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CHAPTER: FINANCIAL STATEMENT OF COMPANIES

Question 1 — *(Inter May 2023) (10 Marks)* Pg no.____

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

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

Additional information:

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

(ii) Miscellaneous receipts represent cash received from the sale of the Plant on 01.04.2022. The cost of the Plant was ₹ 1,65,750 and the accumulated depreciation thereon is ₹ 24,865.

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

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

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

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

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

Solution

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

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

Notes to accounts

			₹
1	**Revenue from operations**		
	Sale		47,22,600
2	**Other Income**		
	Transfer fees		38,250
	Discount received		66,300
	Interest on Investment		55,000
	Profit on sale of plant		1,915
	Total		1,61,465
3	**Changes in inventories**		
	Opening Inventory	4,97,250	
	Less: Closing Inventory	(4,76,850)	20,400
	Total		20,400
4	**Finance costs**		
	Interest on Debentures		3,39,150
	Bank Interest		13,260
	Total		3,52,410
5	**Depreciation and Amortization expenses**		
	Depreciation on Plant & Machinery (10% x (37,43,400 - 1,65,750)		3,57,765
6	**Other expenses**		
	Factory expense		2,58,060
	Rent, Taxes and Insurance		65,025
	Repairs		1,49,685
	Sundry expenses		1,27,500
	Selling expenses		26,520
	Director's fees		38,250
	Total		6,65,040

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of financial statements) as per accounting standards. Hence, it is not recognized in the financial statement for the year ending 31st March 2023. Such dividend will be disclosed in notes only.

Question 2 – *(Inter Nov 2023) (20 Marks)* *Pg no._____*

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

Particulars	Debit Amount (₹)	Credit Amount (₹)
Equity Share Capital (Fully paid-up shares of ₹100 each)		10,00,000
10% Preference Share Capital of Face Value ₹ 100 each		4,00,000
General Reserve		2,85,000
2,000 10% Debentures of ₹ 100 each		2,00,000
Securities Premium Account		50,000
Land (at Cost)	7,00,000	
Plant and Machinery	14,70,000	
Furniture	4,00,000	
Provision for Depreciation - Plant and Machinery		3,00,000
Provision for Depreciation – Furniture		1,90,000
Trade Receivables	3,10,000	
Trade Payables		72,000
Cash-in-Hand	1,34,000	
Cash-at-Bank	3,05,000	
Bank Over Drafts from Nationalized bank (Long Term) (Secured by Hypothecation of Stocks)		2,00,000
6% Secured Loan from State Finance Corporation (repayable after 3 years) (Secured by Hypothecation of Plant and Machinery)		4,50,000
Unclaimed Dividend		23,000
Loan from Director (Short Term)		1,00,000
Adjusted Purchases	2,25,000	
Closing Stock	1,12,000	
Sales		8,46,000
Carriage Inward	17,200	
Miscellaneous Expenses	10,200	
Selling and Distribution Expenses	46,600	
Depreciation	1,80,000	
Salaries	72,000	
Director's Fees	40,000	
Travelling Expenses (include ₹ 50,000/- for foreign tour)	1,30,000	
Profit and Loss Account		40,000
Office Expenses	28,000	
Rent Received		24,000
Total	41,80,000	41,80,000

Additional Information:

(i) Authorized Capital — divided into –

  a) 20,000 equity shares of ₹ 100 each.

  b) 10,000 10% preference shares of ₹ 100 each

(ii) Equity shares include, 2,500 equity shares issued for consideration other than cash.

(iii) The company has had land professionally valued and decides to include it in the Balance sheet at its valuation of ₹ 8,50,000.

(iv) It is proposed to capitalize part of the undistributed profits by making bonus issue to the shareholders by allocating one equity share of ₹ 100 each for every 5 shares held.
(v) Trade Receivables of ₹ 46,000 are due for more than six months. There is no doubtful amount.
(vi) Depreciation expenses include depreciation of ₹ 1,10,000 on Plant and Machinery and that of ₹ 70,000 on Furniture.
(vii) Cash-at-Bank include ₹ 55,000 with Desire Bank Ltd., which is not scheduled Bank.
(viii) Miscellaneous expenses included ₹ 5,000 being audit fees paid to auditors.
(ix) Bills Receivables for ₹ 35,000 maturing on 31st July, 2023 has been discounted.
(x) Balance of secured loan from State Finance Corporation is inclusive of ₹ 36,000 for interest accrued but not due.
(xi) Director's declared final dividend 8% on 6th April, 2023, transferring any amount that may be required from General Reserve. Ignore Taxation.
(xii) Interest on debenture for the year is outstanding as on 31st March, 2023.

You are required to prepare Balance Sheet as on 31st March, 2023 and Statement of Profit and Loss with Notes to Accounts for the year ending 31st March, 2023 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures. (Ignore taxation). (All workings should form part of the answer)

Solution

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

	Particulars	Notes	₹
I.	Revenue from operations		8,46,000
II.	Other income (Rent income)		24,000
III.	**Total Income (I + II)**		**8,70,000**
IV.	Expenses:		
	Cost of materials consumed / Cost of purchases	9	2,42,200
	Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade		-
	Employee benefits expense	10	72,000
	Finance costs (Interest on debentures)	11	20,000
	Depreciation and amortization expenses	12	1,80,000
	Other expenses	13	2,54,800
	Total expenses		**7,69,000**
V.	Profit (Loss) for the period (III - IV)		1,01,000

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

Particulars	Note No	₹
Equity and Liabilities		
1. Shareholders' funds		
a. Share capital	1	14,00,000
b. Reserves and Surplus	2	6,26,000
2. Non-current liabilities		
a. Long-term borrowings	3	8,14,000
3. Current liabilities		
a. Short term borrowings	4	1,00,000
b. Trade Payables		72,000
c. Other current liabilities	5	79,000
Total		**30,91,000**

ASSETS		
1. Non-current assets		
a. Property, plant and equipment	6	22,30,000
2. Current assets		
a. Inventories		1,12,000
b. Trade receivables	7	3,10,000
c. Cash and bank equivalents	8	4,39,000
Total		**30,91,000**

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

Notes to accounts:

			₹
	Share Capital		
1	**Authorised capital:**		
	10,000, 10% preference shares of ₹ 100		10,00,000
	20,000 Equity shares of ₹ 100 each		20,00,000
			30,00,000
	Issued and subscribed capital:		
	4,000, 10% preference shares of ₹ 100 each fully paid		4,00,000
	10,000 Equity shares of ₹ 100 each, fully paid		10,00,000
	(of the above 2,500 shares have been issued for consideration other than cash)		**14,00,000**
2	**Reserves and Surplus**		
	Securities premium	50,000	
	Revaluation reserve	1,50,000	
	General Reserve	2,85,000	4,85,000
	Surplus (Profit & Loss balance)		
	Opening balance	40,000	
	Profit for the year	1,01,000	1,41,000
	Total		**6,26,000**
3	**Long-term borrowings**		
	Debentures		
	2,000 10% Debentures of ₹ 100 each	2,00,000	
	Secured: Term Loans		
	6% Loan from State Finance Corporation [repayable after 3years (₹ 4,50,000 - ₹ 36,000 for interest accrued but not due)] (secured by hypothecation of Plant and machinery)	4,14,000	
	Others		
	Bank overdraft from Nationalized bank (secured by hypothecation of stocks)	2,00,000	
	Total		**8,14,000**
4	**Short-term borrowings**		
	Loan from Directors		1,00,000
5	**Other current liabilities**		
	Unclaimed dividend	23,000	
	Interest on Debentures	20,000	
	Interest accrued but not due on loans (SFC)	36,000	79,000
6	**Property, plant and equipment**		
	Land	7,00,000	
	Add: Revaluation Adjustment	1,50,000	8,50,000

	Plant & Machinery	14,70,000	
	Less: Provision for depreciation	(3,00,000)	11,70,000
	Furniture	4,00,000	
	Less: Provision for depreciation	(1,90,000)	2,10,000
	Total		**22,30,000**
7	**Trade receivables**		
	Debts outstanding for a period exceeding six months		46,000
	Other Debts		2,64,000
			3,10,000
8	**Cash and cash equivalents**		
	Cash at bank with Scheduled Banks (3,05,000-55,000)	2,50,000	
	with others	55,000	
	Cash in hand	1,34,000	4,39,000
9	**Cost of materials consumed/Cost of purchases**		
	Adjusted purchases	2,25,000	
	Carriage inward	17,200	2,42,200
10	**Employee benefit expense**		
	Salaries		72,000
11	**Finance cost**		
	Debenture interest		20,000
12	**Depreciation and amortization expenses**		
	Plant and Machinery	1,10,000	
	Furniture	70,000	1,80,000
13	**Other expenses**		
	Misc. expenses (10,200-5,000)	5,200	
	Audit fee	5,000	
	Selling & Distribution expenses	46,600	
	Director's fee	40,000	
	Travelling expenses (including foreign tour)	1,30,000	
	Office expenses	28,000	2,54,800

Notes:

1. The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 2023. Such dividends will be disclosed in notes only.
2. Since Bonus issue is in proposal state, no adjustment has been made in the given answer.

CHAPTER: CASH FLOW STATEMENT

Question 1 — *(Inter May 2023) (10 Marks)* **Pg no._____**

The summarised Balance Sheet of Flora Limited for the year ended 31st March, 2022 and 31st March, 2023 are as below :

Assets	31/03/2023 (₹)	31/03/2022 (₹)
Goodwill	15,000	28,000
Land	5,75,000	6,00,000
Furniture and Fixtures	48,000	44,000
Vehicles	22,000	28,000
Office Equipment	21,000	-
Long-term Investments	60,000	1,10,000
Stock-in-hand	96,000	88,000
Bills Receivables	18,150	14,500
Trade Receivables	46,000	52,000
Cash and Bank Balances	1,29,850	34,500
Total	10,31,000	9,99,000
Liabilities	**31/03/2023 (₹)**	**31/03/2022 (₹)**
Equity Share Capital	6,80,000	5,00,000
General Reserves	90,000	60,000
Profit & Loss Account	93,000	52,000
Capital Reserve	75,000	-
8% Debenture of ₹ 100 each	-	3,00,000
Loan from Mr. Andrew	-	15,000
Bills Payable	11,000	13,000
Trade Payables	49,000	45,000
Creditors for Equipment	10,500	-
Outstanding Expenses	4,500	3,000
Provision for Taxation	18,000	11,000
Total	10,31,000	9,99,000

Additional Information:

a. On 1st April, 2022, one of the vehicles was sold for ₹ 3,000. No new purchases were made during the year.

b. A part of the total land was sold for ₹ 1,25,000 (Cost ₹ 1,00,000) and the balance land was revalued. Capital reserve consists of profit on revaluation of balance land. No new purchases were made during the year.

c. Depreciation provided during the year:
   - Furniture and Fixtures ₹ 5,000
   - Vehicles ₹ 2,200

d. Interim dividend of ₹ 5,000 was paid during the year.

e. Provision for taxation for the year 2022-2023 was ₹ 16,000.

f. 8% Debentures were redeemed at par after half year interest payment on 30th September, 2022.

g. Part of the long-term investments were sold at a profit of ₹ 8,000.

h. Interest income received during the year on long-term investment was ₹ 6,500.

You are required to prepare Cash Flow Statement from Operating Activities for the year ended 31st March, 2023 using indirect method. (All workings should form part of the answer)

Solution

Cash Flow Statement of Flora Limited from Operating Activities
For the year ended 31st March, 2023

	₹	₹
Net profit before taxation (W.N.1)		92,000
Adjustment: Depreciation on Furniture & Fixtures	5,000	
Depreciation on Vehicles	2,200	
Profit on sale of land (₹ 125000 – ₹ 100000)	(25,000)	
Loss on sale (Vehicle)	800	
Profit on sale of long-term investments	(8,000)	
Interest received	(6,500)	
Interest on debentures	12,000	
Goodwill written off	13,000	(6,500)
Operating profit before working capital changes		85,500
Increase in Stock in Hand	(8,000)	
Increase in Bills Receivables	(3,650)	
Decrease in Trade Receivables	6,000	
Decrease in Bills payable	(2,000)	
Increase in Trade Payables	4,000	
Increase in outstanding expenses	1,500	(2,150)
Cash generated from Operations		83,350
Less: Income taxes paid		9,000
Cash flow from Operating activities		74,350

Alternative presentation:

Cash Flow Statement of Flora Limited from Operating Activities
For the year ended 31st March, 2023

		₹
Net profit before taxation (W.N. 1)		92,000
Adjustment: Depreciation on Furniture & fixtures	5,000	
Depreciation on Vehicles	2,200	
Profit on sale of land	(25,000)	
Loss on sale (Vehicle)	800	
Profit on sale of long- term investments	(8,000)	
Interest received	(6,500)	
Interest on debentures	12,000	
Goodwill written off	13,000	(6,500)
Operating profit before working capital changes		85,500
Increase in inventory	(8,000)	
Decrease in Trade receivables*	2,350	
Increase in Trade payables**	2,000	
Increase in outstanding expenses	1,500	(2,150)
Cash generated from Operations		83,350
Less: Income taxes paid		9,000
Cash flow from Operating activities		74,350

*[(18,150 +46,000) – (14,500 + 52,000)]
**[(11,000 + 49,000) – (13,000+45,000)]

Working Notes:

1. Net Profit before Taxation

Particulars	(₹)
Increases in Profit and Loss A/c (93,000-52,000)	41,000
Increases in General Reserve (90,000-60,000)	30,000
Interim dividend Paid	5,000
Transfer – provision for Taxation	16,000
Increase in retained earnings (Net Profit before Taxation)	92,000

2. Provision for Taxation Account

	₹		₹
To Bank (Balancing figure)	9,000	By Balance b/d	11,000
To Balance c/d	18,000	By Profit and loss account	16,000
	27,000		27,000

3. Vehicles Account

Particulars	(₹)
Opening Balance	28,000
Less: Depreciation	(2,200)
Less: Closing Balance	(22,000)
Book value of vehicle sold	3,800
Less: Sale Value	(3,000)
Loss on sale of Vehicle	800

CHAPTER: BUYBACK OF SECURITIES

Question 1 — (Inter May 2023) (10 Marks) Pg no.______

VIJ Ltd. has the following capital structure as on 31st March, 2022:

Particulars		(₹ in Lakhs)
Equity share capital (Shares of ₹ 10 each, fully paid)		990
Reserve and Surplus:		
General Reserve	720	
Securities Premium Account	270	
Profit & Loss Account	270	
Infrastructure development Reserve	540	1,800
Loan Funds		5,400

On the recommendation of the Board of Directors, the shareholders of the company have approved on 2nd September 2022 a proposal to buyback the maximum permissible number of equity shares, considering the sufficient funds available at the disposal of the company.

The current market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 20% over market value.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum permissible number of equity shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 3600 lakh or ₹ 4500 lakh.

The entire buy-back is completed by 09/12/2022, show the accounting entries with full narrations in the company's books in each situation.

Solution

Statement determining the maximum number of shares to be bought back

Particulars	When loan fund is		
	₹ 5,400 lakhs	₹ 3,600 lakhs	₹ 4,500 lakhs
Shares Outstanding Test (W.N.1)	24.75	24.75	24.75
Resources Test (W.N.2)	18.75	18.75	18.75
Debt Equity Ratio Test (W.N.3)	Nil	11.25	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	11.25	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is ₹ 3,600 lakhs)

₹ in lakhs

	Particulars		Debit	Credit
(a)	Equity share capital account	Dr.	112.50	
	Securities premium account	Dr.	225.00	
	To Equity share buy- back account			337.5
	(Being cancellation of shares bought back)			
(b)	Equity share buy-back account	Dr.	337.50	
	To Bank account			337.50
	(Being buy-back of 11.25 lakhs equity shares of ₹ 10 each @ ₹ 30 per share)			
(c)	General reserve account	Dr.	112.50	
	To Capital redemption reserve account			112.50
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out through free reserves)			

Notes:

1. In place of entry (a), Alternative set of entries can be given as follows:

Equity share capital A/c	Dr.	112.50	
Premium payable on buy-back	Dr.	225.00	
To Equity shares buy-back A/c			337.50
(Being the amount due on buy-back of equity shares)			
Securities Premium A/c	Dr.	225.00	
To Premium payable on buy-back			225.00
(Being premium payable on buy-back charged from Securities premium)			

2. In place of entry (c), Alternative set of entries can be given as follows:

Securities Premium A/c	Dr.	45.00	
General Reserve A/c	Dr.	67.50	
To Capital redemption reserve A/c			112.50
(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out through free reserves)			

Working Notes:

1. Shares Outstanding Test

Particulars	(Shares in lakhs)
Number of shares outstanding	99
25% of the shares outstanding	24.75

2. Resource Test

Particulars	₹
Paid up capital (₹ in lakhs)	990
Free reserves (₹ in lakhs) (720+270+270)	1260
Shareholders' funds (₹ in lakhs)	2250
25% of Shareholders fund (₹ in lakhs)	₹ 562.5 lakhs
Buy-back price per share	₹ 30
Number of shares that can be bought back (shares in lakhs)	18.75 lakhs shares

3. Debt Equity Ratio Test

	Particulars	When loan fund is (all ₹ are in lakhs)		
		5,400	3,600	4,500
(a)	Loan funds	5400	3600	4500
(b)	Minimum equity to be maintained after buy- back in the ratio of 2:1	2700	1800	2250
(c)	Present equity shareholders fund	2250	2250	2250
(d)	Future equity shareholder fund	N.A.	2137.5(2250-112.5)	N.A.
(e)	Maximum permitted buy-back of Equity [(d) – (b)]	Nil	337.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in lakhs) (See Working Note)	Nil	11.25 (by simultaneous equation)	Nil

Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.

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

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'. Then

Equation 1: (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained= Maximum permissible buy-back of equity

(2250 –x)-1800 = y (1)

Since 450 – x = y

Equation 2: (Maximum Buy-back/Offer Price for Buy-back x Nominal Value)

= Nominal value of the shares bought –back to be transferred to CRR

= (y/30 x 10) = x Or

= 3x = y (2)

by solving the above two equations we get

x = ₹ 112.5 lakhs

y = ₹ 337.5 lakhs

Question 2 *(Inter May 2023) (5 Marks)* **Pg no.______**

What are the conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares as per Companies Act, 2013? Explain.

Solution

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

(1)

a) the buy-back is authorised by its articles;
b) a special resolution has been passed in general meeting of company authorising the buy-back; However, above provisions do not apply where buy-back is 10% or less of the paid-up equity capital + free reserves & is authorized by board resolution passed at duly convened meeting of the directors.
c) the buy-back must be equal or less than 25% of the total paid-up capital and free reserves of the company: (Resource Test)
d) Further, the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves: (Share Outstanding Test)
e) the ratio of the debt owed by the company (both secured & unsecured) after such buy-back is not more than twice the total of its paid-up capital & its free reserves: (Debt-Equity Ratio Test)
f) all the shares or other specified securities for buy-back are fully paid-up;
g) the buy-back of the shares or other specified securities listed on any recognised stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;
Provided that no offer of the buy-back under this sub section shall be made within a period of one year reckoned from the date of closure of a previous offer of buy-back if any. This means that there cannot be more than one buy-back in one year.

(2) Every buy-back shall be completed within twelve months from the date of passing the special resolution, or the resolution passed by the board of directors.

(3) Where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such account shall be disclosed in the Balance Sheet.

(4) Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against free reserves and/or securities premium account.

Question 3 – *(Inter Nov 2023) (5 Marks)* Pg no._____

The following is the extract of Balance Sheet of Yellow Limited as on 31st March 2023.

Particulars	Amount (₹)
4,00,000 Equity shares of ₹ 10 each	40,00,000
General Reserve	48,00,000
Profit & Loss Account	10,00,000
Securities Premium	18,00,000
Secured Loans	60,00,000
Unsecured Loans	32,00,000
Current Liabilities	28,00,000
Total	2,36,00,000
Property, Plant and Equipment	90,00,000
Investments	18,00,000
Current Assets	1,28,00,000
Total	2,36,00,000

The company intends to buy-back 80,000 equity shares of ₹ 10 each at a premium of 150%. You are required to state whether the company can buy back equity shares.

Solution

Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	4,00,000
25% of the shares outstanding	1,00,000

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (₹)	40,00,000
Free reserves (₹) (48,00,000 + 18,00,000 + 10,00,000)	76,00,000
Shareholders' funds (₹)	1,16,00,000
25% of Shareholders fund (₹)	29,00,000
Buy-back price per share	₹ 25
Number of shares that can be bought back (shares)	1,16,000
Actual Number of shares for buy-back	80,000

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back Debt Equity ratio of the company should not exceed 2:1 after such buy-back.

In this case, the debt is ₹ 92,00,000 (60,00,000 + 32,00,000)* and equity after such buy back will be ₹ 96,00,000 (1,16,00,000 – 20,00,000). Thus, the debt equity ratio is 0.96:1, which is less than 2:1. Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy 80,000 equity shares @ ₹ 25.

* Total debt may be considered (i.e including current liability).

CHAPTER: INTERNAL RECONSTRUCTION

Question 1 – *(Inter May 2023) (5 Marks)* Pg no._____

X Ltd. had ₹ 1,00,000 equity share capital divided into 1,000 shares of ₹ 100 each out of which ₹ 80 per share was called up and paid up. It has 1,500 cumulative preference shares of ₹ 100 each fully paid up. Intangible assets include Goodwill of ₹ 80,000 and patents of ₹ 27,800. Preference dividends are in arrears of ₹ 33,000.

You are required to show the entries (Ignore dates) under each of the following conditions:

a. If X Ltd. resolves to subdivide the equity shares into 10,000 equity shares of ₹ 10 each of which ₹ 8 per share is called up and paid up.
b. If X Ltd. resolves to convert its 1,000 equity shares of ₹ 100 each (assume fully paid) into ₹ 1,00,000 worth of stock.
c. The preference shares are to be converted into 11% unsecured debentures of ₹ 100 each (including arrears of dividends).
d. Patents and Goodwill to be written-off.

Solution

Journal Entries in the books of X Ltd.

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c	Dr.	80,000	
	To Equity Share Capital (₹ 10) A/c			80,000
	(Being the sub-division of 1,000 shares of ₹ 100 each with ₹ 80 paid up into 10,000 shares ₹ 10 each with ₹ 8 paid up by resolution in general meeting dated)			
(ii)	Equity Share Capital (₹ 100) A/c	Dr.	1,00,000	
	To Equity Stock A/c			1,00,000
	(Being conversion of 1,000 fully paid Equity Shares of ₹ 100 into ₹ 1,00,000 Equity Stock as per resolution in general meeting dated…)			
(iii)	Cumulative Preference Share Capital A/c	Dr.	1,50,000	
	Capital Reduction (Reconstruction) A/c	Dr.	33,000	
	To 11% Debentures (Unsecured)			1,83,000
	(Being 1,500 cumulative preference shares of ₹ 100 each fully paid up converted into 11% debentures of ₹ 100 each (including arrears of dividends amounting ₹ 33,000)			
(iv)	Capital Reduction (Reconstruction) A/c	Dr.	1,07,800	
	To Goodwill			80,000
	To Patents			27,800
	(Writing off patents, goodwill)			

Question 2 – *(Inter Nov 2023) (20 Marks)* Pg no._____

Following is the Balance Sheet of Tourma Limited as at 31st March, 2023:

Particulars	Notes	₹ in Lakhs
Equity and Liabilities:		
1. Shareholders funds		
A. Share Capital	1	24.00
B. Reserves and Surplus	2	(9.10)
2. Non-current liabilities		
A. Long-term borrowings	3	3.20
3. Current liabilities		
A. Trade Payables		1.15
B. Short Term Borrowings – Bank Overdraft		1.40
C. Other current liabilities	4	0.32
D. Short term provisions	5	0.42
Total		21.39
Assets:		
1. Non-current assets		
A. Property, Plant and Equipment	6	7.80
B. Intangible Assets	7	1.70
C. Non-Current Investments	8	1.80
2. Current Assets		
A. Inventory		5.12
B. Trade Receivables		4.32
C. Cash & Cash Equivalents		0.65
Total		21.39

Notes to Accounts:

		₹ in Lakhs
1	Share Capital	
	16,000 Equity Shares of ₹ 100 each	16.00
	8,000 6% Preference Shares of ₹ 100 each	8.00
		24.00
2	Reserves and Surplus	
	Debit balance of profit & loss account	(9.10)
		(9.10)
3	Long-term borrowings	
	3,200 10% Debentures	3.20
		3.20
4	Other current liabilities	
	Interest payable on debentures	0.32
		0.32
5	Short term provisions	
	Provision for taxation	0.42
		0.42
6	Property, Plant and Equipment	
	Plant & Machinery	5.00
	Furniture & Fixture	2.80
		7.80

7	Intangible Assets	
	Patents & Copyrights	1.70
		1.70
8	Non-Current Investments	
	Investments (Market Value ₹ 1,10,000)	1.80
		1.80

As on 1st April, 2023, the following scheme of reconstruction was finalized for which necessary resolution was passed and approvals were obtained from appropriate authorities. Accordingly, it was decided that:

a) Each equity share is to be sub-divided into ten fully paid-up equity shares of ₹ 10 each. After sub-division, each shareholder shall surrender to the company 40% of his holding, for the purpose of reissue to trade payables as necessary.
b) Preference shareholders would give up 30% of their capital and 12% Debentures (face value ₹ 100 each) shall be issued to them for balance holdings.
c) The company would issue additional 12% Debentures (face value ₹ 100 each) for ₹ 4,00,000 for meeting its working capital requirement and final settlement of Bank Overdraft at 90% of the amount.
d) Existing debenture holders would accept Furniture & Fixture in full settlement of their dues.
e) Trade payables claim shall be reduced to 70%, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
f) The shares surrendered and not re-issued shall be cancelled.
g) The taxation liability is to be settled at 50,000.
h) Investments value to be reduced to market price.
i) Balance of profit and loss account is to be written off.
j) The value of inventories is to be increased by ₹ 32,000 and Provision for Doubtful Debts is to be created at 5% of Trade Receivables.

You are required to:
1. Pass necessary journal entries in the books of account of Tourma Limited.
2. Prepare Reconstruction Account, and
3. Prepare Balance Sheet of the company after internal reconstruction.

Solution

Journal Entries in the books of Tourma Ltd.

	Dr. ₹ In lakhs	Cr. ₹ In lakhs
Equity Share Capital (₹ 100) A/c Dr.	16.00	
To Share Surrender A/c		6.40
To Equity Share Capital (₹ 10) A/c		9.60
(Subdivision of 16,000 equity shares of ₹ 100 each into 1,60,000 equity shares of ₹ 10 each and surrender of 64,000 of such subdivided shares as per capital reduction scheme)		
Preference Share Capital (₹ 100) A/c Dr.	8.00	
To 12% Debentures A/c		5.60
To Reconstruction (₹ 100) A/c		2.40
(12% Debenture issued to Preference Shareholders and 30% of the capital foregone by them)		
Bank A/c Dr.	4.00	
To 12% Debentures (₹ 100) A/c		4.00
(Being 12% debentures issued)		

Bank Overdraft A/c Dr.	1.40	
To Bank A/c		1.26
To Reconstruction A/c		0.14
(Being bank overdraft amount paid)		
10% Debentures A/c Dr.	3.20	
Interest payable A/c Dr.	0.32	
To Debenture holders A/c		3.52
(Being Interest payable on the 10% debentures credited to debenture holders A/c)		
Debentureholders A/c Dr.	3.52	
To Furniture & fixtures A/c		2.80
To Reconstruction A/c		0.72
Trade payables A/c Dr.	1.15	
To Reconstruction A/c		1.15
(Transferred claims of the trade payables to reconstruction account, 70% of which is being clear reduction and equity shares are being issued in consideration of the balance)		
Share Surrender A/c Dr.	6.40	
To Equity Share Capital A/c		0.805
To Reconstruction A/c		5.595
(Issued equity shares to discharge the claims of the trade payables respectively as per scheme and the balance in share surrender account is being transferred to reconstruction account)		
Provision for Taxation A/c Dr.	0.42	
Reconstruction A/c Dr.	0.08	
To Liability for taxation A/c		0.50
(Being conversion of the provision for taxation into liability for taxation.)		
Liability for taxation A/c Dr.	0.50	
To Cash/Bank A/c		0.50
(Being taxation liability settled)		
Reconstruction A/c Dr.	0.70	
To Investment A/c		0.70
(Being investments' value reduce to market price)		
Inventory A/c Dr.	0.32	
To Reconstruction A/c		0.104
To Provision for doubtful debts (4,32,000 x 5%)		0.216
(Being inventory revalued and provision for doubtful debts created)		
Reconstruction A/c Dr.	9.329	
To Profit and Loss A/c		9.10
To Capital Reserve A/c		0.229
(Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve)		

Balance Sheet of Tourma Limited (and reduced) as at…

Particulars	Note No.	₹ In lakhs
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	10.405
(b) Reserves and Surplus	2	0.229
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	9.60
(3) Current Liabilities		
Total		**20.234**
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	4	5.00
(b) Intangible assets	5	1.70
(c) Non-current investments	6	1.10
(2) Current assets		
(a) Inventories	7	5.44
(b) Trade receivables	8	4.104
(c) Cash and cash equivalents (W.N)		2.89
Total		**20.234**

Notes to Accounts

			₹ In lakhs
1.	**Share Capital**		
	Equity Share Capital		
	Issued Capital: 10.405 Equity Shares of ₹ 10 each (9.6 + 0.805)		10.405
	(Of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)		
2.	**Reserve and Surplus**		
	Capital Reserve		0.229
3.	**Long-term borrowings**		
	Unsecured Loans:		
	12% Debentures (5.60 + 4)		9.60
4.	**Property, Plant and Equipment**		
	Plant & Machinery		5.00
5.	**Intangible assets**		
	Patents & copyrights		1.70
6.	**Non-Current Investments**		
	Investments		1.10
7.	**Inventory**	5.12	
	Add: Appreciation under scheme of Reconstruction	0.32	5.44
8.	**Trade Receivables**	4.32	
	Less: Provision for doubtful debts	(0.216)	4.104

CHAPTER: AMALGAMATION

Question 1 – (Inter May 2023) (20 Marks) Pg no.______

X Ltd. and Y Ltd. had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd. with an authorized share capital of ₹ 40,00,000 divided into 8,00,000 equity dares of ₹ 5 each. On 31st March, 2023 the respective information of X Ltd. and Y Ltd. were as follows:

	X Ltd. (₹)	Y Ltd. (₹)
Share Capital	34,25,000	36,10,000
Trade Payable	59,70,000	18,02,500
Property, Plant and Equipment	58,25,000	37,40,000
Current Assets	31,45,000	15,99,500

Additional Information:
The following revalued figures of non-current and current assets are:

	X Ltd. (₹)	Y Ltd. (₹)
Property, Plant and Equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500

The debtors and creditors include ₹ 1,37,250 owed by X Ltd. to Y Ltd.
The purchase consideration is satisfied by issue of the following shares and debentures. 6,20,000 equity shares of XY Ltd. to X Ltd. and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows:

	X Ltd. (₹)	Y Ltd. (₹)
2020 Profit	42,50,000	26,50,000
2021 Profit	44,45,760	27,60,000
2022 (Loss)/Profit	(75,000)	34,00,000
2023 Profit	37,79,240	35,90,000

7.5% debenture in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st Mar, 2023 after revaluation of assets.

You are required to:
(1) Compute the amount of debenture and shares to be issued to 'X' Ltd. and 'Y' Ltd.
(2) A Balance Sheet of XY Ltd. showing the position immediately after amalgamation.

Solution

1. Computation of amount of Debentures and Shares to be issued:

(i) Average Net Profit	X Ltd.	Y Ltd.
₹ (42,50,000+44,45,760-75,000+37,79,240)/4	31,00,000	
₹ (26,50,000+27,60,000+34,00,000+35,90,000)/4		31,00,000

(ii) Equity Shares Issued

a) Ratio of distribution

X Ltd. : Y Ltd.

1 *1*

b) Number of shares

X Ltd. : 3,10,000

Y Ltd. : 3,10,000

6,20,000

c) Amount of shares

3,10,000 shares of ₹ 5 each = ₹ 15,50,000

3,10,000 shares of ₹ 5 each = ₹ 15,50,000

d)

Capital Employed (after revaluation of assets)	X Ltd. (₹)	Y Ltd. (₹)
Property, plant and equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500
	1,00,95,000	54,77,500
Less: Current Liabilities	(59,70,000)	(18,02,500)
	41,25,000	36,75,000

(iii) Debentures Issued

	X Ltd. (₹)	Y Ltd. (₹)
4% Return on capital employed	1,65,000	1,47,000
7.5% Debentures to be issued to provide equivalent income:	(1,65,000 × 100/7.5) =22,00,000	(1,47,000 × 100/7.5) =19,60,000

Balance Sheet of XY Ltd.
As at 31st March 2023 (after amalgamation)

Particulars		Note No	₹
I.	Equity and Liabilities		
(1)	Shareholders' Funds		
(a)	Share Capital	1	31,00,000
(b)	Reserves and Surplus	2	5,40,000
(2)	Non-Current Liabilities		
(a)	Long-term borrowings	3	41,60,000
(3)	Current Liabilities		
(a)	Trade Payables	4	76,35,250
	Total		1,54,35,250
II.	Assets		
(1)	Non-current assets		
(a)	PPE	5	1,10,00,000
(2)	Current assets		
(a)	Other current assets	6	44,35,250
	Total		1,54,35,250

Notes to Accounts

			₹
1	Share Capital		
	Authorized		
	8,00,000 Equity Shares of ₹ 5 each		40,00,000
	Issued and Subscribed		
	6,20,000 Equity Shares of ₹ 5 each		31,00,000
	(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		5,40,000
3	Long-term borrowings		
	Secured Loans		
	7.5% Debentures		
	X Ltd.	22,00,000	
	Y Ltd.	19,60,000	41,60,000
	Current Liabilities:		
4	Trade Payables		
	X Ltd.	59,70,000	
	Y Ltd.	18,02,500	
		77,72,500	
	Less: Mutual Owings	(1,37,250)	76,35,250
5	Property, Plant and Equipment:		
	X Ltd.	71,00,000	
	Y Ltd.	39,00,000	1,10,00,000
6	Other Current Assets:		
	X Ltd.	29,95,000	
	Y Ltd.	15,77,500	
		45,72,500	
	Less: Mutual Owings	(1,37,250)	44,35,250

Working Notes:

		X Ltd. ₹	Y Ltd. ₹	Total ₹
(1)	Purchase Consideration			
	Equity Shares Issued	15,50,000	15,50,000	31,00,000
	7.5% Debentures Issued	22,00,000	19,60,000	41,60,000
		37,50,000	35,10,000	72,60,000
(2)	Capital Reserve			
(a)	Net Assets taken over			
	Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
	Current Assets	29,95,000	14,40,250*	44,35,250
		1,00,95,000	53,40,250	1,54,35,250
	Less: Current Liabilities	(58,32,750**)	(18,02,500)	(76,35,250)
		42,62,250	35,37,750	78,00,000
(b)	Purchase Consideration	37,50,000	35,10,000	72,60,000
(c)	Capital Reserve [(a) - (b)]	5,12,250	27,750	5,40,000

** 15,77,500–1,37,250 = 14,40,250*
*** 59,70,000–1,37,250 = 58,32,750*

Note: In Working note 2 given above, the mutual owings amounting ₹ 1,37,250 included in debtors and creditors of X Ltd. and Y Ltd. have been adjusted. Alternatively, the capital reserve can be computed without adjustment of mutual owings. In that case, this working note will be presented in the following manner:

		X Ltd. ₹	Y Ltd. ₹	Total ₹
	Capital Reserve			
(a)	Net Assets taken over			
	Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
	Current Assets	29,95,000	15,77,500	45,72,500
		1,00,95,000	54,77,500	1,55,72,500
	Less: Current Liabilities	(59,70,000)	(18,02,500)	(77,72,500)
		41,25,000	36,75,000	78,00,000
(b)	Purchase Consideration	37,50,000	35,10,000	72,60,000
(c)	Capital Reserve [(a) - (b)]	3,75,000	1,65,000	5,40,000

Question 2 — *(Inter Nov 2023) (5 Marks)* *Pg no.______*

Raman Limited and Naman Limited decided to amalgamate and form a new company Rana Limited as on 31st March, 2023 and provided you the following information :

Particulars	As on 31st March, 2023		Revalued Figures for Amalgamation	
	Raman Limited (₹)	Naman Limited (₹)	Raman Limited (₹)	Naman Limited (₹)
Equity shares of ₹ 10 each	6,72,000	2,52,000	-	-
10% Preference Shares of ₹ 100 Each	3,36,000	1,68,000	-	-
Reserves and Surplus	5,44,240	2,65,480	-	-
Trade Payables	84,000	1,76,000	80,640	1,68,960
Property, Plant and Equipment	7,69,000	4,36,400	10,58,100	5,20,100
Goodwill	1,62,000	-	1,62,000	-
Inventories	1,89,000	1,17,600	2,78,620	2,06,780
Trade Receivables	2,81,000	1,47,000	2,47,140	1,38,180
Cash & Cash Equivalents	2,35,240	1,60,480	-	-

The purchase consideration is to he satisfied as follows:

a) By issue of 4 Preference Shares of ₹ 100 each in Rana Limited @ ₹ 85 paid up and at a premium of ₹ 30 per share for every 3 preference shares held in both the companies.

b) By issue of 5 Equity shares of ₹ 10 each in Rana Limited @ ₹ 7 paid up and at a premium of ₹ 5 per share for every 3 equity shares held in both the companies.

c) In addition, necessary cash should be paid to equity shareholders of both the companies as required to adjust the rights of shareholders of both the companies in accordance with the intrinsic value of the shares of both the companies.

You are required to compute the purchase consideration for both the companies.

Solution

Purchase consideration:

	Raman Ltd. ₹	**Naman Ltd. ₹**
Payable to preference shareholders: Preference shares at ₹ 115 per share	5,15,200 (3,360 x 4)/3	2,57,600 (1,680 x 4)/3
Equity Shares at ₹ 12 per share	13,44,000 (67,200 x 5/3)	5,04,000 (25,200 x 5/3)
Cash [See W.N.]	41,260	94,980
	19,00,460	**8,56,580**

Working note:

	Raman Ltd. ₹	**Naman Ltd. ₹**
Goodwill	1,62,000	-
PPE	10,58,100	5,20,100
Trade receivables	2,47,140	1,38,180
Inventory	2,78,620	2,06,780
Cash & Cash Equivalent	2,35,240	1,60,480
	19,81,100	**10,25,540**
Less: Trade payables	(80,640)	(1,68,960)
	19,00,460	**8,56,580**
Payable in shares	18,59,200	7,61,600
Payable in cash	41,260	94,980

CHAPTER: BRANCH ACCOUNTING

Question 1 *(Inter May 2023) (5 Marks)* Pg no._____

Artis Limited has a branch at Seattle USA. Its Trial Balance as on 31st December, 2022 is as follows.:

	Dr. in US $	Cr. In US $
Stock as on 01.01.2022	22,000	-
Purchases	1,00,000	-
Sales	-	1,30,500
Goods from H.O.	30,000	-
Salaries	4,000	-
Head Office A/c.	-	27,000
Sundry Debtors	2,200	-
Sundry Creditors	-	1,500
Cash at Bank & Hand	800	-
Total	1,59,000	1,59,000

The following information is given

a. Salaries outstanding are $ 500.
b. The Head Office sent goods to Branch for ₹ 24,00,000.
c. The Head Office shows an amount of ₹ 21,90,000 due from Branch.

The exchange rates were as below :

- On 1ST January 2022 – ₹ 79 to 1 $.
- On 31st December 2022 – ₹ 83 to 1 $.
- Average rate during the year was ₹ 79.50 to 1 $.

You are required to prepare the Seattle Branch Trial Balance incorporating adjustments given above, converting dollars into rupees.

Solution

Seattle Branch Trial balance (in ₹)

Particulars	Rate as per ₹	Debit ₹	Credit ₹
Stock (01-01-2022)	79.00	17,38,000	
Purchases	79.50	79,50,000	
Sales	79.50		1ss,03,74,750
Goods from HO	Given	24,00,000	
Salaries ($ 4,000 + $ 500 = $ 4,500 x ₹ 79.50)	79.50	3,57,750	
Head Office A/c	Given		21,90,000
Sundry Debtors	83.00	1,82,600	
Sundry Creditors	83.00		1,24,500
Cash at Bank & Hand	83.00	66,400	
Salaries Outstanding ($ 500 x ₹ 83)	83.00		41,500
Exchange gain		36,000	
Total		1,27,30,750	1,27,30,750

Alternative: The amount of outstanding salary amounting $ 500 (included in the salaries) may be converted at ₹ 83 and the salary paid during the year at ₹ 79.50. In that case the amount of salaries including outstanding salary debited in the trial balance will be for ₹ 3,59,500 [(4,000 X 79.5 =3,18,000) + (500 x 83= 41,500). In this case, the amount of exchange gain will be computed as ₹ 34,250.

Question 2 – *(Inter Nov 2023) (10 Marks)* Pg no.______

Jolly Industries of Delhi is a trader in spices. It has a branch at Jalandhar to which Head office invoice goods at 20% on sales. The Jalandhar branch sells spices both on cash and credit. Branch remit all the cash received to Head Office Bank account, thus all expenses of branch are also directly paid from head office.

From the following information given, Prepare Branch Accounts in the Head office ledger using Stock and Debtors Method. Branch does not maintain any books of account, but send fortnightly returns to Head office.

Particulars	₹
Stock at Jalandhar as on 1st April, 2022 (Cost Price)	1,00,000
Sundry Debtors at Jalandhar as on 1st April, 2022	1,10,000
Cash received from Debtors	3,45,000
Bad debts during the year	9,500
Discount allowed to Debtors	5,500
Goods received from Head Office at Invoice Price	6,00,000
Returns to Head office at Invoice Price	60,000
Normal loss of goods during transport (Out of Goods sent by H.O. to Branch)	12,000
Sales returns at Jalandhar Branch	11,000
Salaries and staff welfare expenses at Branch	54,000
Rent and taxes at Branch	9,000
Other Office Expenses	2,500
Sundry Debtors at Branch as at 31st March 2023	1,55,000
Stock at Jalandhar as on 31st March, 2023 (Cost Price)	1,20,000

Credit sales at Branch are four times of the cash Sales at Branch.

Solution

Books of Jolly Industries, Delhi Jalandhar
Branch Stock Account

Particulars	₹	Particulars	₹
To Balance b/d – Op Stock	1,25,000	By Bank A/c – Cash Sales	1,04,000
To Branch Debtors A/c – Sales Return	11,000	By Branch Debtors A/c - Credit Sales	4,16,000
To Goods sent to Branch A/c (6,00,000 +12,000)	6,12,000	By Goods sent to Branch (Returns to H.O.)	60,000
		By Branch Stock Adjustment A/c (Normal Loss)	12,000
		By Branch Stock Adjustment A/c (Abnormal Loss) (bal. fig.)	6,000
		By Balance c/d - Closing stock	1,50,000
	7,48,000		**7,48,000**

Jalandhar Branch Stock Adjustment Account

Particulars	₹	Particulars	₹
To Goods sent to Branch A/c (1/5 of ₹60,000) (on returns)	12,000	By Balance b/d (20% of 1,25,000)	25,000
To Branch Stock A/c (Abnormal Loss) (6,000x1/5)	1,200	By Goods sent to Branch A/c (1/5 of ₹ 6,12,000)	1,22,400
To Branch Stock A/c (Normal Loss)	12,000		
To Balance c/d (1/5 of 1,50,000)	30,000		

To Branch P&L A/c (Profit on sale) – B.F.	92,200		
	1,47,400		**1,47,400**

Goods Sent to Branch Account

Particulars	₹	Particulars	₹
To Jalandhar Branch Stock Adjustment A/c	1,22,400	By Jalandhar Branch Stock A/c	6,12,000
To Jalandhar Branch Stock A/c (Returns)	60,000	By Jalandhar Branch Stock Adjustment A/c	12,000
To Purchases A/c	4,41,600		
	6,24,000		**6,24,000**

Branch Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,10,000	By Bank	3,45,000
To Branch Stock A/c	4,16,000	By Branch P&L A/c - Discount	5,500
		By Branch P&L A/c - Bad Debts	9,500
		By Branch Stock - Sales Returns	11,000
		By Balance c/d	1,55,000
	5,26,000		**5,26,000**

Branch Expenses Account

Particulars	₹	Particulars	₹
To Bank A/c (Rent & Taxes)	9,000	By Branch Profit & Loss A/c (Transfer)	65,500
To Bank A/c (Salaries & Staff Welfare expenses)	54,000		
To Bank A/c (office expenses)	2,500		
	65,500		**65,500**

Branch Profit & Loss Account
for the year ending 31st March 2023

Particulars	₹	Particulars	₹
To Branch Expenses A/c	65,500	By Branch Stock Adj. A/c	92,200
To Branch Debtors A/c	5,500		
To Branch Debtors A/c	9,500		
To Abnormal Loss (cost)	4,800		
To Net Profit transferred to Profit & Loss A/c	6,900		
	92,200		**92,200**

CHAPTER: AS 13: ACCOUNTING FOR INVESTMENTS

Question 1 – *(Inter May 2023) (10 Marks)* *Pg no._____*

The following information is given for Mr. Atwood for the year ended 31.03.2023:

01.04.2022	Mr. Atwood has 3,000 equity shares in Sun Limited at a book value of ₹ 3,30,000 (nominal value ₹ 100 each).
01.07.2022	Purchased 1,500 equity shares in Sun Limited for ₹ 1,38,600.
01.08.2022	Purchased 5,000, 9% Bonds at ₹ 97 cum-interest (face value ₹ 100). The due dates of interest are 1st September and 1st March.
02.10.2022	Dividend declared on equity shares and paid by Sun Limited for the year 2021-2022 @ 10%
15.10.2022	Sun Limited made a bonus issue of two equity shares for every five shares held.
01.01.2023	1,000 equity shares in Sun Limited sold @ ₹ 115 per share
31.03.2023	Sold 4,000, 9% Bonds @ ₹ 99 ex-interest

1. The market price of Equity Shares of Sun Limited is ₹ 125 each and Bonds ₹ 98 each on 31st March 2023.
2. Interest on bonds was received on due dates.

You are required to prepare Investment Account in the books of Mr. Atwood for the year ended 31st March 2023, assuming that the investments are valued at the average cost or market value, whichever is lower. (Round off to nearest Rupee)

Solution

In the books of Atwood

Investment in Equity Shares of Sun Ltd. Account

Date	Particular	No.	Dividend	(₹)	Date	Particular	No.	Dividend	(₹)
1.04	To Bal. b/d	3,000		3,30,000	2.10	By Bank A/c (W.N. 5)		30,000	15,000
1.07	To Bank A/c	1,500		1,38,600	1.1	By Bank A/c	1,000		1,15,000
15.10	To Bonus Issue	1,800			31.3	By Bal c/d (W.N.7)	5,300		3,81,600
1.01	To Profit & Loss A/c (W.N. 6)			43,000					
31.3	To Profit & Loss A/c		30,000						
		6,300	30,000	5,11,600			6,300	30,000	5,11,600

9% Bonds Account [Interest Payable: 1st September & 1st March]

Date	Particular	Nominal	Interest	Cost	Date	Particular	Nominal	Interest	Cost
1.8	To Bank A/c (W.N.1)	5,00,000	18,750	4,66,250	1.9	By Bank A/c (5,00,000 x9%x6/12)	-	22,500	-

31.3	To Profit & Loss A/c (W.N 3)			23,000	1.3	By Bank A/c	-	22,500	-
					31.3	By Bank A/c (W.N 2)	4,00,000	3,000	3,96,000
31.3	To Profit & Loss A/c		30,000		31.3	By Balance c/d (W.N.4)	1,00,000	750	93,250
		5,00,000	48,750	4,89,250			5,00,000	48,750	4,89,250

Working Notes:

1. Cost of Bond purchased on 1st August, 2022
   5,000, 9% bonds were purchased @ ₹ 97 cum-interest. Total amount paid 5,000 bonds x ₹ 97 = 4,85,000 which includes accrued interest for 5 months, i.e., 1st March, 2022 to 31st July, 2022. Accrued interest will be ₹ 5,00,000 x 9/100x 5/12 = ₹ 18,750. Therefore, cost of Bond purchased = ₹ 4,85,000 – 18,750 = ₹ 4,66,250.

2. Sale of bonds on 31st March, 2023
   4,000 bonds were sold@ ₹ 99 ex-interest, i.e., Total amount received = 4,000 x 99 + accrued interest for 1 month = ₹ 3,96,000 + ₹ 3,000 (4,00,000 x 9/100 x 1/12)

3. Profit on sale of bonds

	₹
Sale value	= 3,96,000
Cost of 4,00,000 9% bonds = 4,66,250/5,000x 4,000	= 3,73,000
Profit	= 23,000

4. Value of bonds on 31.3.2023
   Lower of:
   Cost of bonds on 31.3.2023 will be ₹ 4,66,250/ 5,000 x 1,000 = ₹ 93,250.
   Market Value on 31.3.2023 will be ₹ 1,000 X 98 = 98,000
   Value of bonds on 31.3.2023 = ₹ 93,250
   Interest accrued on bonds on 31.3.2023 = 1,00,000 x 9% x 1/12 = ₹ 750

5. Dividend on equity shares for 2021-22
   Post acquisition dividend = 3,00,000 x 10% = ₹ 30,000 transferred to Profit & Loss account
   Pre-acquisition dividend = 1,50,000 X 10% = ₹ 15,000 credited to investment A/c

6. Profit on sale of equity shares

	₹
Sale value	= 1,15,000
Cost of shares = 4,53,600 / 6,300 x 1,000	= 72,000
Profit	= 43,000

   (Average cost method being followed)

7. Value of equity shares at end of year
   Lower of:
   Cost of shares on 31.3.2023 will be ₹ 4,53,600 / 6,300 x 5,300 = ₹ 3,81,600
   Market Value on 31.3.2023 will be ₹ 5,300 x 125 = 6,62,500
   Value of shares = ₹ 3,81,600

Question 2 (Inter Nov 2023) (10 Marks) *Pg no._____*

Following information is given by Mr. Happy (stock broker) relating to his holding in 10% Government Bonds:

a) Opening Balance as 1st April, 2022 was 5,000 units (Nominal value ₹ 100 each), Cost ₹ 4,85,000
b) On 1st June, 2022, Purchased 600 units, cum-interest @ ₹ 99
c) On 1st August, 2022, Purchased 2400 units, ex-interest @ ₹ 97.50
d) On 1st October, 2022, Sold 2,500 units @ ₹ 98.50, ex-interest
e) On 1st January, 2023, Sold 3,000 units @ ₹ 99 cum interest

Interest is received on 30th June and 31st December each year. Mr. Happy closes his books on 31st March each year.

Prepare Investment Account in the books of Mr. Happy assuming that FIFO method of valuation is followed by Mr. Happy.

Solution

Investment A/c of Mr. Happy for the year ending on 31-3-2023 (10% Govt. Bonds)

Date	Particular	Nominal Value	Interest	Amount	Date	Particular	Nominal Value	Interest	Amount
01.04	To Balance b/d	5,00,000	12,500	4,85,000	30.06	By Bank (5,60,000* 10%*6/12)	-	28,000	-
01.06	To Bank A/c	60,000	2,500	56,900	01.10	By Bank A/c	2,50,000	6,250	2,46,250
01.08	To Bank A/c	2,40,000	2,000	2,34,000	31.12	By Bank (5,50,000 *10%*6/12)	-	27,500	-
01.10	To P & L A/c	-	-	3,750	01.01	By Bank A/c	3,00,000	-	2,97,000
01.01	To P & L A/c	-	-	7,083	31.03	By Bal. c/d	2,50,000	6,250	2,43,483
31.03	To P&L A/c-Tfr.	-	51,000	-					
		8,00,000	**68,000**	**7,86,733**			**8,00,000**	**68,000**	**7,86,733**

Working Note:

1. Purchase cost of 600 Units on 1.6.2022

600 Units @₹ 99 cum interest	59,400
Less: Interest for 5 months	(2,500)
Purchase cost of 600 Units	**56,900**

2. Profit on sale of Units as on 1.10.2022

Sales price of Units (2,500 x ₹ 98.50)	2,46,250
Less: Cost price of Units (4,85,000*2,500/5,000)	(2,42,500)
Profit on sale	**3,750**

3. Profit on sale of Units as on 01.01.2023

Sales price of Units (3,000 x ₹ 99)	2,97,000
Less: Cost price of Units First 2,500 out of Opening: (4,85,000*2,500/5,000) = 2,42,500 Next 500 out of 01.06.2022 (56,900*500/600) = 47,417	(2,89,917)
Profit on sale	**7,083**

CHAPTER: AS 21: CONSOLIDATED FINANCIAL STATEMENTS

Question 1 *(Inter May 2023) (15 Marks)* *Pg no._____*

G Ltd. & its subsidiary K Ltd. give the following information for the year ended 31st March, 2023:

(in crores)

Particulars	G Ltd. ₹	K Ltd. ₹
Sales and other Income	3,000	750
Increase in Inventory	750	100
Raw material consumed	600	100
Wages and Salaries	600	75
Production expenses	100	50
Administrative expenses	75	50
Selling and Distribution expenses	100	25
Interest	75	30
Depreciation	75	30

The following information is also given:

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

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

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

Prepare a consolidated statement of Profit and Loss of G Ltd, with its subsidiary K Ltd. for the year ended 31st March, 2023.

Solution

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

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

Notes to Accounts

		₹ in Crores	₹ in Crores
1.	Revenue from operations		
	Sales and other income		
	G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(200)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,525
2.	Cost of material purchased/consumed		
	G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(200)	500
	Direct expenses (Production)		
	G Ltd.	100	
	K Ltd.	50	150
			650
3.	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits ₹ 40 crores × 25/125	(8)	842
4.	Employee benefits and expenses		
	Wages and salaries:		
	G Ltd.	600	
	K Ltd.	75	675
5.	Finance cost		
	Interest:		
	G Ltd.	75	
	K Ltd.	30	105
6.	Depreciation		
	G Ltd.	75	
	K Ltd.	30	105
7.	Other expenses		
	Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd.	(5)	120

	Selling and distribution Expenses:		
	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

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

Alternative solution:

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

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

Notes to Accounts

		₹ in Crores	₹ in Crores
1.	Revenue from operations		
	Sales and other income		
	G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(250)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,475
2.	Cost of material purchased/consumed		
	G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(250)	450
	Direct expenses (Production)		
	G Ltd.	100	
	K Ltd.	50	150
			600
3.	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits ₹ 40 crores × 25/100	(10)	840
4.	Employee benefits and expenses		
	Wages and salaries:		
	G Ltd.	600	
	K Ltd.	75	675
5.	Finance cost		
	Interest:		
	G Ltd.	75	
	K Ltd.	30	105
6.	Depreciation		
	G Ltd.	75	
	K Ltd.	30	105
7.	Other expenses		
	Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd.	(5)	120
	Selling and distribution Expenses:		

	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

Question 2 – *(Inter May 2023) (15 Marks)* *Pg no.*_____

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

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

The following additional information is provided to you:

a. General reserve appearing in the Balance Sheet of S Ltd, remained unchanged since 31st March, 2022.
b. Profit earned by S Ltd. for the year ended 31st March, 2023 amounted to ₹ 20,000.
c. H Ltd. sold goods to S Ltd. costing ₹ 8,000 for ₹ 10,000, 25% of these goods remained unsold with S Ltd. on 31st March, 2023.
d. Creditors of S Ltd. include ₹ 4000 due to H Ltd. on account of these goods.
e. Out of Bills payable issued by S Ltd. ₹ 15,000 are those which have been accepted in favour of H Ltd. Out of these, H Ltd. had endorsed by 31st March, 2023, ₹ 8000 worth of bills receivable in favour of its creditors.

You are required to draw a consolidated Balance Sheet as on 31st March, 2023.

Solution

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

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

Notes to Accounts

			₹
1.	Share capital		
	Authorised, issued, subscribed and paid up capital		
	90,000 equity shares of ₹ 10 each, fully paid up		9,00,000
2.	Reserves and Surplus		
	General Reserves	1,60,000	
	Profit and Loss Account (W.N.5)	88,500	
	Capital Reserve (W.N. 4)	25,000	2,73,500
3.	Minority interest in S Ltd. (WN 3)		1,26,000
4.	Trade payables		
	Bills Payable		
	H Ltd. 40,000		
	S Ltd. 20,000		
	Less: Mutual payables (7,000)	53,000	
	Trade Creditors		
	H Ltd. 50,000		
	S Ltd. 30,000		
	Less: Mutual owing (4,000)	76,000	1,29,000
5.	Property, plant and equipment		
	Machinery: H Ltd. 7,00,000		
	S Ltd. 1,50,000	8,50,000	
	Furniture: H Ltd. 1,00,000		
	S Ltd. 70,000	1,70,000	10,20,000
6.	Inventory		
	H Ltd.	1,00,000	
	S Ltd.	50,000	
	Less: Unrealized profit (2,000x 25%)	(500)	1,49,500

7.	Trade receivables		1,29,000
	Bills receivable:		
	H Ltd. 25,000		
	S Ltd. 20,000		
	Less: Mutual payables (7,000)	38,000	
	Debtors:		
	H Ltd. 60,000		
	S Ltd. 35,000		
	Less: Mutual owing (4,000)	91,000	1,29,000
8.	Cash & cash equivalent		
	Cash at Bank H Ltd.	90,000	
	S Ltd.	40,000	1,30,000

Working Notes:

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

2. Analysis of Profits

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

3. Minority Interest

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

4. Capital Reserve for H Ltd.

(A)	Cost of acquiring 15,000 shares of S Ltd.	₹ 1,55,000
(B)	Paid up value of 15,000 shares of S Ltd. @ ₹ 10 each	₹ 1,50,000
	Add: Share in pre-acquisition profit and reserves of S Ltd.	₹ 30,000
		₹ 1,80,000
	Capital Reserve (B-A)	₹ 25,000

5. Consolidated Balance of Profits of H Ltd.

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

Question 3 – *(Inter Nov 2023) (15 Marks)* Pg no._____

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

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

You are required to calculate the minority interests and cost of control at the end of each year for the purpose of consolidation.

Solution

Year	Profit / (Loss)	Minority Interest (20%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by GB Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 2016		10,92,800 (W.N.)	-			
2016-17	(14,50,000)	(2,90,000)	(11,60,000)			14,28,800 (W.N.)
Balance		8,02,800				
2017-18	(23,20,000)	(4,64,000)	(18,56,000)			14,28,800
Balance		3,38,800				
2018-19	(29,00,000)	(5,80,000)	(23,20,000)			14,28,800
		(2,41,200)				
	Loss of minority borne by Holding Co.	2,41,200	(2,41,200)	2,41,200	2,41,200	
Balance		Nil	(25,61,200)			
2019-20	(6,96,000)	(1,39,200)	(5,56,800)			14,28,800
	Loss of minority borne by Holding Co.	1,39,200	(1,39,200)	1,39,200	3,80,400	
Balance		Nil	(6,96,000)			
2020-21	1,90,000	38,000	1,52,000			14,28,800
	Profit share adjusted against losses of minority absorbed by Holding Co.	(38,000)	38,000	(38,000)	3,42,400	
Balance		Nil	1,90,000			
2021-22	6,80,000	1,36,000	5,44,000			
	Profit share adjusted against losses of minority absorbed by Holding Co.	(1,36,000)	1,36,000	(1,36,000)	2,06,400	14,28,800
Balance		Nil	6,80,000			

2022-23	12,70,000	2,54,000	10,16,000	(2,06,400)	Nil	14,28,800
		(2,06,400)	2,06,400			
Balance		47,600	12,22,400			

Working Note:

Calculation of Minority interest and Cost of control on 1.4.2016

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

CHAPTER: FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

Question 1 – *(Inter May 2023) (5 Marks)* *Pg no._____*

Mille started a business on 01.04.2022 with a capital of ₹ 15,00,000. She purchased 1,500 units of stock at ₹ 1,000 each. She sold the entire stock for ₹ 1,500 each unit till 31.03.2023.
You are required to calculate the maximum amount which can be withdrawn by Mille in order to keep her capital intact, if Financial Capital is maintained at:

a. Historical Cost
b. Current Purchasing Power (opening index at 100 and closing index at 125)
c. Physical Capital Maintenance (Price per unit at the end of year is ₹ 1,350)

Solution

Financial Capital Maintenance at historical Costs

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,000	15,00,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	(ii)-(i)	7,50,000

Financial Capital Maintenance at current purchasing power

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,000 x 125/100	18,75,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	(ii)-(i)	3,75,000

Financial Capital Maintenance at Physical Capital Maintenance

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x1,350	20,25,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	(ii)-(i)	2,25,000

CHAPTER: ACCOUNTING STANDARDS

Applicability of AS

Question 1 *(Inter Nov 2023) (5 Marks)* Pg no._____

List down the applicable criteria under the companies (Accounting Standards) Rule, 2021, to classify a company as Small and Medium Sized Company (SMC).

Solution

Criteria for classification of Companies under the Companies (Accounting Standards) Rules, 2021 to classify a company as Small and Medium-Sized Company (SMC):

"Small and Medium Sized Company" (SMC) means, a company-

a. whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
b. which is not a bank, financial institution or an insurance company;
c. whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;
d. which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
e. which is not a holding or subsidiary company of a company which is not a small and medium-sized company

AS 1: Disclosure of Accounting Policies

Question 1 *(Inter May 2023) (5 Marks)*

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

a) Bee Limited has not complied with AS-2 "Valuation of inventories" and the same is disclosed in the Notes on Accounts. Management is of the view that the financial statements give a true and fair view as non-compliance with AS-2 is disclosed.
b) Cee Limited sold its Office Building for ₹ 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 ₹ 4,00,000. On 31st March 2023, documentation and legal formalities are pending. The company has not recorded the disposal and the amount received is shown as an advance.
c) Dee Limited has prepared its accounts on cash basis and the same is not disclosed.
d) Jee Limited disclosed significant accounting policies adopted in the preparation of financial statements, in the Directors' Report.

Solution

a) As per AS-I disclosure of accounting policies is not a remedy for wrong or inappropriate treatment in accounting. In the given case the financial statement does not give a true and fair view as they are not in compliance with AS-2.
b) Considering the substance over form as per AS-I, documentation and legal formalities represent the form of the transaction, although the legal title has not been transferred, the economic reality and substance are that the rights and beneficial interest in the Office Building have been transferred. Therefore, recording of acquisition/ disposal (by the transferee and transferor respectively) would in substance represent the transaction entered into.

c) 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.

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

Question 2 *(Inter Nov 2023) (5 Marks)*

Discuss Disclosure requirements in following cases as per AS 1.

(i) Accountant of A Ltd. charges a probable loss of losing a suit in books of accounts and also disclosed the same fact in financial statements. The probability of losing the suit is 25%.

(ii) Accountant of A Ltd. capitalized all the revenue expenses of repair and maintenance during the year to Plant & Machinery and is also disclosing the same as company policy in financial statements.

(iii) A Ltd. has followed accrual basis of accounting since incorporation. The chief accountant also disclosed this fact in financial statements.

(iv) A Ltd. was providing for after sales expenses @ 2% of sales for covering expenses during the warranty period. Now A Ltd. observes that actual after sales expenses were much less as compared to provision because of better technology used in manufacturing of the products. Now, the Board of A Ltd. decides to account for these expenses as and when they occur. Sales during the period are ₹ 50 crores.

Solution

i. In this case, accountant of company created a provision for damages of probability of losing a suit by a charge against profits. Unless the probability of losing the suit is more than probability of not losing it, there should not be any creation of provision for such probable losses. So, there is no need to charge such loss against profit and disclosing the same in financial statements.

ii. Repairs and maintenance are revenue expenditure and should not be added to the value of assets, as these expenses do not increase the capacity of asset. Hence such expenses should be charged to profit & loss statement.
Further the chief accountant also disclosed its policy of adding repairs to value of assets by way of notes to accounts. As per AS 1 disclosure is not a method to correct the wrong treatments. So, the contention of chief accountant is wrong.

iii. Accrual is one of the Fundamental accounting assumptions. If fundamental accounting assumptions are followed properly then no specific disclosure is required.
Disclosure is required only when there is deviation and the company is not following fundamental accounting assumptions. So the company need not disclose this in financial statements.

iv. 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. Accordingly, the notes on accounts should properly disclose the change and its effect.
Note: So far, the company has been providing 2% of sales for meeting after sales expenses during the warranty period. Now the company has improved the quality of its products with better technology and has been observing that actual expenses are very less than the provision, Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by ₹1 crore than would have been the case if the old policy were to continue.

AS 2: Valuation of Inventories

Question 1 - *(Inter Nov 2023) (5 Marks)* *Pg no.______*

In the following cases, find the value of closing stock as per AS 2:

(i) Sonu is a retailer dealing in toys. During the year, he purchased items worth for ₹ 1,47,000 and made a total sale ₹ 1,54,000. The average percentage of gross margin is 10% on cost. Opening stock of toys at cost was ₹ 20,000.

(ii) On 21st March, 2023, Mohan purchased 250 chairs at ₹ 300 each. The selling price of the chair is ₹ 400 each. Owing to a manufacturing defect, net realisable value of the whole lot of chair was determined at 70% of their normal selling price. No chairs were sold during the year.

Solution:

i. Cost of closing inventory is shown below:

	₹
Sale value of opening stock and purchases (₹ 20,000 + ₹1,47,000) x 1.10	1,83,700
Sales	(1,54,000)
Sale value of unsold stock	29,700
Less: Gross Margin (₹ 29,700 / 1.10) x 0.10	(2,700)
Cost of closing inventory	27,000

ii.

Closing stock at cost (250X ₹ 300) (i)	75,000
Net Realizable value of closing stock (₹ 280* × 250) (ii)	70,000
Value of closing stock [lower of (i) and (ii)]	70,000

*400*70% = 280

AS 5: Net P/L for period, Prior Period Items & Changes in A/cing Policies

Question 1 — *(Inter Nov 2023) (5 Marks)*

The accountant of Beryl Limited has asked you to identify the following items as - Change in Accounting Policies / Change in Accounting Estimates / Extraordinary Items / Prior period items / Ordinary Activity.

(i) Non-provision for salary already due in earlier year.
(ii) Attachment of the property of the enterprise.
(iii) Introduction of new pension scheme for employees.
(iv) Change in Reserve for obsolete inventory.
(v) Settlement of litigation case.
(vi) Actual Bad debts exceed the provision.
(vii) Legislative changes having long term retrospective application.
(viii) Capitalisation of working capital loan interest.
(ix) Change from Cost Model to Revaluation Model for measurement of carrying amount of PPE.
(x) Government sanctioned grant in current year for expenses incurred in previous accounting year.

Solution:

(i) Prior Period item
(ii) Attachment of property of enterprise is an extraordinary item.
(iii) Introduction of new pension scheme for employes is not a change in accounting policy. It is an ordinary activity.
(iv) Change in provision for obsolete inventory is a change in accounting estimate.
(v) Litigation settlement is an ordinary activity but requires separate disclosure
(vi) Change in estimate
(vii) Ordinary activity requiring separate disclosure
(viii) Error*
(ix) Change in Accounting policy.
(x) Ordinary activity requiring separate disclosure or extra-ordinary item.

*If it relates to the previous year then it can be considered as a prior period item.

AS 7: Construction Contracts

Question 1 *(Inter May 2023) (5 Marks)* Pg no._____

Fisher Construction Co. obtained a contract for construction of a commercial complex. The following details are available in records of a company for the year ended 31st March, 2023:

Particulars	Amount in Lakhs
Total contract price	24,000
Work certified	12,500
Work not certified	2,500
Estimated further cost to completion of work	17,500
Progress payment received	11,000
Progress payment to be received	3,000

Applying the provisions of AS 7, you are required to compute:

a. Profit / Loss for the year ended 31st March, 2023.
b. Contract work in progress at the end of financial year 2022-2023.
c. Revenue to be recognized out of the total contract value.
d. Amount due from/ to customers as at the year end.

Solution

		(₹ In lakhs)
(i)	Profit or Loss for the year ended 31.03.2023	
	Total cost of construction (12,500 + 2,500 + 17,500)	32,500
	Less: Total contract price	(24,000)
	Total foreseeable loss to be recognized as expense	8,500

According AS 7, when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately.

		(₹ in lakhs)
(ii)	Contract work-in-progress i.e. cost incurred to date are 15,000 lakhs	
	Work certified	12,500
	Work not certified	2,500
	Contract work in progress at the end of 2022-23	15,000

(iii) Proportion of total contract value recognized as revenue:
For this, cost incurred till 31.03.2023 is 46.154% (15,000/32,500 x 100) to total costs of construction.
Therefore, Proportion of total contract value recognized as revenue is
46.154% of ₹ 24,000 lakhs = ₹ 11,076.96 lakhs Or
46.15% (Approx.) of ₹ 24,000 lakhs = ₹ 11,076 lakhs

(iv) Amount due from/ to customers =
(Contract costs + Recognised profits – Recognised Losses)
– (Progress payments received + Progress payments to be received)
= (15,000 + Nil – 8,500) – (11,000 + 3,000) ₹ in lakhs
= [6,500 – 14,000] ₹ in lakhs
Amount due to customers = ₹ 7,500 lakhs

AS 9: Revenue Recognition

Question 1 *(Inter May 2023) (5 Marks)* Pg no._____

Toy Ltd. is engaged in manufacturing toys. They provide you the following information as on 31st March, 2023:

a. On 15th January, 2023, Toys worth ₹ 5,00,000 were sent to A Ltd. on consignment basis of which 25% Toys unsold were lying with A Ltd. as on 31st March, 2023.
b. Toys worth ₹ 2,25,000 were sold to S Ltd. on 25th March, 2023 but at the request of S Ltd., these were delivered on 15th April, 2023.
c. On 1st November, 2022, toys worth ₹ 3,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods upto 31st December, 2022 and no approval or disapproval received for the remaining goods till 31st March, 2023.

You are required to advise the accountant of Toy Ltd., the amount to be recognised as revenue in above cases in the context of AS-9.

Solution

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 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 derived from the sale of the goods.

Case (i) 25% toys lying unsold with consignee should be treated as closing inventory and sales should not be recognized for ₹ 1,25,000 (25% of ₹ 5,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.
Sales for ₹ 3,75,000 (75% of ₹ 5,00,000) should be recognized for year ended 31st March, 2023.
Case (ii) The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of ₹ 2,25,000 for the year ended 31st March, 2023.
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 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 ₹ 3,50,000 as the time period for rejecting the goods had expired.

AS 10: Property, Plant & Equipment

Question 1 *(Inter May 2023) (5 Marks)* *Pg no.______*

In the books of Topmaker Limited, carrying amount of Plant and Machinery as on 1st April, 2022 is ₹ 56,30,000.

On scrutiny, it was found that a purchase of Machinery worth ₹ 21,12,000 was included in the purchase of goods on 1st June, 2022. On 30th June, 2022 the company disposed a Machine having book value of ₹ 9,60,000 (as on 1st April, 2022) for ₹ 8,25,000 in part exchange of a new machine costing ₹ 15,65,000.

The company charges depreciation @ 10% p.a. on written down value method on Plant and Machinery.

You are required to compute:

(a) Depreciation to be charged to Profit & Loss Account.

(b) Book value of Plant & Machinery as on 31st March, 2023; and

(c) Profit/Loss on exchange of Plant & Machinery.

Solution

(i) Depreciation to be charged in the Profit & Loss Account

Particulars	Amount in ₹
Depreciation on old Machinery	1,40,750
[10% on ₹ 56,30,000 for 3 months (01.04.2022 to 30.06.2022)]	
Add: Depreciation on Machinery acquired on 01.06.2022	1,76,000
(₹21,12,000 X 10% X10/12)	
Add: Depreciation on Machinery after adjustment of Exchange	4,67,625
[10% of ₹ 56,30,000 – 9,60,000 + 15,65,000) for 9 months]	
Total Depreciation to be charged in Profit & Loss A/c	7,84,375

(ii) Book value of Plant & Machinery as on 31.3.2023

Particulars		Amount in ₹
Balance as per books on 01.04.2022		56,30,000
Add: Included in purchases on 01.06.2022	21,12,000	
Add: Purchases on 30.06.2022	15,65,000	36,77,000
		93,07,000
Less: Book value of Machine sold on 30.06.2022		(9,60,000)
		83,47,000
Less: Depreciation on Machinery in use ₹ (7,84,375 -24,000)		(7,60,375)
Book Value as on 31.03.2023		75,86,625

Note: The computation of depreciation and book value of Plant & Machinery can be presented in the following alternative manner:

Particulars	Book Value or Cost or Acquisition	Period	Depreciation	Book Value as on 31.03.2023
Opening Value	46,70,000 (56,30,000 – 9,60,000)	01.04.2022 to 31.03.2023	4,67,000 (46,70,000 x 10%)	42,03,000
Sold	9,60,000	01.04.2022 to 30.06.2022	24,000 (9,60,000 x 10% x 3/12)	-
Purchases	21,12,000	01.06.2022 to 31.03.2023	1,76,000 (21,12,000 x 10% x 10/12)	19,36,000

New Machinery	15,65,000	01.07.2022 to 31.03.2023	1,17,375 (15,65,000 x 10% x 9/12)	14,47,625
Total			7,84,375	75,86,625

(iii) Profit/Loss on Exchange of Machinery

Particulars	Amount in ₹
Balance as per books on 01.04.2022	9,60,000
Less: Depreciation for 3 months (₹ 9,60,000 x 10 /100 x 3 / 12)	(24,000)
W.D.V. as on 30.06.2022	9,36,000
Less: Exchange value	(8,25,000)
Loss on Exchange of Machinery	1,11,000

AS 11: The Effects of changes in Foreign Exchange Rates

Question 1 *(Inter May 2023) (5 Marks)* *Pg no._____*

Trower Limited is an Indian importer. It imports goods from True View Limited situated at London. Trower Limited has a payable of £ 50,000 to True View Limited as on 31st March, 2023. True View Limited has given Trower Limited the following two options:

(a) Pay immediately with a cash discount of 1% on the payable.

(b) Pay after 6 months with interest @ 5% p.a. on the payable.

The borrowing rate for Trower Limited in rupees is 15% p.a.

The following are the exchange rates :

Date	₹/£
31st March, 2023	97
30th September, 2023	99

You are required to give your opinion to Trower Limited on which of the above two options to be chosen.

Solution:

Option (i) Pay immediately with Cash discount of 1% on the payable

	₹
Total amount payable as on 31.3.2023 (50,000 x ₹ 97)	48,50,000
Less: Cash discount	(48,500)
	48,01,500
Add: Borrowing cost @ 15% p.a. for 6 months	3,60,112.50
If payment made immediate	51,61,612.50

Option (ii) Pay after 6 months with interest @ 5% p.a. on the payable

	₹
Total amount payable as on 31.3.2023 (50,000 x ₹ 99)	49,50,000
Interest for 6 months @ 5%	1,23,750
If payment made after 6 months	50,73,750

Thus, Option (ii) is beneficial to Trower Limited as the Rupee outflow will be lower by ₹ (51,61,612 – 50,73,750) = ₹ 87,862 in option (ii).

Note: The above answer be presented in the alternative manner given as below:

Option (i) Pay immediately with Cash discount of 1% on the payable

	₹
Total amount payable on 31.3.2023	50,000

Less: Cash discount (50,000 x 1 / 100)	(500)
	49,500
49,500 x ₹ 97	48,01,500
Add: Borrowing cost @ 15% p.a. for 6 months	3,60,112.50
If payment made immediate	51,61,612.50

Option (ii) Pay after 6 months with interest @ 5% p.a. on the payable

	₹
Total amount payable on 31.3.2023	50,000
Interest for 6 months @ 5% (50,000 x 5 / 100 x 6 / 12)	1,250
	51,250
If payment made after 6 months (51,250 x 99)	50,73,750

Thus, Option (ii) is beneficial to Trower Limited as the Rupee outflow will be lower by ₹ (51,61,612 – 50,73,750) = ₹ 87,862 in option (ii).

Question 2 *(Inter Nov 2023) (5 Marks)* Pg no.______

Karna Ltd., an Indian Company, has the following foreign currency transactions during the financial year 2022-23:

(i) On 1st July, 2022, imported goods from Try Ltd., a German based company, amounting to ₹ 30,96,000.

(ii) On 1st October, 2022, imported plant & machinery from Lucy Ltd., a German based company, for € 18,500. The amount was paid on the date of import itself. (Ignore depreciation).

(iii) On 1st December, 2022, exported good on credit to Cream Ltd., a German based company, amounting to ₹ 50,40,000.

All the above transactions were recorded in the books of account at the prevailing exchange rate on the date of the transactions. Ignore taxes and duty on the above transactions. Payment due from Cream Ltd. and payment due to Try Ltd. is outstanding as on 31st March, 2023.

Rate of exchange between reporting currency (₹) and foreign currency (€) on different dates are as under:

On 1st July, 2022	1 € = ₹ 86	On 1st October, 2022	1 € = ₹ 88
On 1st December, 2022	1 € = ₹ 84	On 31st March, 2023	1 € = ₹ 90

You are required, as per AS-11:

a) To show value at which above items will appear in Balance sheet as on 31st March, 2023.

b) To calculate the amount of gain/loss on each of above transactions on account of exchange differences, if any.

Solution:

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", Foreign currency monetary items should be reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction. Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise.

i. Items given in the question will appear in the Balance Sheet at the following values:
   Trade Payables (30,96,000/86= 36,000 German Currency) x ₹ 90 = ₹ 32,40,000
   Plant and Machinery 18,500 German Currency X ₹ 88 = ₹16,28,000
   Trade Receivables (50,40,000/84= 60,000 German Currency) x ₹ 90 = ₹ 54,00,000

ii. Amount of gain / loss on each transaction on account of exchange difference:
Exchange loss on Transaction of import of goods from Try Ltd. = ₹ (1,44,000)
[36,000 German Currency X ₹ 4 (i.e. 90-86)]
Exchange gain on Transaction of export of goods to Cream Ltd = ₹ 3,60,000
[60,000 German Currency X ₹ 6 (i.e. 90-84)]

AS 12: Accounting for Government Grants

Question 1 *(Inter May 2023) (5 Marks)* Pg no._____

On 1st April 2021, Eleanor Limited purchased a manufacturing Plant for ₹ 60 lakhs, which has an estimated useful life of 10 years with a salvage value of ₹ 10 lakhs. On purchase of the Plant, a grant of ₹ 20 lakhs was received from the government.
You are required to calculate the amount of depreciation as per AS-12 for the financial year 2022-23 in the following cases:
(i) If the grant amount is deducted from the value of plant.
(ii) If the grant is treated as deferred income.
(iii) If the grant amount is deducted from the value of Plant, but at the end of year 2022-2023 grant is refunded to the extent of ₹ 4 lakhs, due to non-compliance of certain conditions.
(iv) If the grant is treated as the promoter's contribution.
(Assume depreciation on the basis of Straight-Line Method.)

Solution
Calculation of depreciation as per AS 12 for the financial year 2022-23:
(i) If the grant amount is deducted from the value of Plant, then the amount of deprecation will be ₹ 3,00,000 p.a. (₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000) / 10 years.
(ii) If the grant is treated as deferred income, then amount of depreciation will be ₹ 5,00,000 p.a. (₹ 60,00,000 - ₹ 10,00,000) / 10 years.
(iii) If the grant amount is deducted from the value of plant, but at the end of the year 2022-23 grant is refunded to the extent of ₹ 4 lakh then the amount of depreciation will be ₹ 3,00,000 p.a. (₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000) /10 year for year 2021-22 and for the year 2022-23 Depreciation will be ₹ 3,00,000 calculated as follows, (₹60,00,000 - ₹ 10,00,000 - ₹ 20,00,000– ₹ 3,00,000) / 10 years.
Note: It is assumed that the depreciation for the year has been charged on the book value on the plant before making adjustment for grant. Alternatively, if it is considered otherwise then the depreciation will be charged after making adjustment for grant. In that case depreciation for the year 2022-23 will be as ₹ 3,44,444 calculated as follows, (₹ 60,00,000 - ₹10,00,000 - ₹ 20,00,000 + 4,00,000– ₹ 3,00,000 / 9 years
(iv) If the grant is treated as promoter's contribution, then the amount of depreciation will be ₹ 5,00,000 p.a. (₹ 60,00,000 -10,00,000) /10 years.

Note: The answer can be presented in the following alternative manner:

		(i)	(ii)	(iii)	(iv)
Date	Particulars	Grant Value deducted from Plant	Grant treated as Deferred Income	Grant Refunded	Grant treated as Promoter's Contribution
01.04.2021	Cost of Plant	60,00,000	60,00,000	60,00,000	60,00,000
	Less: Salvage	10,00,000	10,00,000	10,00,000	10,00,000
		50,00,000	50,00,000	50,00,000	50,00,000
01.04.2021	Less: Grant	20,00,000	-	20,00,000	-
		30,00,000	50,00,000	30,00,000	50,00,000

	Useful Life (years)	10	10	10	10
31.03.2022	Depreciation FY 2021-22	3,00,000	5,00,000	3,00,000	5,00,000
1.4.2022	Cost of Plant			60,00,000	
	Less: Salvage			10,00,000	
				50,00,000	
	Less: Grant			20,00,000	
				30,00,000	
	Less: Depreciation FY 2022-23			3,00,000	
	Book value at the time of refund of grant i.e. at the end of period			27,00,000	
	Add: Grant Refundable at end of 22-23			4,00,000	
	Book value available for remaining 8 years.			31,00,000	

Note: It is assumed that the depreciation for the year has been charged on the book value on the plant before making adjustment for grant. Alternatively, if it is considered otherwise then the depreciation will be charged after making adjustment for grant. In that case depreciation for the year 2022-23 will be as:

Particular	₹
Cost of Plant	60,00,000
Less: Salvage	10,00,000
	50,00,000
Less: Grant	20,00,000
	30,00,000
Add: Grant Refundable	4,00,000
	34,00,000
Less: Depreciation for 2021-22	3,00,000
	31,00,000
Useful Life (years)	9
Depreciation for 2022-23	3,44,444

Question 2 *(Inter Nov 2023) (5 Marks)* *Pg no.______*

A Ltd. purchased a Machinery for ₹ 75 Lakhs. Government Grant received towards this Machinery is ₹ 10 Lakhs. Residual Value of Machinery at the end of useful life of 6 Years is ₹ 5 Lakhs. Asset is shown in Balance Sheet at net of grant.

At the beginning of the 3rd year, an amount becomes refundable to the extent of ₹ 8 Lakhs due to non-compliance of certain conditions of grant.

You are required to give necessary Journal entries for the 1st year and the 3rd year in the books of A Ltd.

Solution

Journal Entries in the Books of A Ltd.

Year	Particulars	₹ in lakhs (Dr.)	₹ in lakhs (Cr.)
1	Machinery Account Dr.	75	
	To Bank Account		75
	(Being machinery purchased)		
2	Bank Account Dr.	10	
	To Machinery Account		10
	(Being grant received from the government reduced from the cost of machinery)		
3	Depreciation Account (W.N.1) Dr.	10	
	To Machinery Account		10
	(Being depreciation charged on Straight Line method (SLM))		
4	Profit & Loss Account Dr.	10	
	To Depreciation Account		10
	(Being depreciation transferred to Profit and Loss Account at the end of year 1)		
5	Machinery Account Dr.	8	
	To Bank Account		8
	(Being government grant on machinery partly refunded which increased the cost of fixed asset)		
6	Depreciation Account (W.N.2) Dr.	12	
	To Machinery Account		12
	(Being depreciation charged on SLM on revised value of fixed asset prospectively)		
7	Profit & Loss Account Dr.	12	
	To Depreciation Account		12
	(Being depreciation transferred to Profit and Loss Account at the end of year 3)		

Working Notes:

1. Depreciation for Year 1

	₹ in lakhs
Cost of the Machinery	75
Less: Government grant received	(10)
	65
Depreciation [(65 – 5)/6]	10

2. Depreciation for Year 3

	₹ in lakhs
Cost of the Machinery	75
Less: Government grant received	(10)
	65
Less: Depreciation for the first two years	20
	45
Add: Government grant refundable	8
	53
Depreciation for the third year [(53 – 5)/4]	12

AS 16: Borrowing Costs

Question 1 – *(Inter May 2023) (5 Marks)* Pg no.______

On 1st April, 2022 Workhouse Limited took a loan from a Financial Institution for ₹ 25,00,000 for the construction of Building. The rate of interest is 12%.

In addition to above loan, the company has taken multiple borrowings as follows:

(a) 8% Debentures ₹ 15,00,000
(b) 15% Term Loan ₹ 30,00,000
(c) 10% Other Loans ₹ 18,00,000

The company has utilised the above funds in construction/purchase of the following assets:

(a) Building ₹ 70,00,000
(b) Furniture ₹ 22,00,000
(c) Plant & Machinery ₹ 90,00,000
(d) Factory Shed ₹ 43,00,000

The construction of Building, Plant & Machinery and Factory Shed was completed on 31st March 2023. Readymade Furniture was purchased directly from the market. The factory was ready for production on 1 April 2023.

You are required to calculate the borrowing cost for both qualifying and non-qualifying assets.

Solution:

Interest to be Capitalized (on qualifying asset)

	Particulars	Computation	₹
i.	On specific Borrowings	25,00,000x12%	3,00,000
ii.	On non-specific borrowings	(W.N.1)	6,67,500
iii.	Amount of interest to be Capitalised	(i+ii)	9,67,500

Interest transferred to P&L (on non-qualifying asset)

	Particulars	Computation	₹
i.	On non-specific Borrowings	(W.N.1)	82,500

Working note:

1. Treatment of interest under AS 16 on non-specific borrowings

	Particulars	Qualifying asset	# Computation	Interest- Capitalized	Interest- charged to P&L A/c
i.	Building	Yes	45,00,000/2,00,00,000 x 63,00,000 x 11.9048%	1,68,750	-
ii.	Furniture	No	22,00,000/2,00,00,000 x 63,00,000 x 11.9048%	-	82,500
iii.	Plant & Machinery	Yes	90,00,000/2,00,00,000 x 63,00,000 x 11.9048%	3,37,500	-
iv.	Factory shed	Yes	43,00,000/2,00,00,000 x 63,00,000 x 11.9048%	1,61,250	-
	Total			6,67,500	82,500

Note: Alternative manner of presentation for Treatment of interest under AS 16 on non-specific borrowings:

	Particulars	Qualifying asset	Expenses Incurred ₹	Share in borrowings ₹	Interest-Capitalized ₹	Interest-charged to P&L A/c ₹
i.	Building	Yes	45,00,000	7,50,000 x 45/200	1,68,750	-
ii.	Furniture	No	22,00,000	7,50,000 x 22/200	-	82,500
iii.	Plant & Machinery	Yes	90,00,000	7,50,000 x 90/200	3,37,500	-
iv.	Factory shed	Yes	43,00,000	7,50,000 x 43/200	1,61,250	-
	Total		2,00,00,000		6,67,500	82,500

2. Weighted Average interest rate for non-specific borrowings

Particulars	Amount of loan (a)	Rate of interest (b)	Amount of interest (c) = (a) x (b)
Debentures	15,00,000	8%	1,20,000
Term loan	30,00,000	15%	4,50,000
Other loans	18,00,000	10%	1,80,000
	63,00,000		7,50,000
	# Weighted Average Rate of Interest = 7,50,000 / 63,00,000 x 100 = 11.9048%		

Question 2 *(Inter Nov 2023) (5 Marks)* *Pg no._____*

Glen Ltd. began construction of a new building on 1st January, 2022.
On 1st April, 2022, following two loans were obtained to fund the construction cost:

(i) Loan of ₹ 60,00,000 from Data Bank Ltd. was taken at interest rate of 8% per annum. This loan was fully utilized for construction of the new building.

(ii) Loan of ₹ 20,00,000 from Satya Bank Ltd. Out of this, loan amount of ₹ 6,00,000 was utilized for working capital purpose. Total interest of ₹ 1,92,000 were paid to Satya Bank Ltd. for the financial year 2022-23.

Construction of the new building was completed on 31st January, 2023 and was ready for its intended use on the same date. None of the loan was repaid during the year. The building is a qualifying asset for the purpose of AS-16. Out of loan from Data Bank Ltd., surplus funds were temporarily invested for the short period of time. This temporary investment earned interest of ₹ 30,000.

You are required to calculate the amount of interest (a) to be capitalized, (b) to be charged to profit & loss account from the total interest incurred as borrowing cost during the year 2022-23. (as per AS-16).

Solution:

According to AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

The standard also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined 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 on Loan of data bank to be capitalized:
= ₹(60,00,000 x 8%)x 10/12 – ₹30,000
= ₹4,00,000 – ₹ 30,000
= ₹3,70,000

Loan	Particulars	Nature of assets	(a) Interest to be Capitalized (₹)	(b) Interest to be charged to Profit & Loss Account (₹)
Data bank	Construction of factory building	Qualifying Asset	3,70,000	(4,80,000 – 4,00,000) 80,000
Satya Bank	Construction of factory building	Qualifying Asset	(1,92,000x14/20) x 10/12 = 1,12,000	(1,92,000 x 14/20) x 2/12 = 22,400
Satya Bank	Working Capital	Not a Qualifying Asset	NIL	(1,92,000x6/20) = ₹57,600
	Total		₹4,82,000	₹1,60,000

Note: Loan from Satya bank is considered to be specific borrowings.

AS 17: Segment Reporting

Question 1 *(Inter May 2023) (5 Marks)* *Pg no._____*

The Accountant of X. Ltd. provides the following data regarding its five segments:

Particulars	A	B	C	D	E	Total (₹ in crore)
Segment Assets	50	20	15	10	5	100
Segment Results	(85)	10	10	(15)	5	(75)
Segment Revenue	250	50	40	60	30	430

The 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.

Solution

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

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

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

On the basis of revenue criteria, segments A, B and D are reportable segments.
On the basis of the result criteria, segments A, B, C and D are reportable segments (since their results in absolute amount are 10% or more of ₹ 100 crore).
On the basis of asset criteria, all segments except E are reportable segments.

Since all the segments except E are covered in at least one of the above criteria. Hence, all segments except E have to be reported upon in accordance with Accounting Standard (AS) 17. Hence, the opinion of chief accountant that only segment A alone should be reported, is wrong as all segments are reportable except E.

Question 2 *(Inter Nov 2023) (5 Marks)* *Pg no._____*

Garnet Limited has 4 operating segments. The total revenue (internal and external) and assets are set out as below:

(₹ in Lakhs)

Segment	Inter Segment Sales	External Sales	Total Assets
Fan	3,200	10,900	23,700
Light	200	1,400	13,200
Lamp	0	1,500	4,200
Printer	1,100	200	3,400
TOTAL	4,500	14,000	44,500

How many reportable segments does Garnet Limited have as per the Revenue and Assets criteria given in AS 17? State Reasons for your answer.

Solution

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

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

If it relates to the previous year then it can be considered as a prior period item.

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

If the total external revenue attributable to reportable segments constitutes less than 75% of total 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. This is not applicable in the given case. In the given case 75% of External Revenue is ₹ 10,500 Lakhs (₹ 14,000 × 75%) and the total External Revenue from Reportable segments is ₹ 12,300 Lakhs. So, no need to add Reportable segments.

On the basis of turnover criteria segment Fan is reportable segment as its sales are more than 1,850 lakhs (10% of ₹ 18,500 lakhs). Moreover, total external revenue attributable to reportable segment is also more than 75% of the total enterprise revenue.

On the basis of asset criteria, Fan and Light are reportable segments as their assets are more than 4,450 lakhs (10% of ₹ 44,500 lakhs).

AS 18: Related Party Disclosures

Question 1 *(Inter May 2023) (5 Marks)* *Pg no._____*

Answer the following with respect to AS-18:

a. ABC Ltd. sold goods of ₹ 2,00,000 to its associate company for the 1st quarter ending 30.06.2022. After that the related party relationship ceased to exist. However, goods were supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transactions.

b. If the majority of directors of Arjun Ltd. constitute the majority of the Board of another Company Bheem Ltd. in their individual capacity as professionals (and not by virtue of their being Directors in Arjun Ltd.). Are both the companies related?

c. Asha Ltd. sells all the manufactured furniture of ₹1,00,00,000 to Sasha Ltd. as per agreement. Sasha Ltd. is the only customer to Asha Ltd. In the financial statements, Asha Ltd. wants to present Sasha company as a related party. Comment on the disclosure requirement.

Solution

a) As per AS 18, parties are considered to be related if any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party. Transactions of ABC Ltd. with its associate company for the first quarter ending 30.06.2022 only are required to be disclosed as related party transactions as the company has the ability to exercise significant influence only till 30.6.2022.
The transactions for the period in which related party relationship did not exist need not be reported.

b) In the given case, Arjun Ltd. cannot be said to control the composition of board of directors of Bheem Ltd. as the directors have been appointed in their individual capacity as professionals and not by virtue of their being directors in Arjun Ltd.
Hence, it cannot be concluded that the companies are related merely because the majority of the directors of one company became the majority of the directors of the second in their individual capacity as professionals.

c) In the context of AS 18, a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business cannot be construed as Related Party Relationship merely by virtue of the resulting economic dependence. There is an economic dependence between the companies but no one controls or exercise significant influence on the other.
In the given case, Asha Ltd. need not report Sasha Company as its related party in its financial statements.

AS 20: Earnings per Share

Question 1 *(Inter Nov 2023) (5 Marks)* *Pg no._____*

Sapphire Limited earned Net profit of ₹ 39,00,000 and ₹ 59,40,000 for the years 2021-22 & 2022-23 respectively. The following information were given for 2022-2023:

(i) The company declared Rights issue of two new shares for each five outstanding shares.
(ii) 4,00,000 shares were outstanding prior to Rights issue.
(iii) Rights issue price was ₹ 27.50 and the last date to exercise rights was 1st July, 2022.
(iv) Fair value of one equity share immediately prior to exercise of rights on 1st July, 2022 was ₹ 143.

You are required to Compute Basic Earnings Per Share as per AS-20:

1. for the year 2021-22, and
2. for the year 2022-23

Solution

Computation of Basic Earnings Per Share

	Year 2021-22 (₹)	Year 2022-23 (₹)
EPS for the year 2021-22 as originally reported		
Net profit of the year attributable to equity shareholders Weighted average number of equity shares o/s during year		
= (₹ 39,00,000 / 4,00,000 shares	9.75	

EPS for the year 2021-22 restated for rights issue = [₹ 39,00,000 / (4,00,000 shares * 1.3*)]	7.5	
EPS for the year 2022-23 including effects of rights issue		
= {59,40,000 / [(4,00,000 × 1.3 × 3/12) + (5,60,000 × 9/12)]} = 59,40,000/5,50,000		10.8 (approx..)

*Refer working note 2.

Working Notes:

1. Computation of theoretical ex-rights fair value per share

= (Fair value of all outstanding shares immediately prior to exercise of rights + Total amount received from exercise) / Number of shares outstanding prior to exercise + Number of shares issued in the exercise

= [(₹ 143 × 4,00,000 shares) + (₹ 27.5 ×1,60,000 shares)]/ 4,00,000 shares + 1,60,000 shares

= 6,16,00,000/ 5,60,000 shares = ₹110

2. Computation of adjustment factor

= Fair value per share prior to exercise of rights / Theoretical ex-rights value per share

= ₹ 143/₹110 (Refer Working Note 1)

= ₹1.3 (approx.)

Alternative

Computation of theoretical ex-rights fair value per share

= Fair value of o/s shares prior to right exercise + Total Amt. received from exercise of rights / Number of shares outstanding prior to exercise + number of shares issued in the exercise

= [(₹ 143 × 4,00,000 shares) + (₹ 27.5 ×1,60,000 shares)]/ 4,00,000 shares + 1,60,000 shares

= 6,16,00,000/ 5,60,000 shares

= ₹110

Paid Part in Right Issue = 1,60,000 * 27.50/110 = 40,000 shares

Bonus Part in Right Issue = 1,60,000 – 40,000 = 1,20,000 shares

Computation of earnings per share

	2021-22	2022-23
EPS for the year 2021-22 as originally reported: (₹ 39,00,000/4,00,000 shares)	₹ 9.75	
EPS for the year 2021-22 restated for rights issue: [₹ 39,00,000/ (4,00,000 shares + 1,20,000 shares)]	₹ 7.50	
EPS for the year 2022-23 including effects of rights issue 59,40,000 / {(4,00,000 + 1,20,000)*12/12}+ (40,000 x 9/12)		₹ 10.80

AS 22: Accounting for Tssssaxes on Income

Question 1 *(Inter Nov 2023) (5 Marks)* *Pg no._____*

The following particulars are stated in the Balance Sheet of Siddhi Limited as on 31st March, 2022:

Particulars	(₹ In lakhs)
Deferred Tax Liabilities (Cr.)	2.50
Deferred Tax Assets (Dr.)	1.35

The following transactions were reported during the year 2022-23:

(₹ in Lakhs)

(i)	Depreciation as per accounting records	15.00
(ii)	Depreciation as per income tax records	20.00
(iii)	Interest paid to NBFC accounted in books on accrual basis but paid on 30-06-2023	6.00
(iv)	Items disallowed for tax purposes in 2021-22 but allowed in 2022-23	1.05
(v)	Donation to Private Trust	40.00
(vi)	Tax rate	15%
(vii)	There were no additions to fixed assets during the year	

You are required to calculate the Deferred Tax Asset and Deferred Tax Liability as on 31st March 2023 as per AS-22.

Solution

Balances of Deferred tax assets and Deferred tax liability as on 31st March, 2023

	₹ (in lakhs)
Deferred tax liability (Cr.) (2.5 +.75)	3.25
Deferred tax asset (Dr.) (1.35 - .158*)	1.192

Working Note:

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

S. No.	Transactions	Nature of difference	Effect	Amount (₹)
(i), (ii)	Difference in depreciation	Responding timing difference	Creation of DTL	(20 - 15) x 15% = .75
(iii)	Interest to financial institutions	No timing difference	Not applicable	Not applicable
(iv)	Disallowances, as per IT Act, of earlier years	Timing difference	Reversalof DTA	₹ 1.05 lakh x 15% = ₹ .158* lakh
(v)	Donation to private trusts	Permanent difference	Not applicable	Not applicable

*Alternatively, may be rounded off as ₹ 0.157 lakh or 0.1575.

AS 24: Discontinuing Operations

Question 1 *(Inter Nov 2018)/(Inter Nov 2023) (5 Marks)/ (RTP May 2020)/(Nov 2020)/(May 2022)*

Anaylse the disclosure and presentation requirements of AS 24 for discontinuing operations? (Any Five)

Solution

An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event (as defined in paragraph 15) occurs:

a) a description of the discontinuing operation(s);
b) the business or geographical segment(s) in which it is reported as per AS 17, Segment Reporting;
c) the date and nature of the initial disclosure event;
d) the date or period in which the discontinuance is expected to be completed if known or determinable;
e) the carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;

f) the amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;
g) the amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto; and
h) the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

AS 26: Intangible Assets

Question 1 *(Inter Nov 2023) (5 Marks)* Pg no._____

Panna Limited purchased software from Agate Limited for a period of 5 years and capitalized the cost. It provided you the following information:

- Cost of software ₹ 57,60,000.
- Expected Life cycle of the software 5 years

The software was amortized at ₹ 6,40,000 per annum in first three years based on economic benefits derived from the software. After three years, it was found that the software may be used for another 5 years from then. So, Panna Limited got it renewed after expiry of five years for 3 more years.

The net cash flows from the software during these 5 years were expected to be as follows:

Particular	Amount (₹)
Year 1	₹ 23,04,000
Year 2	₹ 29,44,000
Year 3	₹ 28,16,000
Year 4	₹ 25,60,000
Year 5	₹ 21,76,000

You are required to calculate the amortization cost of the software for each of the years.

Solution

Panna Limited amortised ₹ 6,40,000 per annum for the first three years i.e. ₹ 19,20,000. 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:

Year	Net cash flows ₹	Amortisation Ratio	Amortisation Amount ₹
I	-	0.1111	6,40,000
II	-	0.1111	6,40,000
III	-	0.1111	6,40,000
IV	23,04,000	0.180	6,91,200
V	29,44,000	0.230	8,83,200
VI	28,16,000	0.220	8,44,800
VII	25,60,000	0.200	7,68,000
IX	21,76,000	0.170	6,52,800
Total	1,28,00,000	1.000	57,60,000

It may be seen from above that from fourth year onwards, the balance of carrying amount i.e., ₹ 38,40,000 has been amortised in the ratio of net cash flows arising from the product of Panna Ltd.