satisfied:

(i) There is a present obligation arising out of past events but not recognized as provision.

(ii) It is not probable that an outflow of resources embodying economic benefits will be requiredto settle the obligation.

(iii) The possibility of an outflow of resources embodying economic benefits is not remote.

(iv) The amount of the obligation cannot be measured with sufficient reliability to be recognizedas provision.

In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 50% and for remaining five cases is 50%. As per AS 29 (Revised), we make a provision if the loss is probable. As the loss does notappear to be probable and the possibility of an outflow of resources embodying economic benefits is remote, therefore disclosure by way of note should be made. For the purpose of the disclosure of con-tingent liability by way of note, amount may be calculated as under:

Expected loss in next ten cases = 40% of ₹ 12,00,000 + 10% of ₹ 20,00,000

= ₹ 4,80,000 + ₹ 2,00,000

= 6,80,000

Expected loss in remaining five cases = 30% of ₹ 10,00,000 + 20% of ₹ 21,00,000

= ₹ 3,00,000 + ₹ 4,20,000

= ₹ 7,20,000

To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of 1,04,00,000 (₹ 6,80,000 X 10 + ₹ 7,20,000 X 5) as contingent liability.

Question-61)

ABC Ltd. borrowed US $ 5,00,000 on 01/01/2021, which was repaid as on 31/07/2021. ABC Ltd. prepares financial statement ending on 31/03/2021. Rate of Exchange between reporting currency (INR) and for-eign currency (USD) on different dates are as under:

01/01/2021	1 US$ =	Rs. 68.50
31/03/2021	1 US $ =	Rs. 69.50
31/07/2021	1 US $ =	Rs. 70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11. (MTP 5 Marks

, Sep '22, PYP May '18, 5 Marks)

Ans:-

a) Journal Entries in the Books of ABC Ltd.

Date	Particulars		Rs. (Dr.)	Rs. (Cr.)
Jan. 01, 2021	Bank Account (5,00,000 x 68.50)	Dr.	342,50,000	
	To Foreign Loan Account			342,50,000
March 31, 2021	Foreign Exchange Difference Account	Dr.	5,00,000	
	To Foreign Loan Account [5,00,000 x (69.50-68.50)]			5,00,000
Jul. 31, 2021	Foreign Exchange Difference Account [5,00,000 x (70-69.5)]	Dr.	2,50,000	
	Foreign Loan Account	Dr.	347,50,000	
	To Bank Account			350,00,000

Question-62)

I. Trade receivables as on 31.3.2019 in the books of XYZ Ltd. include an amount receivablefrom Umesh Rs.5,00,000 recorded at the prevailing exchange rate on the date of sales,i.e. at US $ 1= Rs.58.50. US $ 1 = Rs.61.20 on 31.3.2019. Explain briefly the accounting treat-ment needed in this case as per AS 11 as on 31.3.2019. (RTP Nov 19)

II. Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2018 payable after 6 months. The company entered into a forward contract for 6 months @Rs.64.25 per Dol- lar. On 31st October, 2018, the exchange rate was ₹61.50 per Dollar. You are required to recognise the profit or loss on forward contract in the books of the company for the year ended 31st March, 2019. (RTP Nov 19, May 18)

Ans:-

(I) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences aris-ing on the settlement of monetary items or on reporting an enterprise's monetary items at ratesdifferent from those at which they were initially recorded during the period, or reported in previous financial statements, shouldbe recognized as income or as expenses in the pe-riod in which they arise. Accordingly, exchange difference on trade receivables amounting Rs.23,076 {Rs.5,23,076(US $ 8547 x Rs.61.20) less Rs. 5,00,000} should be charged to profit & Loss account.

Calculation of profit or loss to be recognized in the books of Power Track Limited

	₹
Forward contract rate	64.25
Less: Spot rate	(61.50)
Loss on forward contract	2.75
Forward Contract Amount	$ 50,000
Total loss on entering into forward contract = ($ 50,000 × Rs.2.75)	₹1,37,500

Contract period	6 months
Loss for the period 1st November, 2018 to 31st March, 2019 i.e. 5 monthsfallingin the year 2018-2019	5 months
Hence, Loss for 5 months will be Rs.1,37,500 × 5/6 =	Rs.1,14,583

Thus, the loss amounting to Rs.1,14,583 for the period is to be recognized in the year ended 31st March, 2019.

Question-63)

ABC Builders Limited had borrowed a sum of US $ 15,00,000 at the beginning of Financial year 2020- 21 for its residential project at London Interbank Offered Rate (LIBOR) + 4 %. The interest is payable at the end of the Financial Year. At the time of availing the loan, the exchange rate was ₹ 72 per US $ and therate as on 31st March, 2021 was ₹ 76 per US $. If ABC Builders Limited borrowed the loan in Indian Rupee equivalent, the pricing of loan would have been 9.50%. Compute Borrowing Cost and exchange differ-ence for the year ending 31st March, 2021 as per applicable Accounting Standards. (Applicable LIBOR is1%).(RTP May 23)

Ans:-

(i) Interest for the period 2020-21

= US $ 15 lakhs x 5% × ₹ 76 per US $ = ₹ 57 lakhs

(ii) Increase in the liability towards the principal amount

= US $ 15 lakhs × ₹ (76 - 72) = ₹ 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US $ 15 lakhs × ₹ 72 x 9.5% = ₹ 102.60 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing

= ₹ 102.60 lakhs less ₹ 57 lakhs = ₹ 45.60 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 45.60 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 102.60 lakhs being theaggregate of interest of ₹ 57 lakhs on foreign currency borrowings plus the exchange difference tothe extent of difference between interest on local currency borrowing and interest on foreign currencyborrowing of ₹ 45.60 lakhs.Hence, ₹ 102.60 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 "Borrowing Costs" and the remaining ₹ 14.4 lakhs (60 - 45.60) would be considered as the exchangedifference to be accounted for as per AS 11 "The Effects of Changes in Foreign Exchange Rates".

Question-64)

A business having the Head Office in Kolkata has a branch in UK. The following is the trial balance of Branch as at 31.03.20X4:

Account Name	Amount in £	
	Dr.	Cr.
Machinery (purchased on 01.04.20X1)	5,000	
Debtors	1,600	
Opening Stock	400	
Goods received from Head Office Account	6,100	
(Recorded in HO books as Rs. 4,02,000)		
Sales		20,000
Purchases	10,000	
Wages	1,000	
Salaries	1,200	
Cash	3,200	
Remittances to Head Office (Recorded in HO books as	2,900	
Rs. 1,91,000)		
Head Office Account (Recorded in HO books as		7,400
Rs. 4,90,000)		
Creditors		4,000

Closing stock at branch is £ 700 on 31.03.20X4.Depreciation @ 10% p.a. is to be charged on Machinery.

Prepare the trial balance after been converted in Indian Rupees.

Exchange rates of Pounds on different dates are as follow: 01.04.20X1– Rs. 61; 01.04.20X3– Rs. 63 &31.03.20X4 – Rs. 67

Ans:-

Trial Balance of the Foreign Branch converted into Indian Rupees as on March 31, 20X4

Particulars	£ (Dr.)	£ (Cr.)	Conversion Basis	Rs. (Dr.)	Rs. (Cr.)
			Transaction date		
Machinery	5,000		rate	3,05,000	
Debtors	1,600		Closing Rate	1,07,200	
Opening Stock	400		Opening Rate	25,200	
Goods Received from HO	6,100		Actuals	4,02,000	

Sales		20,000	Average Rate		13,00,000
Purchases	10,000		Average Rate	6,50,000	
Wages	1,000		Average Rate	65,000	
Salaries	1,200		Average Rate	78,000	
Cash	3,200		Closing Rate	2,14,400	
Remittance to HO	2,900		Actuals	1,91,000	
HO Account		7,400	Actuals		4,90,000
Creditors		4,000	Closing Rate		2,68,000
Exchange Rate Difference			Balancing Figure	20,200	
	31,400	31,400		20,58,000	20,58,000
Closing Stock	700		Closing Rate	46,900	
Depreciation	500		Fixed Asset Rate	30,500	

Question-65)

The following information is furnished in respect of Slate Ltd. for the year ending 31-3-2019:

Depreciation as per books **Rs. 2,80,000**
Depreciation for tax purpose **Rs. 1,90,000**

The above depreciation does not include depreciation on new additions.

A new machinery purchased on 1.4.18 costing Rs. 1,20,000 on which 100% depreciationis allowed in the 1st year for tax purpose whereas Straight-line method is considered appropriate for accounting purpose with a life estimation of 4 years.the company has made a profit of Rs. 6,40,000 before depreciation and taxes.Corporate tax rate of 40%.

Prepare relevant extract of statement of Profit and Loss for the year ending 31-3-2019 and alsoshow the effect of above items on deferred tax liability/asset as per AS 22.

What are the disclosure requirements for deferred tax assets and deferred tax liabilities inthe balance sheet as per AS 22? (RTP May 21, PYP 5 Marks Nov '22)

Ans:-

(a) Statement of Profit and Loss for the year ended 31st March, 2019 (Extract)

		Rs
Profit before depreciation and taxes		6,40,000
Less: Depreciation for accounting purposes (2,80,000+30,000)		(3,10,000
Profit before taxes (A)		3,30,000
Less: Tax expense (B)		
Current tax (W.N.1) (3,30,000 x 40%) Deferred tax (W.N.2)	1,32,000	,32,000

Profit after tax	(A-B)	NIL	1,98,000

Working Notes:

1. **Computation of taxable income**

	Amount (Rs.)
Profit before depreciation and tax	6,40,000
Less: Depreciation for tax purpose (1,90,000 + 1,20,000)	(3,10,000)
Taxable income	3,30,000
Tax on taxable income @ 40%	1,32,000

Impact of various items in terms of deferred tax liability / deferred tax asset

S. No.	**Transactions**	**Analysis**	**Nature ofdiffer-ence**	**Effect**	**Amount (Rs.)**
(i)	Difference in depreciation	Generally, written downvalue method of de- preciation is adopted under IT Act which leads to higher depre- ciation in earlier years of useful life of the asset in compari son tolater years.	Responding timing differ-ence	Reversal of DTL	(2,80,000 - 1,90,000) x 40% = (36,000)
(ii)	Depreciation onnew machinery	Due to allowance of fullamount as expenditure under IT Act, tax payable in the earlier years is less.	Timing difference	Creation ofDTL	(1,20,000 – 30,000) x 40% = 36,000
	Net impact				NIL

The break-up of deferred tax assets and deferred tax liabilities into major components of the respec-tive balance should be disclosed in the notes to accounts. Deferred tax assets and liabilities shouldbe distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separatelyfrom current assets and current liabilities. The nature of the evidence supporting the rec-ognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forwardof losses under tax laws.

Question-66)

The following particulars are stated in the Balance Sheet of Deep Limited as on 31st March, 2020:

	(₹ In Lakhs)
Deferred Tax Liability (Cr.)	**28.00**
Deferred Tax Assets (Dr.)	**14.00**

The following transactions were reported during the year 2020 -2021:

Depreciation as per books was ₹ 70 Lakhs whereas Depreciation for Tax purposeswas ₹ 42 Lakhs. There were no additions to Fixed Assets during the year.

Expenses disallowed in 2019-20 and allowed for tax purposes in 2020-21 were ₹ 14 Lakhs.

Share issue expenses allowed under section 35(D) of the Income Tax Act, 1961 for theyear 2020-21 (1/10th of ₹ 70.00 lakhs incurred in 2019-20).

Repairs to Plant and Machinery were made during the year for ₹ 140.00 Lakhs and was spread over the period 2020-21 and 2021-22 equally in the books. However, theentire expenditure was allowed for income-tax purposes in the year 2020-21.

Tax Rate to be taken at 40%. You are required to show the impact of above items on Deferred Tax Assetsand Deferred Tax Liability as on 31st March, 2021. (PYP 5 Marks July 21)

Ans:-

b) Impact of various items in terms of deferred tax liability/deferred tax asset on 31.3.21

Transactions	**Analysis**	**Nature of differ-ence**	**Effect**	**Amount (₹)**
Difference in depreciation	Generally, written down value method of depreci- ation is adopted under IT Act which leads to high- er depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing differ-ence	Reversal of DTL	28 lakhs X 40% = ₹ 11.20 lakhs
Disallowances, asper IT Act, of earlier years	Tax payable for the earlier year was higheron this account.	Respond - ingtiming difference	ReversalofDTA	14 lakhs X 40% = 5.6 lakhs

Share issue expenses	Due to disallowance offull expenditure under IT Act, tax payable in the earlier years was higher.	Respondin gtiming difference	Reversal of DTA	7 lakhs X 40% = ₹ 2.8 lakhs
Repairs to plantand ma-chinery	Due to allowance of full expenditure under IT Act, tax payable of the current year will be less.	Originat - ingtimin gdiffer-ence	Increas einDTL	70 lakhs X 40% =28 lakhs

Question-67)

The following particulars are stated in the Balance Sheet of HS Ltd. as on 31 -3-2019 :

Particulars	**(₹ in lakhs)**
Deferred Tax Liability (Cr.)	**60.00**
Deferred Tax Assets (Dr.)	**30.00**
The following transactions were reported during the year 2019-20 :	
Depreciation as per accounting records	**160.00**
Depreciation as per income tax records	**140.00**
Items disallowed for tax purposes in 2018-19 but allowed in 2019-20	**20.00**
Donation to Private Trust	**20.00**
Tax rate	**30%**

There were no additions to fixed assets during the year. You are required to show the impact of various items on Deferred Tax Assets and Deferred Tax Liability as on 31-3-2020 as per AS-22.
(PYP 5 Marks Jan21, RTP May 20)

Ans:-

Impact of various items in terms of AS 22 deferred tax liability/deferred tax asset

(1) Difference in Depreciation- Generally, written down value method of depreciation is adopt-ed under income Tax Act which leads to higher depreciation in earlier years of useful life of the asset in comparisonto later years. It is timing difference for which reversal of Deferred tax liability is required. Reversal of DTL= ₹ (160 – 140) Lakhs X 30% = ₹6 Lakhs

(2) Disallowances, as per IT Act of earlier years- Due to disallowance tax payable for the earlier years was higher on this account. It is responding timing difference which required Reversal of Deferred tax assets.

Reversal of Deferred tax assets = ₹20 Lakhs X 30% = ₹ 6 Lakhs

Donations to private trusts is not an allowable expenditure under IT Act. It is permanent difference. Hence, no reversal of tax is required.

Question-68)

From the following details of Aditya Limited for accounting year ended on 31st March, 2020:

Particulars	₹
Accounting profit	15,00,000
Book profit as per MAT	7,50,000
Profit as per Income tax Act	2,50,000
Tax Rate	20%
MAT Rate	7.5%

Calculate the deferred tax asset/liability as per AS 22 and amount of tax to be debited to the profit andloss account for the year. (PYP 5 Marks, Nov 20)

Ans:-

Tax as per accounting profit 15,00,000X20%= ₹ 3,00,000

Tax as per Income-tax Profit 2,50,000X20% =₹ 50,000Tax as per MAT

7,50,000X7.50%= ₹ 56,250Tax expense= Current Tax +Deferred Tax

₹ 3,00,000 = ₹ 50,000+ Deferred tax Therefore, Deferred Tax liability as on 31-03-2020

= ₹ 3,00,000 – ₹ 50,000 = ₹ 2,50,000

Amount of tax to be debited in Profit and Loss account for the year 31-03-2020 Current Tax +Deferred Tax liability + Excess of MAT over current tax

= ₹ 50,000 + ₹ 2,50,000 + ₹ 6,250 (56,250 – 50,000) = ₹ 3,06,250

Question-69)

PRZ & Sons Ltd. are Heavy Engineering contractors specializing in construction of dams. From therecords of the company, the following data is available pertaining to year ended 31st March, 2021:

	(Rs. crore)
Total Contract Price	2,400
Work Certified	1,250
Work pending certification	250
Estimated further cost to completion	1,750
Stage wise payments received	1,100
Progress payments in pipe line	300

Using the given data and applying the relevant Accounting Standard you are required to Compute the
amount of profit/loss for the year ended 31st March, 2021.Arrive at the contract work in progress as at the end of financial year 2020-21.Determine the amount of revenue to be recognized out of the total contract value.Work out the amount due from/to customers as at year end.
(MTP 5 Marks Oct '21 & April '23)
Ans:-

(i)	**Calculation of profit/ loss for the year ended 31st March, 2021**	*(Rs. in crores)*
	Total estimated cost of construction (1,250 + 250 + 1,750)	3,250
	Less: Total contract price	(2,400)
	Total foreseeable loss to be recognized as expense	850

According to AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costswill exceed total contract revenue, the expected loss should be recognized as an expense im-mediately.

(ii)	**Contract work-in-progress i.e. cost incurred to date**	*(Rs. in crores)*
	Work certified	1,250
	Work not certified	250
		1,500

(i) Proportion of total contract value recognized as revenue

Percentage of completion of contract to total estimated cost of construction= (1,500 / 3,250) X 100 = 46.15%

Revenue to be recognized till date = 46.15% of Rs. 2,400 crores = Rs. 1,107.60 crores.

Amount due from / to customers = Contract costs + Recognized profits – Recognized losses – (Progresspayments received + Progress payments to be received)

= Rs. [1,500 + Nil – 850 – (1100 + 300)] crores

= Rs. [1,500 – 850 – 1,400] crores

Amount due to customers (shown as liability) = Rs. 750 crores.

Question-70)

A. Sky Limited belongs to Heavy Engineering Contractors specializing in construction of Flyovers. The company just entered into a contract with a local municipal corporation for building a fly- over. No activity has started on this contract.As per the terms of the contract, Sky Limited will receive an additional Rs. 50 lakhs if the con- struction of the flyover were to be finished within a period of two years from the commencementof the contract. The Accountant of the entity wants to recognize this revenue since in the past thecompany has been able to meet similar targets very easily. Give your opinion on this treatment.
B. ABC Ltd., a construction contractor, undertakes the construction of commercial

complex for XYZ Ltd. ABC Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreementis entered into between the two parties. The agreement lays down the value of each of the 3 units i .e. Rs. 50 lakh, Rs. 60 lakh and Rs. 75 lakh respectively. Agreement also lays down the completion time for each unit. Comment, with reference to AS 7, whether ABC Ltd., should treat it as a single contract or three separate contracts. (RTP May '21 May '23 & Nov '23)

Ans:-

According to AS 7 'Construction Contracts', incentive payments are additional amounts payable tothe contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentivepaymentsare included in contract revenue when both the conditions are met:

(i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and the amount of the incentive payment can be measured reliably.

In the given problem, the contract has not even begun and hence the contractor (Sky Limited)should not recognize any revenue of this contract. Therefore, the accountant's contention for recognizing Rs. 50 lakhs as revenue is not correct

As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction ofeachasset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customerhave beenable to accept or reject that part of the contract relating to each asset; and the costs and revenues of each asset can be identified.

(c) ABC Ltd. has submitted separate proposals for each of the 3 units of commercial com- plex. Also the revenue and completion time has been laid down for each unit separatelywhich implies separate negotiation for them.

Therefore, ABC Ltd. is required to treat construction of each unit as a separate construction contractas the above-mentioned conditions of AS 7 are fulfilled in the given case.

Question-71)

Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The con- struction commenced during the financial year ending 31.03.2019 and is likely to be completed by the next financial year. The contract is for a fixed price of Rs. 12 crore with an escalation clause. You are giv-en the following information for the year ended 31.03.2019:

Cost incurred upto 31.03.2019	**Rs. 4 crore**
Further cost estimated to complete the contract	**Rs. 6 crore**

Escalation in cost was by 5%. Hence, the contract price is also increased by 5%.

You are required to ascertain the stage of completion and compute the amount of revenue and profit to be recognized for the year as per AS 7. (RTP Nov'20, Nov '18 & May '18)

Ans:-

	Rs. in crore
Cost of construction of bridge incurred upto 31.3.2019	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

= (4/10)X100 = 40%

Revenue and Profit to be recognized for the year ended 31st March,

2019 as per AS 7: Proportion of total contract value recognized as

revenue

= Contract price x percentage of completion

= Rs. 12.60 crore x 40% = Rs. 5.04 crore Profit for the year ended 31st March, 2019

= Rs. 5.04 crore — Rs.4 crore= 1.04 crore.

Question-72)

RT Enterprises has entered into a fixed price contract for construction of a tower with its custom-er. Initial tender price agreed is ₹ 220 crore. At the start of the contract, it is estimated that total costs tobe incurred will be ₹ 200 crore. At the end of year 1, this estimate stands revised to ₹ 202 crore.Assume that the construction is expected to be completed in 3 years.During year 2, the customerhas requested for a variation in the contract. As a result of that, the total contract value will in- crease by ₹ 5 crore and the costs will increase by ₹ 3 crore.

RT has decided to measure the stage of completion on the basis of the proportion of contract costsincurred to the total estimated contract costs. Contract costs incurred at the end of each yearis:

Year 1: ₹52.52 crore

Year 2: ₹ 154.20 crore (including unused material of 2.5 crore)Year 3: ₹205 crore.

You are required to calculate:Stage of completion for each year and profit to be recognised for each year.

Ans:-

a) Stage of completion = Costs incurred to date / Total estimated costsYear 1:

52.52 crore / 202 crore = 26%

Year 2: (154.20 crore — 2.50 crore) / 205 crore = 74%

Year 3: 205 crore / 205 crore = 100%

b) Profit for the year

	Year 1	Year 2	Year 3
Contract Reve-nue(1)	57.20 crore	109.30 crore	58.50 crore
	(220 crore x 26%)	(225 crore x 74% - 57.20 crore)	(225 crore x 100% - 109.30 crore — 57.20 crore)
Contract Cost (2)	52.52 crore	99.18 crore	53.30 crore
	(202 crore x 26%)	(205 crore x 74% - 52.52 crore)	(205 crore x 100% - 99.18 crore — 52.52crore)
Contract Profit (1) — (2)	4.68 crore	10.12 crore	5.20 crore

Question-73)

Given below are the following information of B.S. Ltd.

(i) Goods of ₹ 50,000 were sold on 18-03-2023 but at the request of the buyer these were deliv- ered on 15-04-2023.

(ii) On 13-01-2023 goods of ₹ 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2023.

(iii) ₹ 1,00,000 worth of goods were sold on approval basis on 01–12–2022. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2023 and no approval or disapproval received for the remaining goods till 31-03-2023.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2023 in above cases in the context of AS- 9.(RTP Nov '23)

Ans:-

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance shouldbe regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all signif-icant risks and rewards of ownership have been transferred to the buyer and the seller retainsno effective control of the goods transferred to a degree usuallyassociated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derivedfrom the sale of the goods.

Case (i)

The sale is complete but delivery has been postponed at buyer's request. B.S. Ltd.

should recognize the entire sale of ₹ 50,000 for the year ended 31st March, 2023.Case (ii)

In case of consignment sale revenue should not be recognized until the goods are sold to athird party.20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,00,000 (80% of ₹ 1,25,000).

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods havebeen formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed,a reasonable time haselapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 1,00,000 as the time period for rejecting the goods had expired.Thus total revenue amounting ₹ 2,50,000 (50,000 + 1,00,000+ 1,00,000) will be recognizedfor the yearended 31st March, 2023 in the books of B.S. Ltd.

Question-74)

Fashion Limited is engaged in manufacturing of readymade garments. They provide you the follow-ing information on 31st March, 2021:On 15th January, 2021 garments worth Rs. 4,00,000 were sent to Anand on consignmentbasis of which 25% garments unsold were lying with Anand as on 31st March, 2021.Garments worth Rs. 1,95,000 were sold to Shine boutique on 25th March, 2021 but at therequest of Shine Boutique, these were delivered on 15th April, 2021. On 1st November, 2020 garments worth Rs. 2,50,000 were sold on approval basis. The pe-riod of approval was 4 months after which they were considered sold. Buyer sent ap-proval for 75% goods up to 31st December, 2020 and no approval or disapproval receivedfor the remaining goods till 31st March, 2021.

You are required to advise the accountant of Fashion Limited, the amount to be recognized as revenue in above cases in the context of AS 9. (MTP 5 Marks Nov '21, Oct'19, Aug'18, RTP Nov'18, RTP Nov'20) (PYP 5 Marks May '23)

Ans:-

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, perfor-mance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be de-rived from thesale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales shouldbe recognized for Rs. 3,00,000 (75% of Rs. 4,00,000) for the year ended on 31.3.21. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion

Ltd. should recognize the entire sale of Rs.1,95,000 for the year ended 31st March, 2021.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods havebeen formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 2,50,000 as the time period for rejecting the goods had expired. Thus total revenue amounting Rs. 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2021 in the books of Fashion Ltd.

Question-75)

The following information of Meghna Ltd. is provided:

(i) Goods of Rs. 60,000 were sold on 20-3-2019 but at the request of the buyer these were deliv-ered on10-4-2019.

(ii) On 15-1-2019 goods of Rs. 1,50,000 were sent on consignment basis of which 20%

of the goods unsold are lying with the consignee as on 31 -3-2019.

(iii)Rs. 1,20,000 worth of goods were sold on approval basis on 1 -12-2018. The period of approvalwas 3 months after which they were considered sold. Buyer sent approval for 75% goods upto 31-1-2019 and no approval or disapproval received for the remaining goods till 31-3- 2019.

(iv)Apart from the above, the company has made cash sales of Rs. 7,80,000 (gross). Trade dis- count of 5% was allowed on the cash sales.

You are required to advise the accountant of Meghna Ltd., with valid reasons, the amountto be recognized as revenue in above cases in the context of AS -9. (RTP May'20) (MTP 5 Marks Oct'22, PYP 5 Marks May '19)

Ans:-

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should

be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significantrisks and rewards of ownership have been transferred to the buyer and the sellerretains no effectivecontrol of the goods transferred to a degree usually associated with own-ership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be de- rived fromthe sale of the goods.

Case (i) The sale is complete but delivery has been postponed at buyer 's request. M/s Paper Prod- uctsLtd. should recognize the entire sale of Rs.60,000 for the year ended 31st March, 2019.

Case (ii) 20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 1,20,000 (80% of Rs. 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (iii) In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or thetime period for rejection has elapsed or where no time has been fixed, a reasonable time haselapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 1,20,000 as the time periodfor rejecting the goods had expired.

Case (iv) Trade discounts given should be deducted in determining revenue. Thus Rs. 39,000 shouldbe deducted from the amount of turnover of Rs. 7,80,000 for the purpose of recognition of revenue. Thus,revenue should be Rs. 7,41,000.

Question-76)

Given the following information of Rainbow Ltd.

(i) On 15th November, goods worth ₹ 5,00,000 were sold on approval basis. The period of ap-proval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.

(ii) On 31st March, goods worth ₹ 2,40,000 were sold to Bright Ltd. but due to refurnishing of their show-room being underway, on their request, goods were delivered on 10th April.

(iii) Rainbow Ltd. supplied goods worth ₹ 6,00,000 to Shyam Ltd. and concurrently agrees to

re-purchasethe same goods on 14th April.

(iv) Dew Ltd, used certain assets of Rainbow Ltd. Rainbow Ltd. received ₹ 7.5 lakhs and ₹ 12 asinterest and royalties respectively from Dew Ltd. during the year 2020 -21.

(v) On 25th December, goods of ₹ 4,00,000 were sent on consignment basis of which 40% of

the goods unsold are lying with the consignee at the year-end on 31st March.

In each of the above cases, you are required to advise, with valid reasons, the amount to berecognized as revenue under the provisions of AS-9.(PYP 5 Marks Dec '21)(MTP 5 Marks Sep '23)

Ans:-

(i) As per AS 9 "Revenue Recognition", in case of goods sold on approval basis, revenue shouldnot be recognized until the goods have been formally accepted by the buyer or the buyerhas done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should berecognized for the total sales amounting

₹ 5,00,000 as the time period for rejecting the goods had expired.

(ii) The sale is complete but delivery has been postponed at buyer's request. The entity shouldrecognize

the entire sale of ₹ 2,40,000 for the year ended 31st March.

(iii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date, such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue. Hence no revenue to be recognized in the given case.

(iv) Revenue arising from the use by others of enterprise resources yielding interest and royalty should be recognized when no significant uncertainty as to measurability or collectability exists. The interest should be recognized on time proportion basis taking into account the amount outstanding and rate applicable. The royalty should be recognized on accrual ba-sis in accordance with the terms of relevant agreement.

40% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 2,40,000 (60% of ₹ 4,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Question-77)

Viva Ltd. received a specific grant of Rs. 30 lakhs for acquiring the plant of Rs. 150 lakhs during 2018-19 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2021-22, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs. 21 lakhs and written down value of plant was Rs. 105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2021–22 in profit and loss account? (MTP 5 Marks , Sep '22 May 20 ,March '21 ,RTP May '19)

Ans:-

As per AS-12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

In this case the grant refunded is Rs. 30 lakhs and balance in deferred income is Rs. 21 lakhs, Rs. 9 lakhs shall be charged to the profit and loss account for the year 2021-22. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

Question-78)

D Ltd. acquired a machine on 01-04-2017 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2017, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2020. The Company's Fixed Assets Account for the financial year 2020-21 shows a credit balance as under:

Particulars	**₹**
Machine (Original Cost)	**20,00,000**
Less: Accumulated Depreciation (from 2017-18- to 2019-20	
on Straight Line Method)	**12,00,000**
	8,00,000
Less: Grant received	**(16,00,000)**
Balance	**(8,00,000)**

You are required to explain how should the company deal with this asset in its accounts for 2020-21? (MTP 5 Marks March '23) (RTP Nov 21 ,May 18)

Ans:-

From the above account, it is inferred that the Company has deducted grant from the book value of as- set for accounting of Government Grants. Accordingly, out of the ₹ 16,00,000 that has been received, ₹ 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c. The balance ₹ 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of ₹ 12,00,000 had beendebited to P&L A/c in the earlier years by way of depreciation charge, and ₹ 8,00,000 transferred to P&L A/cnow would be partial recovery of that cost.There is no need to provide depreciation for 2020-21 or 2021-22 as the depreciable amount is now Nil.

Question-79)
How would you treat the following in the accounts in accordance with AS 12 'Govern- ment Grants'?

(i) Rs.35 Lakhs received from the Local Authority for providing Medical facilities to the em-ployees. (RTP Nov 20, RTP May 20, MTP Oct'22, 5 Marks, Old & New SM)

(ii) Rs.100 Lakhs received as Subsidy from the Central Government for setting up a unit in anotified backward area. (RTP Nov 20, RTP May 20, MTP Oct'22, 5 Marks, Old & New SM)

(iii) Rs.10 Lakhs Grant received from the Central Government on installation of anti-pollutionequipment. (RTP May 20, MTP Oct'22, 5 Marks)

Ans:-

Rs.35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant. Such grants are generally presented as a credit in the profit and Loss statements, either separately or under a general heading such as 'Other Income'. Alternatively, Rs.351 May be deducted in reporting the related expense i.e. employee benefit expenses.

(i) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or byway of contribution towards its total capital outlay and no repaymentis ordinarily expected in respect thereof, the grants are treated as capital reserve which canbe neither distributed as dividend nor considered as deferred income. In the given case, the subsidy received from the Central Governmentfor setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of Rs.100 lakhs should be credited to capital reserve.

(ii) Rs.10 lakhs grant received for installation anti-pollution equipment is a grant related to spe-cific fixed asset. Two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under first method, the grantis shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized in the profit and loss statement over the useful life of a de- preciable asset by way of a reduced depreciation charge. Under the second method, grantsrelated to depreciable assets are treated as deferred income which is recognised in the profitand loss statement on a systematic and rational basis over the useful life of the asset.

Thus, Rs.10 lakhs may either be deducted from the cost of equipment or treated as deferred income to be recognized on a systematic basis in profit & Loss A/c over the useful life of equipment.

Question-80)

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2010 at cost of Rs. 10,00,000 when B Ltd. had an equity share capital of Rs. 10,00,000 and reserves and surplus of Rs. 80,000. In the four consecu-tive years, B Ltd. fared badly and suffered losses of Rs. 2,50,000, Rs. 4,00,000, Rs. 5,00,000 and Rs. 1,20,000respectively. Thereafter in 2014-15, B Ltd. experienced turnaround and registered an annual profit ofRs. 50,000. In the next two years i.e. 2015-16 and 2016-17, B Ltd. recorded annual profits of Rs.1,00,000and Rs. 1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation. (MTP 10 Marks Mar 19, MTP 12 Marks Oct 19, RTP May ’23, PYP 10 Marks May ’19, Old & New SM)

Ans:-

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in theequity of the subsidiary. The excess, and any further losses applicable to the minority, are adjustedagainst the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority’s share of losses previously absorbed by the majority has been recovered. Accordingly, the minority interests will be computed as follows:

Year	**Profit/(Loss) Interest (30%)**	**Minori-ty P& L (Dr.) Cr.**	**Additiona lConsoli-dated**	**Minority’s Share oflosses borne byA Ltd. Rs.**	**Balance**	**Cost of Con-trol**
At the		3,24,000				
time of		(W.N.)				
acquisi -tion						
in 2010			–			
2010-11	(2,50,000)	(75,000)	(1,75,000)			2,44,000
						(W.N.)
Balance		2,49,000				
2011-12	(4,00,000)	(1,20,000)	(2,80,000)			2,44,000
Balance		1,29,000				
2012-13	(5,00,000)	(1,50,000)	(3,50,000)			2,44,000
		(21,000)				
	Loss of minority borne by	21,000	(21,000)	21,000	21,000	

	Holding Co.					
Balance		Nil	(3,71,000)			
2013-14	(1,20,000)	(36,000)	(84,000)			2,44,000
	Loss of minority borne by Holding Co.	36,000	(36,000)	6,000	57,000	
Balance		Nil	(1,20,000)			
2014-15	50,000	15,000	35,000			2,44,000
	Profit share of mi- nority adjusted against losses of minority	(15,000)	15,000	15,000)	42,000	
	absorbed by Holding Co.	Nil	50,000			
2015-16	1,00,000	30,000	70,000			
	Profit share of minority adjusted against losses	(30,000)	30,000	(30,00 0)	12,000	2,44,000

	of minority absorbed by Holding Co.					
Balance		Nil	100,000			
2016-17	1,50,000	45,000	1,05,000	(12,000)	Nil	2,44,000
		(12,000)	12,000			
Balance		33,000	1,17,000			

	100% (Rs.)	Share of Holding Co. 70% (Rs.)	Minority Interest 30% (Rs.)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	56,000	24,000
		7,56,000	3,24,000
Less: Cost of investment		(10,00,000)	
Goodwill		2,44,000	

Question-81)

Given below are the Profit & Loss Accounts of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017:

	Hello Ltd. (Rs. in lacs)	Sun Ltd. (Rs. in lacs)
Incomes:		
Sales and other income	**10,000**	**2,000**
Increase in Inventory	**2,000**	**400**
	12,000	**2,400**
Expenses :		
Raw material consumed	**1,600**	**400**
Wages and Salaries	**1,600**	**300**
Production expenses	**400**	**200**

Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	200	100
	4,800	1,400
Profit before tax	7,200	1,000
Provision for tax	2,400	400
Profit after tax	4,800	600
Dividend paid	2,400	300
Balance of Profit	2,400	300

Other Information:

Hello Ltd. sold goods to Sun Ltd. of Rs. 240 lacs at cost plus 20%. Inventory of Sun Ltd. includes suchgoods valuing Rs. 48 lacs. Administrative expenses of Sun Ltd. include Rs. 10 lacs paid to Hello Ltd. as consultancy fees. Selling and distribution expenses of Hello Ltd. include Rs. 20 lacs paid to Sun Ltd. as commission. Hello Ltd. holds 80% of equity share capital of Rs. 2,000 lacs in Sun Ltd. prior to 2015- 2016.Hello Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by Sun Ltd. for the year 2015-2016.

You are required to prepare a consolidated profit and loss account of Hello Ltd. and its subsidiary SunLtd. for the year ended 31st March, 2017. (MTP 16 Marks Aug 18, RTP- May 18) (Same concept different figures to MTP 12 Marks Mar'18 & Oct '18)

Ans:-

a) Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended on 31stMarch, 2017

	Particulars	Note No.	Rs. in Lacs
I.	Revenue from operations	1	11,730
II.	Total revenue		11,730
III.	Expenses		
	Cost of Material purchased/Consumed	3	2,360
	Changes of Inventories of finished goods	2	(2,392)
	Employee benefit expense	4	1,900
	Finance cost	6	300
	Depreciation and amortization expense	7	300
	Other expenses	5	1,070
	Total expenses		3,538
IV.	Profit before Tax(II-III)		8,192

V.	Tax Expenses	8	2,800
VI.	Profit After Tax		5,392
	Profit transferred to Consolidated Balance Sheet		
	Profit After Tax		5,392
	Dividend paid		
	Hello Ltd.	2,400	
	Sun Ltd.	300	
		2,700	
	Less: Share of Hello Ltd. in dividend of Sun Ltd.		
	80% of Rs. 300 lacs	(240)	(2,460)
	Profit to be transferred to consolidated balance sheet		2,932
		Rs. in Lacs	Rs. in Lacs
1.	Revenue from Operations		
	Sales and other income		
	Hello Ltd.	10,000	
	Sun Ltd.	2,000	
		12,000	
	Less: Inter-company Sales	(240)	
	Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	
	Commission received by Sun Ltd. from Hello Ltd.	(20)	11,730
2.	Increase in Inventory		
	Hello Ltd.	2,000	
	Sun Ltd.	400	
		2,400	
	Less: Unrealized profits Rs. 48 lacs ×20/120	(8)	2,392

			14,122
3.	Cost of Material purchased/consumed		
	Hello Ltd.	1,600	
	Sun Ltd.	400	
		2,000	
	Less: Purchases by Sun Ltd. from Hello Ltd.	(240)	1,760
Di- rect	Expenses		
	Hello Ltd.	400	
	Sun Ltd.	200	600
			2,360
4.	Employee benefits and expenses		
	Wages and Salaries:		
	Hello Ltd.	1,600	
	Sun Ltd.	300	1,900
5.	Other Expenses		
	Administrative Expenses		
	Hello Ltd.	400	
	Sun Ltd.	200	
		600	
	Less: Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	590
	Selling and Distribution Expenses:		
	Hello Ltd.	400	

	Sun Ltd.	100	
		500	
	Less: Commission received from Sun Ltd. from Hello Ltd.	(20)	480
			1,070
6.	Finance Cost		
	Interest:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
7.	Depreciation and Amortization		
	Depreciation:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
8.	Provision for tax		
	Hello Ltd.	2,400	
	Sun Ltd.	400	2,800

Note: Since the amount of dividend received by Hello Ltd. for the year 2015-2016 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not addedtoconsolidated opening retained earnings (which is also not given).

Question-82)

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, 2019, 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, 2019, for the purpose offixing the price of its shares. (Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%).

(c) On 31st March, 2022, Bills payable of Rs. 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

(d) 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 & March '23 & April '23, PYP 20 Marks Jan 21)

Ans:-

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)		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

1. Share Capital Equity
share capital

1,34,000 shares of Rs. 10 each fully paidup 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

Profit and Loss Account 2,40,000

Add: 4/5th share of S Ltd.'s post-acquisition profits (W.N.4) 11,040

3. Trade Payables

Creditors

H Ltd 2,00,000

S Ltd 1,22,000

Bills Payables

H Ltd.

60,000

S Ltd. 14,800

			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. Totalre-serves 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-acqui-sition 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
Less: Under depreciation on machinery @ 10%	25,800
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

Question-83)

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. Rs.	**Q Ltd. 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 paidfor 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)Consoli- dated Profit and Loss Account in each of the following cases:Before issue of bonus shares. And Immediately after issue of bonus shares. (RTP Nov 21, Nov 19)

Ans:-

b) 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:

c) (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

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

Question-84)

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

	H Ltd. (Rs. in 000's)	S Ltd. (Rs. in 000's)
Equity Share Capital – Authorised	**5,000**	**3,000**
Issued and subscribed in Equity Shares of Rs. 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 thefollowingbalances stood in the books of S Ltd.:**

General Reserve Rs. 1,500 thousand; Profit and Loss Account Rs. 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 Rs. 10 each, for every5 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 Rs. 50 thousand from HLtd., which had made a profit of 25% on cost.**

(e) **Details of Trade payables and Trade receivables:**

	H Ltd. (Rs. in 000's)	S Ltd. (Rs. in 000's)
Trade payables		
Bills Payable	124	80
Sundry creditors	487	427
	611	507
Trade receivables		
Debtors	700	683
Bills Receivables	120	95
	820	778

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

Ans:-

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

Particulars	Note No.	(Rs. in 000's)
I. Equity and Liabilities		
(1) Shareholder's Funds		

(a) Share Capital	1	4,000
(a) 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

		(Rs. in 000's)	(Rs. in 000's)
1.	Share Capital		
	Authorised share capital		5,000
	5 lakhs equity shares of Rs. 10 each		
	Issued, Subscribed and Paid up		
	4 lakhs equity shares of Rs. 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. Rs. 1,305 Add: Share in S Ltd Rs. 340.20		
	Rs. 1,645.20		
	Less: Dividend wrongly credited Rs. (180)		
	Rs. 1,465.20		
	Less: Unrealised profit (50 X 1/5) Rs. (10)	1,455.20	3,063
3.	Trade payables		
	H Ltd.	611	
	S Ltd.	507	1,118
4.	Short –term provisions		

	Provision for Taxation Ltd. H Rs. 220		
	S Ltd. Rs. 180	400	
	Other Provisions H Ltd Rs. 65		
	S Ltd. Rs. 17	82	482
5.	PPE		
	Plant and Machinery		
	H Ltd. Rs. 2,541		
	S Ltd. Rs. 2,450	4,991	
	Furniture and fittings		
	H Ltd. Rs. 615		
	S Ltd. Rs. 298	913	5,904
6.	Inventories		
	Inventory H Ltd. Rs. 983SLtd. Rs.786	1,769	
	Less: Unrealised profit (Rs. 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

d) Working Notes:Share holding pattern

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

1.**S Ltd. General Reserve**

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

2.S Ltd.'s Profit and Loss Account

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

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

Distribution of Revenue Profits

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

3. Computation of Capital Profits

	Rs. in 000	Rs. in 000
General Reserve on the date of acquisition		1,500
Less: Bonus issue of shares		(900)
Profit and Loss Account balance on the date of acquisition	633	600
Less: Dividends paid	(300)	333
		933
Share of H Ltd. (60%)		559.80
Share of Minority shareholders		373.20

Computation of Capital Reserve

		Rs. 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
Less: Investments in S Ltd.	1,500	1,999.80
Less: Dividends received out of pre- acquisition profits $\frac{Rs.30 \times 60}{100}$	(180)	(1,320)
		679.80

Calculation of Minority Interest

	Rs. 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-85)

Bright Ltd. acquired 30% of East India Ltd. shares for Rs. 2,00,000 on 01-06-20X1. By such an acqui-sition Bright can exercise significant influence over East India Ltd. During the financial year endingon 31-03- 20X1 East India earned profits Rs. 80,000 and declared a dividend of Rs. 50,000 on 12- 08-20X1. East India reported earnings of Rs. 3,00,000 for the financial year ending on 31-03-20X2 (assume profits to accrueevenly) and declared dividends of Rs. 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?

Ans:-

Carrying amount of investment in Separate Financial Statement of Bright Ltd. ason 31.03.20X2

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

Carrying amountof investment in Consolidated Financial Statements * of BrightLtd. as on 31.3.20X2 as per AS 23

	Rs.
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	
Rs.3,00,000 x 10/12)	75,000
Carrying amount as on 31.3.20X2	2,60,000

Carrying amount of investment in Consolidated Financial Statement of BrightLtd. as on30.6.20X2 as per AS 23

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

Question-86)

A Ltd. acquire 45% of B Ltd. shares on April 01, 20X1, the price paid was Rs. 15,00,000. Following are theextracts of balance sheet of B Ltd. as of 1 April 20X1: Paid up Equity Share Capital Rs. 10,00,000

Securities Premium Rs. 1,00,000

Reserve & Surplus Rs. 5,00,000

B Ltd. has reported net profits of Rs. 3,00,000 and paid dividends of Rs. 1,00,000 for the year ended 31 March 20X2. Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 20X2.

Ans:-

Calculation of Goodwill/Capital Reserve under Equity Method

Particulars		Rs.	Rs.
Investment in B Ltd.	(A)		15,00,000
Equity Shares		10,00,000	
Security Premium		1,00,000	
Reserves & Surplus		5,00,000	
Net Assets		16,00,000	
45% of Net Asset	(B)		7,20,000
Goodwill (A-B)			7,80,000

Calculation of Carrying Amount of Investment in the year ended on 31st March, 20X2

Particulars	Rs.
Investment in Associate as per AS 23:	
Share of Net Assets on 1 April 20X1	7,20,000
Add: Goodwill	7,80,000
Cost of Investment	15,00,000
Add: Profit during the year (3,00,000 x 45%)	1,35,000
Less: Dividend paid (1,00,000 x 45%)	(45,000)
Carrying Amount of Investment	15,90,000

Question-87)

Future Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2019:

	Amount Rs. in lakhs
Securities Premium Account	**80**
Capital Reserve	**60**
General Reserve	**90**

The company had an accumulated loss of Rs. 250 lakhs on the same date, which it has disclosed un-der the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of thistreatment in line with Schedule III to the Companies Act, 2013. (MTP Oct. '19, 4 Marks, Old & New SM)

Ans:-

Note 6 (B) given under Part I of Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) shall be shown as a negativefigure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, shall be shown under the head 'Reserves and Surplus' even if the resulting figureis in the negative. In this case, the debit balance of profit and loss i.e. Rs. 250 lakhs exceeds the total of all the reserves i.e. Rs. 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit bal- anceof profit and loss is negative by Rs. 20 lakhs, which should be disclosed on the face of the balance sheet. Thus the treatment done by the company is incorrect.

Question-88)

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.
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**

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

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

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

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

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

(viii) A new machinery costing Rs. 25 crores was purchased in part exchange of an old machin-ery. 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 bal-ance was paid in cash to the vendor.

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

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

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

(xii) 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 Nov21)

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 toem-ployees (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-89)

Prepare cash flow statement of M/s MNT Ltd. for the year ended 31st March, 20X1 with the help of thefollowing information:

(1) **Company sold goods for cash only.**

(2) **Gross Profit Ratio was 30% for the year, gross profit amounts to Rs. 3,82,500.**

(3) **Opening inventory was lesser than closing inventory by Rs. 35,000.**

(4) **Wages paid during the year Rs. 4,92,500.**

(5) **Office and selling expenses paid during the year Rs. 75,000.**

(6) **Dividend paid during the year Rs. 30,000.**

(7) **Bank loan repaid during the year Rs. 2,15,000 (included interest Rs. 15,000).**

(8) **Trade payables on 31st March, 20X0 exceed the balance on 31st March, 20X1 by Rs. 25,000.**

(9) **Amount paid to trade payables during the year Rs. 4,60,000.**

(10) **Tax paid during the year amounts to Rs. 65,000 (Provision for taxation as on 31.03.20X1Rs. 45,000).**

(11) **Investments of Rs. 7,00,000 sold during the year at a profit of Rs. 20,000.**

(12) **Depreciation on fixed assets amounts to Rs. 85,000.**

(13) **Plant and machinery purchased on 15th November, 20X0 for Rs. 2,50,000.**

(14) **Cash and Cash Equivalents on 31st March, 20X0Rs. 2,00,000.Cash and Cash Equivalents on 31st March, 20X1Rs. 6,07,500**

Ans:-

Cash Flow Statement for the year ended 31st March, 20X1(Using direct method)

Particulars	Rs.	Rs.
Cash flows from Operating Activities		
Cash sales (Rs. 3,82,500/.30)		12,75,000
Less: Cash payments for trade payables	(4,60,000)	
Wages Paid	(4,92,500)	
Office and selling expenses	(75,000)	(10,27,500)
Cash generated from operations before taxes		2,47,500
Income tax paid		(65,000)
Net cash generated from operating activities (A)		1,82,500
Cash flows from investing activities		
Sale of investments (7,00,000 + 20,000)	7,20,000	
Payments for purchase of Plant & machinery	(2,50,000)	
Net cash used in investing activities (B)		4,70,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,15,000)	
Dividend paid	(30,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,07,500
Cash and cash equivalents at beginning of the period		2,00,000
Cash and cash equivalents at end of the period		6,07,500

Question-90)

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.20X1 from the following information:

(1) **Sales for the year amounted to Rs. 135 crores out of which 60% was cash sales.**

(2) **Purchases for the year amounted to Rs. 55 crores out of which credit purchase was 80%.**

(3) **Administrative and selling expenses amounted to Rs. 18 crores and salary paid amountedto Rs. 22 crores.**

(4) **The Company redeemed debentures of Rs. 20 crores at a premium of 10%. Debenture holders were issued equity shares of Rs. 15 crores towards redemption and the bal- ance was paid in cash. Debenture interest paid during the year was Rs. 1.5 crores.**

(5) **Dividend paid during the year amounted to Rs. 11.7 crores.**

(6) **Investment costing Rs. 12 crores were sold at a profit of Rs. 2.4 crores.**

(7) **Rs. 8 crores was paid towards income tax during the year.**

(8) **A new plant costing Rs. 21 crores was purchased in part exchange of an old plant. The book value of the old plant was Rs. 12 crores but the vendor took over theold plant ata value of Rs. 10 crores only. The balance was paid in cash to the vendor.**

(9) **The following balances are also provided:**

	Rs. in crores 1.4.20X0	Rs. in crores 31.3.20X1
Debtors	**45**	50
Creditors	**21**	23
Bank	**6**	18.2

Ans:-

Gamma Ltd. Cash Flow Statement for the year ended 31st March, 20X1(Using direct method)

Particulars	**Rs. in crores**	**Rs. in crores**
Cash flows from operating activities		
Cash sales (60% of 135)	81	
Cash receipts from Debtors	49	
[45+ (135x40%) - 50]		
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers	(42)	
[21+ (55x80%) – 23]		
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	37	

Income tax paid	(8)	
Net cash generated from operating activities		29
Cash flows from investing activities		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets (21 – 10)	(11)	
Net cash generated from investing activities		3.4
Cash flows from financing activities		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	(11.7)	
Net cash used in financing activities		(20.2)
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

Question-91)

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 andequipment**	**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 theCompany'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)

Ans:- Journal entries In the books of Bhoomi Ltd.

				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 Profitand 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

8				
	(Being payment made to Preference Shareholders and Equity Shareholders)			
	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 re- deemed and equity Shares bought back) (20,000 + 16,000)			

Question-92)

SMM 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:		
GeneralReserves	**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 Aug18, Mar 19) (PYP 15 Marks July'21)

Ans:-

Statement determining the maximum number of shares to be bought backNumber of shares (in crores)

Particulars	**When loan fund is crores**	
	Rs.3,200crores	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 10each @ Rs. 30 per share)		720
(b) Equity share capital account Dr.	**240**	
Premium Payable on buyback account Dr	**480**	
To Equity Share buyback account (Being cancellation of shares bought back)		720
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:

Shares Outstanding Test

Particulars	**(Shares in crores**
Number of shares outstanding	120
25% of the shares outstanding	30

Resources Test

Particulars	**(Rs. in crores)**
Paid up capital	1,200
Free reserves (Rs. in crores) (1,080 + 400 +200)	<u>1,680</u>

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

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 ratioof 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. 30per share	32 crore shares	Nil
As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneousequation 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 = MaximumPermit-ted 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

Or $3x = y$ (2)

by solving the above two equations we getx= Rs. 320y = Rs. 960

Question-93)

Alpha Ltd. furnishes the following information as at 31st March, 2021:

	Rs In lakhs	Rs In lakhs
Shareholders' Funds		
Equity share capital (fully paid up shares of Rs 10 each)		2,400
Reserves and Surplus		
Securities Premium	350	
General Reserve	530	
Capital Redemption Reserve	400	
Profit & Loss Account	340	1,620
Non-current Liabilities		
12% Debentures		1,500
Current Liabilities		
Trade Payables	1,490	
Other Current Liabilities	390	1,880
Non-current Assets		
Property, plant and equipment		4,052
Current Assets		
Current Investments	148	
Inventories	1,200	
Trade Receivables	520	
Cash and Bank	1,480	3,348

On 1st April, 2021, the company announced buy-back of 25% of its equity shares @ Rs 15 per share. For this purpose, it sold all its investment for Rs 150 lakhs. On 10th April, 2021 the company achieved the target of buy-back. On 30th April, 2021, the company issued one fully paid up equity share of Rs 10 each by way of bonus for every four equity shares held by the equity shareholders by capitalization of Capital Redemption Reserve. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against secu-rities premium account. You are required to pass necessary journal entries and preparethe Balance Sheetof Alpha Ltd. after bonus issue. (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)

Ans:-

In the books of Alpha Limited Journal **Entries**

Date	Particulars	Dr.	Cr.
2021	(Rs in lakhs)		

April 1	Bank A/c Dr.	150	
	To Investment A/c		148
	To Profit on sale of investment		2
	(Being investment sold on profit)		
April 10	Equity share capital A/c Dr.	600	
	Securities premium A/c Dr.	300	
	To Equity shares buy back A/c		900
	(Being the amount due to equity shareholders on buy back)		
	Equity shares buy back A/c Dr.	900	
	To Bank A/c		900
	(Being the payment made on account of buy back of Rs 60LakhEquity Shares)		
April 10	General reserve A/c Dr.	530	
	Profit and Loss A/c Dr.	70	
	To Capital redemption reserve (CRR) A/c		600
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemp-tion reserveaccount as per the law)		
April 30	Capital redemption reserve A/c Dr.	450	
	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issuebonus shares)		450
	Bonus shares A/c Dr.	450	
	To Equity share capital A/c		450
	(Being issue of one bonus equity share for every fourequityshares held)		
	Profit on sale of Invest-ment Dr. To Profit and Loss A/c	2	2
	(Profit on sale transfer to Profit and Loss A/c)		

Note: For transferring amount equal to nominal value of buy back shares from free reserves to capital redemption reserve account, the amount of Rs 340 lakhs from P & L A/c and the balance from general reserve may also be utilized. The combination of different set of amounts (from General Reserve and Profit and Loss Account) aggregating Rs 600 lakhs may also be considered for the purpose of transfer to CRR.**Balance Sheet (After buy back and issue of bonus shares)**

Particulars	Note No	Amount (Rs in Lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds	1	2,250
(a) Share Capital		
(b) Reserves and Surplus	2	872
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500
(3) Current Liabilities		
(a) Trade payables		1,490
(b) Other current liabilities		390
Total		6,502
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		4,052
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		520
(d) Cash and cash equivalents (W.N. 2)		730
Total		6,502

e) Notes to Accounts

			Rs In lakhs
1.	Share Capital		
	Equity share capital (225 lakh fully paid up shares of Rs 10each)		2,250
2.	Reserves and Surplus		

	General Reserve	530		
	Less: Transfer to CRR	(530)	–	
	Capital Redemption Reserve	400		
	Add: Transfer due to buy-back of shares from P/L	70		
	Add: Transfer due to buy-back of shares from Gen. res. 530			
	Less: Utilisation for issue of bonus shares	(450)	550	
	Securities premium	350		

	Less: Adjustment for premium paid on buy back	(300)	50	
	Profit & Loss A/c	340		
	Add: Profit on sale of investment	2		
	Less: Transfer to CRR	(70)	272	872

1. Working **Notes:**Amount of equity share capital = 2,400 - 600 (buyback) + 450 (Bonus shares) = 2,250

2. Cash at bank after issue of bonus shares

	Rs in lakhs
Cash balance as on 1st April, 2021	1480
Add: Sale of investments	150
	1630
Less: Payment for buy back of shares	(900)
	730

Question-94)

The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of Rs. 10 each at Rs. 15 per share. This buyback is in compliance with the provisions of the CompaniesAct, 2013.For this purpose, the company

a) Sold its investments of Rs. 30,00,000 for Rs . 25,00,000.

b) Issued 20,000, 12% preference shares of Rs. 100 each at par, the entire amount being pay-able withapplication.

c) Used Rs. 15,00,000 of its Securities Premium Account apart from its adequate balance inGeneralReserve to fulfill the legal requirements regarding buy-back.

d) The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding buy- back ofshares in the books of Umang Ltd. (PYP 5 Marks Jan 21)

Ans:-

Journal Entries in the books of Umang Ltd.

			Dr. Rs.	Cr. Rs.
1.	Bank A/c Profit and Loss A/c	Dr. Dr.	25,00,000 5,00,000	
	To Investment A/c (Being investment sold for the purpose of buy-backof EquityShares)			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 Pa

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/cEquity 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 General	Dr.	15,00,000	
	Reserve A/c	Dr.	10,00,000	
	To Premium payable on buy-back (Being premium payable on buy-back charged fromSecurities 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-95)

The following are the Balance Sheets of P Ltd. and Q Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹ P Ltd	₹ Q Ltd
1		**Equity and Liabilities**			
		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 beenalready 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 ofQ Ltd.

(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of10%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%Deben-tures in PLtd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. SundryCreditors 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 PLtd.

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd. (Old & New SM) (Same Concept different figures RTP May '23, PYP 10 Marks May '19)

Ans:-

(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 QLtd.)			
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 QLtd. at agreed values and difference ofnet assetsand purchaseconsideration 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 QLtd. ata discount of 10%)			
Sundry Creditors of Q Ltd.	Dr.	10,000	
To Sundry Debtors of P Ltd.			10,000

(Cancellation of mutual owing)			

Question-96)

Sun and Neptune 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 80,000equity shares of Rs. 5 each. On 31st March, 20X3 the respective information of Sun and Neptune were asfollows:

	Sun (Rs.)	Neptune (Rs.)
Share capital	3,65,000	3,52,500
Current liabilities	5,97,000	1,80,250
Property, Plant and Equipment	6,35,000	3,65,000
Current assets	3,27,000	1,67,750

Additional Information:

Revalued figures of non-current and Current assets were as follows:

	Sun (Rs.)	Neptune (Rs.)
Property, Plant and Equipment	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

The debtors and creditors include Rs. 43,350 owed by Sun to Neptune.

The purchase consideration is satisfied by issue of the following sharesand debentures.

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profit-ability of their respective business based on the average net profit during the lastthreeyears which were as follows:

	Sun (Rs.)	Neptune (Rs.)
20X1 Profit	4,49,576	2,73,900
20X2 (Loss)/Profit	(2,500)	3,42,100
20X3 Profit	3,77,924	3,59,000

15% debenture in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capitalemployed in their respective business as on 31st March, 20X3 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.

Ans:-

Computation of Amount of Debentures and Shares to be issued: Sun Neptune

(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

Equity Shares Issued Ratio

of distributionSun:

Neptune 275 325

(a) Number Sun: 27,500

Neptune: 32,500 60,000

(b) Amount

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 and 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 quivalent income: Balance Sheet of Jupiter Ltd.

As at 31st March 20X3 (after amalgamation)

Particulars	Note No	Rs.
I. Equity and Liabilities		
(1) Shareholders' Funds	1	3,00,000
(a) Share Capital	2	64,000
(b) Reserves and Surplus		
(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		11,00,000
(a) PPE		
(2) Current assets		

Notes to accounts

		Rs.
1	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

Rs.	Sun	Neptune	Total

		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

Question-97)

Two companies named Alex Ltd. and Beta Ltd. provide you the following summary of ledgerbalancesas on 31st March, 2020:

	Alex Ltd. (Rs.)	Beta Ltd. (Rs.)
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
Equity Shares of Rs. 10 each	28,00,000	8,40,000

8% Preference Shares of Rs. 100 each	**2,80,000**	**–**
10% Preference Shares of Rs. 100 each	**–**	**2,80,000**
General Reserve	**1,96,000**	**1,96,000**
Retirement Gratuity fund	**1,40,000**	**56,000**
Trade payables	**3,64,000**	**2,24,000**

(a) Beta Ltd. is absorbed by Alex Ltd. on the following **terms:10% Preference Share- holders are to be paid at 10% premium by issue of 8% Preference Shares ofAlex Ltd.**

(b) Goodwill of Beta Ltd. is valued at Rs. 1,40,000, Buildings are valued at Rs. 4,20,000 and theMachinery at Rs. 4,48,000.

(c) Inventory to be taken over at 10% less value and Provision for DoubtfulDebts to be created @7.5%.

(i) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium. You arerequired to:

(ii) Prepare necessary Ledger Accounts to close the books of Beta Ltd.

(iii) Show the acquisition entries in the books of Alex Ltd.

Also draft the Balance Sheet after absorption as at 31st March, 2020. (MTP 16 Marks Oct 20,Mar 22 &Oct '23, RTP Nov 18)

Ans:-

In the Books of Beta Ltd. Realization Account

		Rs.			Rs.
To	Sundry Assets	15,96,000	By	Retirement Gratuity Fund	56,000
To	Preference Shareholders (Premium on Redemption)	28,000	By	Trade payables (Purchase Con- sideration)	2,24,000
To	Equity Shareholders		By	Alex Ltd.	14,84,000
	(Profit on Realisation)	1,40,000			
		17,64,000			17,64,000

Equity Shareholders Account

		Rs.			Rs.
To	Equity Shares of Alex Ltd.	11,76,000	By	Share Capital	8,40,000
			By	General	1,96,000

				Reserve	
			By	Realisation Account (Profit on Realisation)	1,40,000
		11,76,000			11,76,000

Preference Shareholders Account

		Rs.			Rs.
To	8% Preference	3,08,000	By	Preference Share Capital	2,80,000
	Shares of AlexLtd.		By	Realisation Account (Premium on Redemption of Preference Shares)	28,000
		3,08,000			3,08,000

Alex Ltd. Account

		Rs.			Rs.
To	Realisation Account	14,84,000	By	8% Preference Shares	3,08,000
			By	Equity Shares	11,76,000
		14,84,000			14,84,000

In the Books of Alex Ltd. Journal Entries

		Dr.	Cr.
		Rs.	Rs.
Business Purchase A/c	Dr.	14,84,000	
To Liquidators of Beta Ltd. Account			14,84,000
(Being business of Beta Ltd. taken over)			
Goodwill Account	Dr.	1,40,000	
Building Account	Dr.	4,20,000	
Machinery Account	Dr.	4,48,000	
Inventory Account	Dr.	4,41,000	
Trade receivables Account	Dr.	2,80,000	
Bank Account	Dr.	56,000	
To Retirement Gratuity Fund Account			56,000
To Trade payables Account			2,24,000

To Provision for Doubtful Debts Account			21,000
To Business Purchase A/c			14,84,000
(Being Assets and Liabilities taken over as peragreed valuation).			
Liquidators of Beta Ltd. A/c	Dr.	14,84,000	
To 8% Preference Share Capital A/c			3,08,000
To Equity Share Capital A/c			11,20,000
To Securities Premium A/c			56,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of Alex Ltd. (after absorption) as at 31st March, 2020

	Particulars	Notes	Rs.
	Equity and Liabilities		
1	**Shareholders' funds**		
A	Share capital	1	45,08,000
B	Reserves and Surplus	2	2,52,000
2	**Non-current liabilities**		
A	Long-term provisions		1,96,000
3	**Current liabilities**		
A	Trade Payables		5,88,000
B	Short term provision		21,000
	Total		55,65,000

	Assets		
1	**Non-current assets**		
A	Property, Plant and Equipment (PPE)	3	31,08,000
B	Intangible assets		2,80,000
2	**Current assets**		
A	Inventories		11,41,000
B	Trade receivables		8,40,000
C	Cash and cash equivalents		1,96,000
	Total		55,65,000

Notes to accounts:

		Rs.
1	**Share Capital**	
	Equity share capital	
	3,92,000 Equity Shares of Rs. 10 each fully paid (Out of above 1,12,000Equity Shares were issued in consideration other than forcash)	39,20,000
	Preference share capital	
	5,880 8% Preference Shares of Rs. 100 each (Out of above 3,080 Prefer-ence Shares were issued in consideration other than for cash)	5,88,000
	Total	45,08,000
2	**Reserves and Surplus**	
	Securities Premium	56,000
	General Reserve	1,96,000
	Total	2,52,000
3	**PPE**	
	Buildings	12,60,000
	Machinery	18,48,000
	Total	31,08,000

Working Notes:

Purchase Consideration:	**Rs.**
Goodwill	1,40,000
Building	4,20,000
Machinery	4,48,000
Inventory	4,41,000
Trade receivables	2,59,000
Cash at Bank	56,000
Less: Liabilities:	
Retirement Gratuity	(56,000)
Trade payables	(2,24,000)
Net Assets/ Purchase Consideration	14,84,000
To be satisfied as under:	
Preference Shareholders of Beta Ltd.	2,80,000
Add: 10% Premium	28,000
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	3,08,000

Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000EquityShares of Alex Ltd. at 5% Premium	11,76,000

Question-98)

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 1 st 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 Limitedand trade receivables of White Limited shows ₹ 15,000 receivable from Black Limited.**

Land & Buildings and inventory of Black Limited and White Limited are to be revaluedas under:

	Black Ltd. (₹)	White Ltd. (₹)

Land and Buildings	**5,20,000**	**10,40,000**
Inventory	**1,80,000**	**1,25,000**

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)

Ans:-

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 tocontracts 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	
	Plantand Machinery	32,00,000	47,60,000

	Black Ltd.	(₹)		
		Grey Ltd.		
1.	**Computation of Purchase consideration**			
	(a) **Preference shares:**			
	Shares at ₹ 120 each	2,40,000		1,68,000
	(b) **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	₹ 5,00,000 x 15%
		15%	
		= ₹ 60,000	= ₹ 75,000
	Debentures to be issued in Grey Limited @	₹ 60,000 x 100/18	₹ 75,000x100/18
	18% to maintain the same amount of interest	= ₹ 3,33,333	= ₹ 4,16,667

Question-99)

From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31stMarch,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**

Ans:-

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: **Rs.**

Cost Price	100
Invoice Price	115
Sale Price	140
Calculation of closing stock at invoice price	Rs.
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-100)

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 Rs.	Goa Branch Rs.
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:

a) Opening stock at Pune Branch includes goods of Rs. 10,000 (invoice price) taken from Goa Branch,

b) Opening stock at Goa Branch includes goods of invoice price Rs. 17,000 taken from Pune Branch,

c) The Pune Branch sales includes transfer of goods to Goa Branch at selling price Rs.20,000

d) The sales of Goa Branch include transfer of goods to Pune Branch at selling price Rs.15,000.

e) Closing stock at Pune Branch includes goods received from Goa Branch (invoice price Rs. 5,000.

f) Closing stock at Goa Branch includes goods of Rs. 4,000 (invoice price)
(MTP 6 Marks Mar 22,Oct 20)

Ans:-

Pune Branch Trading and Profit and Loss Account

	Particulars	**Rs.**		**Particulars**	**Rs.**
To	Opening Stock (including Rs.10,000 from Goa Branch)	40,000	By	Sales (including Rs.20,000 toGoaBranch)	2,80,000
To	Purchases	2,00,000	By	Closing Stock (including Rs.5,000 from Goa Branch)	30,000
To	Chargeable Expenses	15,000			
To	Gross Profit c/d (before making adjustment forunrealised profit)	55,000			
		3,10,000			3,10,000
To	Stock Reserve (for unreal- ised profit in Closing Stock lying atGoa Branch) (Rs.4,000 x 25/100)	1,000	By	Gross Profit b/d	55,000
To	Office & Adm. Expenses	13,250	By	Stock Reserve (for un- realised profit in Open- ing Stock lying at Goa Branch) (Rs. 17,000 x 25/100)	4,250
To	Selling & Distribu- tionExpenses	15,000			
	To Net Profit	30,000			
		59,250			59,250

Question-101)

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 Rs. 4,000 on behalf of other Branches,but not recorded in thebooks of Branch.

(ii) Goods dispatched by the Head office amounting to Rs. 8,000, but not received by the Branch till date ofreconciliation. The Goods have been received subsequently.

(iii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for Rs.2,000.

(iv) Branch paid Rs. 2,000 as salary to a Head Office Manager, but the amount paid has been debited by theBranch to Salaries Account.(MTP 4 Marks , Nov ’21 & April ‘23)

Ans:-

Journal Entries in Books of Branch

	Dr.		Amount in Rs.	
			Cr.	
(i)	Head Office Account	Dr.	4,000	
	To Cash Account (Being expenditure incurred on account ofother 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,nowprovided 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-102)

Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the MoonStar.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:

- a) **Salaries outstanding $ 400**
- b) **Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.**
- c) **The Head Office sent goods to Branch for Rs.15,80,000.**
- d) **The Head Office shows an amount of Rs. 20,50,000 due from Branch.**
- e) **Stock on 31st March, 2022 -$21,500.**
- f) **There were no transit items either at the start or at the end of the year.**
- g) **On April 1, 2020 when the fixed assets were purchased the rate of exchange Was Rs. 43 to one $. On April 1, 2021, the rate was 47 per $. On March 31, 2022 the rate was Rs. 50per $. Average rate during the year was Rs. 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 March 21 & Oct '23, MTP 12 Marks Sep '22)

Ans:-

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	Rs.	Rs.
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 forthe year ended 31st March, 2022

	Rs.		Rs.
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)	85,63,000
To Carriage inward	18,000		
To Gross profit c/d	15,92,200		
	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-103)

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)

Ans:-

a) Branch Stock Account

			₹				₹	₹	₹
1.4.19	To	Balance b/d	36,000	31.3.20	By	Sales:			
		(opening							
		stock)							
31.3.20	To	Good sSent	4,20,000			Cash		92,500	
		to Branch A/c				Credit	3,12,500		
	To	Branch P&L	47,000			Less: Return	(7,000)	3,05,500	3,98,000
					By	Goods			30,000
						sent to			
						branch -			
						returns			
					By	Balance			75,000
						c/d			
						(closing			
						stock)			
			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&LA/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 Expens-esA/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 Adjust-ment account	58,500
					By	Bad debts recoverd	500

Branch Stock Adjustment Account for year ended **31.3.20**

			₹				₹
31.3.20	To	Goods sent tobranch (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-104)

Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

(i) Branch paid ₹ 5,000 as salary to a Head Office Manager, but the amount paid has Been debited by theBranch to Salaries Account.

(ii) A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date ofreconciliation of Accounts.

(iii) Branch assets accounts retained at head office, depreciation charged for the year ₹ 15,000 notrecorded by Branch.

(iv) Head Office expenses ₹ 75,000 allocated to the Branch, but not yet been recorded by the Branch.

(v) Head Office collected ₹ 60,000 directly from a Branch Customer. The intimation of the Fact has not beenreceived by the Branch.

(vi) Goods dispatched by the Head office amounting to ₹ 50,000, but not received by the Branch till date ofreconciliation.

(vii) Branch incurred advertisement expenses of ₹ 10,000 on behalf of other Branches, but not recorded inthe books of Branch.

(i) Head office made payment of ₹ 16,000 for purchase of goods by branch, but not re-corded in branchbooks. (RTP Nov 18, Old & New SM)

Ans:-

Books of BranchJournal Entries

			Amounts₹	
			Dr.	Cr.
(i)	Head Office Account	Dr.	5,000	
	To Salaries Account (Being rectification of salary paid on behalf of Head Office)			5,000
(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c	Dr.	15,000	
	To Head Office Account			15,000
	(Being depreciation of assets accounted for)			
(iv)	Expenses Account	Dr.	75,000	
	To Head Office Account (Being allocated expenses of Head Office recorded)			75,000

(v)	Head Office Account	Dr.	60,000	
	To Debtors Account (Being adjustment entry for collection from Branch Debt- orsdirectly by Head Office)			60,000
(vi)	Goods in-transit Account	Dr.	50,000	
	To Head Office Account (Being goods sent by Head Office still in-transit)			50,000
(vii)	Head Office Account	Dr.	10,000	
	To expenses Account (Being expenditure incurred, wrongly recorded in books)			10,000
(vii)	Purchases account A/c	Dr.	16,000	
	To Head Office Account (Being purchases booked)			16,000

Question-105)

Mr. Mohan has invested some money in various Mutual funds. Following information in this regard is given:

Mutual Funds	Date of purchase	Purchase cost (`)	Brokerage Cost (`)	Stamp duty (`)	Market value as on 31.03.2021 (`)
A	01.05.2017	50,000	200	20	48,225
B	05.08.2020	25,000	150	25	24,220
C	01.01.2021	75,000	300	75	78,190
D	07.05.2020	70,000	275	50	65,880

You are required to:

1. **Classify his investment in accordance with AS-13 (revised).**
2. **Value of Investment in mutual fund as on 31.03.2021 (Dec-21)**

Ans:-

As per AS 13 “Accounting for Investments”, a current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value.

A long-term investment is an investment other than a current investment. Long term investments are usually carried at cost. If there is a decline, other than temporary, in the value of a long-term investment; the carrying amount is reduced to recognize the decline.

Mutual Funds	Classification	Cost (`)	Market value (`)	Carrying value (`)
A	Long-term Investment	50,220	48,225*	50,220
B	Current Investment	25,175	24,220	24,220
C	Current Investment	75,375	78,190	75,375
D	Current Investment	70,325	65,880	65,880
Total				2,15,695

Note: *The reduction in value of Mutual fund A is considered to be temporary. If reduction in Market value is assumed as other than temporary in nature, then the carrying value of `48,225 will be considered.

Question-106)

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 re- cords, 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 31 st March,2022 amounted to18,000.**

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)

Ans:-

b) Books of Modern Store Delhi Nag-purBranch 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 (Creditsales)	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&LA/c (Discount)	1,500

c) 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 AdjustmentA/cand cost ₹375 thereof may be charged to Branch P&L A/c.

**** rounded off. Alternatively may be rounded off as ₹ 28,012.**

d) 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**

Question-107)

Treadmill invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well ason credit. The branch meets its expenses out of cash collected from its debtors and cash sales and re-mits 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 headoffice to the branch amounted to ₹ 2 crore 64 lakhs. Out of the goods received by it, the branch sent backto 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)

In the Head Office Books Branch Accountfor the year ended 31st March, 2023

Profit)			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-108)

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		2,50,000

During the six months ending on 30-09-2020, the following transactions took place atNoida:

	`		`
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 on30.09.2020. Also give journal entries in the Noida books.(July'21) (MTP Aug 18)

Ans:-

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 – 5,000)			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
		14,000			

	To Building A/c	2,58,800			
	To Balance c/d	4,70,600		Total	4,70,600
	Total				

* *Instead of using Sundries (Revenue) A/c, the concerned revenue accounts can be posted in the ledger.*

Balance Sheet of Noida BranchAs at 30th Sept 2020

Liabilities	**Amount (`)**	**Assets**	**Amount (`)**
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	**Amount (`)**	**Particulars**	**Amount (`)**
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	**Amount (`)**	**Particulars**	**Amount (`)**
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	Amount (`)	Particulars	Amount (`)
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

Question-109)

A trader commenced business on April 1, 2020 with ` 1,20,000 represented by 6,000 units of a certain product at ` 20 per unit. During the year 2020-21 he sold these units at ` 30/- per unit and had withdrawn ` 60,000. The price of the product at the end of financial year was ` 25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also state, whether answer would be different if the trader had not withdrawn any amount.(RTP Nov 19)(July'21)(MTP Sep 23)

Ans:-

(a) Physical Capital Maintenance at Current Cost

In the given case, the specific price index applicable to the product is 125 (25/20X100). Current cost of opening stock = (` 1,20,000 / 100) x 125 Or 6,000 units x ` 25
= ` 1,50,000

Current cost of closing cash = ` 1,20,000 (` 1,80,000 – ` 60,000)Opening equity at closing current costs = ` 1,50,000

Closing equity at closing current costs = ` 1,20,000 Retained Profit = ` 1,20,000 – ` 1,50,000 = (-) ` 30,000

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of ` 1, 20,000 is not sufficient to buy 6,000 units again at increased price of
` 25 per unit. The drawings should have been restricted to ` 30,000 (` 60,000 – ` 30,000).

If the trader had not withdrawn any amount, then the answer would have been asbelow:

Current cost of opening stock = ` 1,80,000

Opening equity at closing current costs = ` 1,50,000Retained Profit = ` 1,80,000 – ` 1,50,000 = ` 30,000

If the trader had not withdrawn any amount, then the retained profit would have been
` 30,000.

Question-110)

Following is the extract of the Balance Sheet of K Ltd (listed company) as at 31st March,2020

Authorized capital:	**`**
3,00,000 Equity shares of ` 10 each	***30,00,000***
	30,00,000
Issued and Subscribed capital:	
2,00,000 Equity shares of ` 10 each, ` 8 paid up	***16,00,000***
Reserves and surplus:	
General Reserve	***3,60,000***
Capital Redemption Reserve	***1,20,000***
Securities premium (not realised in cash)	***75,000***
Profit and Loss Account	***6,00,000***

On 1st April, 2020, the Company has made final call @ ` 2 each on 2,00,000 equity shares. The call money was received by 25th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue.

Ans:-

Journal Entries

Date	Particulars	`	`
1.04.2020	Equity Share Final Call A/c Dr.	4,00,000	
	To Equity Share Capital A/c		4,00,000
	(Being final call of ` 2/- per share on 2,00,000 equity shares due as per Board's resolution dated............)		
25.04.2020	Bank A/c Dr.	4,00,000	
	To Equity Share Final Call A/c		4,00,000
	(Final Call money on 2,00,000 equity shares received)		
	Capital Redemption Reserve A/c Dr.	1,20,000	
	General Reserve A/c Dr.	3,60,000	
	Profit and Loss A/c Dr.	20,000	

	To Bonus to shareholders (Being provision for bonus shares at one share for every four shares held as per Board's resolution dated................)*		5,00,000
	Bonus to shareholders Dr. To Equity Share Capital A/c (Being issue of bonus shares)	5,00,000	5,00,000

**Any other logical method for utilization of reserves may be followed as per the CompaniesAct, 2013.*

Extract of Balance Sheet

Authorized Capital	`
3,00,000 Equity shares of ` 10/- each	<u>30,00,000</u>
Issued and Subscribed Capital	
2,50,000 Equity shares of `10/- each, fully paid	25,00,000
(Out of the above 50,000 Equity shares `10/- each were issued by way of bonus shares)	
Reserves and Surplus	
Securities premium (not realized in cash)	75,000
Profit and Loss Account	5,80,000

Note: As per SEBI regulations, securities premium should be realized in cash, whereas under the Companies Act, 2013 there is no such requirement. In accordance with Section 52, securities premium may arise on account of issue of shares other than by way of cash. Thus, for unlisted companies, securities premium (not realized in cash) may be used for issue of bonus shares, whereas the same cannot be used in case of listed companies.

Question-111)

Joy Ltd. purchased 20,000 kilograms of Raw Material @ ` 20 per kilogram during the year 2020-21. They have furnished you with the following further information for the year ended 31st March, 2021:

Particulars	***Units***	***Amount (`)***
Opening Inventory:		
Finished Goods	***2,000***	***1,00,000***
Raw Materials	***2,200***	***44,000***
Direct Labour		***3,06,000***
Fixed Overheads		***3,00,000***
Sales	***20,000***	***11,20,000***
Closing Inventory:		
Finished Goods	***2,400***	
Raw Materials	***1,800***	

The plant has a capacity to produce 30,000 units of finished product per annum. However, the actual production of finished products during the year 2020-21 was 20,400 units. Due to a fall in the market demand, the price of the finished goods in which the raw material has been utilized is expected to be sold @ ` 40 per unit. The replacement cost of the raw material was ` 19 per kilogram.You are required to ascertain the value of closing inventory as at 31st March, 2021 as perAS 2 (July-21) (RTP-May 18)(MTP-Mar 23)

Ans:-

(a) Statement Showing the Computation of Value of Closing Inventory

Value of Closing Finished Goods

Particulars	**Amount (`)**
Cost of Raw Material consumed (20,400 units X ` 20 per kg)	4,08,000
Direct Labour	3,06,000
Fixed Overheads (` 3,00,000/30,000 x 20,400)	2,04,000
Cost of Production	9,18,000
Cost of Closing Inventory of Finished Goods per unit (` 9,18,000/20,400)	45
Net Realizable Value (NRV) per unit	40

Since net realizable value is less than cost, closing inventory of Finished Goods will bevalued at `40 per unit

Value of Closing Raw Materials

As NRV of finished goods is less than its cost, the relevant raw material will be valued atits replacement cost, which is the best available measure of its NRV i.e. @ ` 19 per kg.

Therefore, value of closing inventory would be as under:

Finished Goods 2,400 units @ ` 40 per unit	` 96,000
Raw Materials 1,800 kg @ ` 19 per kg	` 34,200
Total	` 1,30,200

Working Note:

Calculation of raw material consumed during the year

Particulars	**Unit (Kg)**
Opening Inventory	2,200
Purchases	20,000
Less: Closing Inventory	(1,800)
Raw Material Consumed	20,400