INDEX

AS 2 – VALUATION OF INVENTORY

Question 1

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

No	Particulars	Rs per unit
1	Raw Material X	
	- Cost price	380
	- Unloading Charges	20
	- Freight Inward	40
	- Replacement cost	300
2	Chemical Y	
	- Material consumed	440
	- Direct Labour	120
	- Variable Overheads	80

Additional Information:

No	Particulars
1	Total fixed overhead for the year was 4,00,000 on normal capacity of 20,000 units.
2	Closing balance of Raw Material X was 1,000 units and Chemical Y was Rs. 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when,

No	Particulars
1	Net realizable value of Chemical Y is 800 per unit
2	Net realizable value of Chemical Y is 600 per unit

Question 2

A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31 March, 2020.

No	Particulars	Rs per unit
1	Raw Material X	
	- Cost price	400
	- Freight Inward	40
	- Replacement cost	320
2	Chemical Y	
	- Material consumed	440
	- Direct Labour	120
	- Variable Overheads	80

Additional Information:

No	Particulars
1	Total fixed overhead for the year was 4,00,000 on normal capacity of 25,000 units.
2	Closing balance of Raw Material X was 1,000 units and Chemical Y was Rs. 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when Net realizable value of Chemical Y is Rs. 600 per unit

Question 3

Prepare cash flow from investing activities as per AS 3 of M/s Subham Creative Limited for year ended 31.3.2019:

No	Particulars	Amount
1	Machinery acquired by issue of shares at face value	2,00,000
2	Claim received for loss of machinery in earthquake	55,000
3	Unsecured loans given to associates	5,00,000
4	Interest on loan received from associate company	70,000
5	Pre-acquisition dividend received on investment made	52,600
6	Debenture interest paid	1,45,200
7	Term loan repaid	4,50,000
8	Interest received on investment (TDS of Rs. 8,200 was deducted on the above interest)	73,800
9	Purchased debentures of X Ltd., on. 1st December, 2018 which are redeemable within 3 months	3,00,000
10	Book value of plant & machinery sold (loss incurred Rs. 9,600)	90,000

Question 4

Following are the extracts from the Balance Sheet of ABC Ltd.

No	Liabilities	31.03.2020	31.03.2021
1	Equity Share Capital	25,00,000	35,60,000
2	10% Preference Share Capital	7,00,000	6,00,000
3	Securities Premium Account	5,00,000	5,50,000
4	Profit & Loss A/c	20,00,000	28,00,000

Equity Share Capital for the year ended 31 March, 2021 includes Rs 60,000 of equity shares issued to Grey Ltd at par for supply of Machinery of 60,000.

Equity Profit & Loss account on 31 March, 2021 includes Rs. 50,000 of dividend received on Equity shares invested in X Ltd. Show how the related items will appear in the Cash Flow Statement of ABC Ltd. as per AS-3 (Revised)

AS 4 - CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Question 5

Surya Limited follows the financial year from April to March. It has provided the following information.

Case	Particulars
1	A suit against the Company's Advertisement was filed by a party on 5th April, 2021, claiming damages of Rs. 5 lakhs.
2	Company sends a proposal to sell an immovable property for 45 lakhs in March 2021. The book value of the property is Rs 30 lakhs as on year end date. However, the Deed was registered on 15th April, 2021.
3	The terms and conditions for acquisition of business of another company have been decided by the end of March 2021, but the financial resources were arranged in April 2021. The amount invested was 50 lakhs.
4	Theft of cash amounting to 4 lakhs was done by the Cashier in the month of March 2021 but was detected on the next day after the Financial Statements have been approved by the Directors.

Keeping in view the provisions of AS-4, you are required to state with reasons whether the above events are to be treated as Contingencies, Adjusting Events or Non-Adjusting Events occurring after Balance Sheet date.

Question 6

XYZ Ltd. operates its business into various segments. Its financial year ended on 31 March, 2020 and the financial statements were approved by their approving authority on 15th June, 2020. The following material events took place:

No	Particulars
1	A major property was sold (it was included in the balance sheet at 25,00,000) for which contracts had been exchanged on 15th March, 2020. The sale was completed on 15th May, 2020 at a price of 26,50,000.
2	On 2 April, 2020, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of 10 million would be fully covered by the insurance company

3	A claim for damage amounting to 8 million for breach of patent had been received by the entity prior to the year-end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.

You are required to state with reasons, how each of the above items should be dealt with in the financial statements of XYZ Ltd. for the year ended 31 March, 2020.

AS 5 - NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

Question 7

State whether the following items are examples of change in Accounting Policy / Change in Accounting Estimates / Extraordinary items / Prior period items / Ordinary Activity:

No	Particulars
1	Actual bad debts turning out to be more than provisions.
2	Change from Cost model to Revaluation model for measurement of carrying amount of PPE
3	Government grant receivable as compensation for expenses incurred in previous accounting period.
4	Treating operating lease as finance lease.
5	Capitalisation of borrowing cost on working capital.
6	Legislative changes having long term retrospective application.
7	Change in the method of depreciation from straight line to WDV
8	Government grant becoming refundable.
9	Applying 10% depreciation instead of 15% on furniture.
10	Change in useful life of fixed assets.

Question 8

Sarita Construction Co, obtained a contract for construction of a dam. The following details are available in records of company for the year ended 31st March, 2018:

No	Particulars	Rs in lakhs
1	Total Contract Price	12,000
2	Work Certified	6,250
3	Work not certified	1,250
4	Estimated further cost to completion	8,750
5	Progress payment received	5,500
6	Progress payment to be received	1,500

Applying the provisions of Accounting Standard 7 "Accounting for Construction Contracts" you are required to compute,

No	Particulars
1	Profit/Loss for the year ended 31 March, 2018
2	Contract work in progress as at end of financial year 2017-18.
3	Revenue to be recognized out of the total contract value
4	Amount due from/to customers as at the year end.

Question 9

A construction contractor has a fixed price contract for 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

(Amount in lacs)

No	Particulars	Year 1	Year 2	Year 3
1	Initial Amount for revenue agreed in contract	9,000	9,000	9,000
2	Variation in Revenue (+)	-	200	200
3	Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
4	Estimated profit for whole contract	950	1,000	1,000
5	**Total Estimated Cost**	**8,050**	**8,200**	**8,200**

*Includes Rs. 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes Rs. 100 lacs for standard material brought forward from year 2. The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

AS 9 - REVENUE RECOGNITION

Question 10

Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31 March, 2017:

Case	Particulars
1	On 15th January, 2017 garments worth Rs. 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017
2	Garments worth Rs. 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.
3	On 1st November, 2016 garments worth Rs. 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st Dec, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognized as revenue in above cases in the context of AS 9.

Question 11

Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year ended 31 March, 2020:

Case	Particulars
1	On 31st December, 2019 shoes worth Rs. 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31 March, 2020
2	On 10th January, 2020, Tonk Tanner supplied shoes worth Rs. 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April, 2020.

3	On 21st March, 2020 shoes worth Rs. 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12th April, 2020.

You are required to advise the accountant of Tonk Tanners, when amount is to be recognised as revenue in 2019-20 in above cases in the context of AS 9.

AS 10 - PROPERTY, PLANT AND EQUIPMENT

Question 12

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

No	Particulars
1	Machinery purchased for Rs. 10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is Rs. 10 lakhs.
2	Land for 50 lakhs.
3	A Machinery is constructed for Rs. 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2019, but the company does not begin using the machine until 31 March, 2020.
4	Machinery purchased on 1st April 2017 for Rs. 50,000 with useful life of 5 years and residual value is NIL. On 1 April, 2019, management decided to use this asset for further 2 years only

Question 13

XYZ Limited provided you the following information for the year ended 31 March, 2022.

No	Particulars
1	The carrying amount of a property at the end of the year amounted to Rs. 2,16,000 (cost/value Rs. 2,50,000 and accumulated depreciation Rs. 34,000). On this date the property was revalued and was deemed to have a fair value of Rs. 1,90,000. The balance in the revaluation surplus relating to a previous revaluation gain for this property was Rs. 20,000. You are required to calculate the revaluation loss as per AS 10 (Revised) and give its treatment in the books of accounts.
2	An asset that originally cost Rs. 76,000 and had accumulated depreciation of Rs. 62,000 was disposed of during the year for Rs. 4,000 cash.

You are required to explain how the disposal should be accounted for in the financial statements as per AS 10 (Revised).

AS 11 - THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Question 14

Kumar Ltd borrowed US $ 3,00,000 on 31-12-2020 which will repaid as on 30-06-2021 Kumar Ltd. prepares its financial statements ending on 31-03-2021. Rate of exchange between reporting currency (Rupee) and foreign currency (US$) on different dates are as under:

No	Date	Rate
1	31-12-2020	1 US$ = 44.00
2	31-03-2021	1 US$ = 44.50
3	30-06-2021	1 US$ = 44.75

Required:

Case	Particulars
1	Calculate Borrowings in reporting currency to be recognized in the books on above mentioned dates and also show journal entries for the same.
2	If borrowings were repaid on 28-2-2021 on which date exchange rate was 1 US $ = 44.20 then what entry should be passed?

Question 15

Classify the following items as monetary or non-monetary item:

No	Particulars
1	Inventories
2	Trade Receivables
3	Investment in Equity shares
4	Property, Plant and Equipment
5	Share capital
6	Trade Payables
7	Cash balance

AS 12 - ACCOUNTING FOR GOVERNMENT GRANTS

Question 16

How would you treat the following in the accounts in accordance with AS 12 'Government Grants'?

Case	Particulars
1	Rs. 35 Lakhs received from the Local Authority for providing Medical facilities to the employees.
2	Rs. 100 Lakhs received as Subsidy from the Central Government for setting up a unit in a notified backward area.
3	Rs. 10 Lakhs Grant received from the Central Government on installation of anti- pollution equipment

Question 17

No	Particulars
1	A fixed asset is purchased for Rs. 30 lakhs Government grant received towards it is Rs. 12 lakhs Residual Value is Rs. 6 lakhs and useful life is 4 years. The company charges depreciation based on Straight-Line method. Asset is shown in the balance sheet net of grant After 1 year, grant becomes refundable to the extent of Rs. 7.5 lakhs due to non-compliance with certain conditions. You are required to give necessary journal entries for second year

AS 13 - ACCOUNTING FOR INVESTMENTS

Question 18

Kunal Securities Ltd wants to reclassify its investments in accordance with AS - 13 (Revised). State the values, at which the investments have to be reclassified in the following cases:

No	Particulars
1	Long term investment in Company A, costing Rs. 10.5 lakhs is to be re-classified as current investment. The company had reduced the value of these investments to Rs. 9 lakhs to recognize a permanent decline in value. The fair value on the date of reclassification is Rs. 9.3 lakhs.
2	Long term investment in Company B, costing Rs 14 lakhs is to be re-classified as current investment The fair value on the date of reclassification is Rs. 16 lakhs and book value is Rs. 14 lakhs.
3	Current investment in Company C, costing Rs. 12 lakhs is to be re-classified as long term investment as the company wants to retain them. The market value on the date of reclassification is Rs. 13.5 lakhs.
4	Current investment in Company D, costing Rs. 18 lakhs is to be re-classified as long term investment The market value on the date of reclassification is Rs. 16.5 lakhs.

Question 19

M/s Active Builders Ltd invested in the shares of another company (with an intention to hold the shares for short term period) on 31 October, 2016 at a cost of Rs. 4,50,000. It also earlier purchased Gold of 5,00,000 and Silver of 2,25,000 on 31 March, 2014. Market values as on 31st March 2017 of the above investments are as follows:

No	Particulars	Amount
1	Shares	3,75,000
2	Gold	7,50,000
3	Silver	4,35,000

You are required explain how will the above investments be shown in the books of account of M/s Active Builders Ltd. for the year ending 31st March, 2017 as per the provisions of AS 13?

AS 14 – ACCOUNTING FOR AMALGAMATIONS

Question 20

No	Particulars
1	Astha Ltd. is absorbed by Nistha Ltd the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding Rs. 10,000 (actual cost Rs. 9,000); the payment of the 9% debentures of Rs. 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value and the payment of Rs. 15 per share in cash and allotment of three 11% preference shares of Rs. 10 each and four equity shares of Rs. 10 each at a premium of 20% fully paid for every five shares in Astha Ltd. The number of shares of the vendor company are Rs. 1,50,000 of 10 each fully paid. Calculate purchase consideration as per AS 14.

AS 16 - BORROWING COSTS

Question 21

Govind Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.04 2018, to be utilized as under:

No	Particulars	Rs
1	Construction of factory building	40,00,000
2	Purchase of Machinery	35,00,000
3	Working Capital	25,00,000

In March 2019, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2019 was Rs. 12,00,000. During the year 2018-19 the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of Rs. 3,00,000.

You are required to show the treatment of interest under AS 16 and also explain nature of assets.

Question 22

No	Particulars
1	ABC Limited has started construction of an asset on 1st December, 2021 which continues till 31st March, 2022 (and is expected to go beyond a year). The entity has not taken any specific borrowings to finance the construction of the asset but has incurred finance costs on its general borrowings during the construction period. The directly attributable expenditure at the beginning of the month on this asset was Rs. 10 lakh in December 2021 and Rs. 4 lakh in each of the months of January to March 2022. At the beginning of the year, the entity had taken Inter Corporate Deposits of 20 lakh at 9% rate of interest and had an overdraft of Rs. 4 lakh, which increased to Rs. 8 lakh on 1st March, 2022. Interest was paid on the overdraft at 10% until 1st January, 2022 and then the rate was increased to 12%. You are required to calculate the annual capitalization rate for computation of borrowing cost in accordance with AS 16

Question 23

The accountant of Parag Limited has furnished you with the following data related to its Business Divisions:

No	Particulars	A	B	C	D	Total
1	Segment Revenue	100	300	200	400	1,000
2	Segment Result	45	(70)	80	(10)	45
3	Segment Assets	39	51	48	12	150

You are requested to identify the reportable segments in accordance with the criteria laid down in AS 17

Question 24

XYZ Ltd. has 5 business segments. Profit/Loss of each of the segments for the year ended 31st March, 2022 has been provided below.

You are required to identify from the following whether reportable segments or not reportable segments, on the basis of "profitability test" as per AS-17.

No	Segment	A	B	C	D	Total
1	Profit (Loss) in lakhs	225	25	(175)	(20)	(105)

AS 18 - RELATED PARTY DISCLOSURES

Question 25

Answer the following with respect to AS-18:

Case	Particulars
1	ABC Ltd. sold goods of Rs. 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 transaction.
2	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?
3	Asha Ltd. sells all the manufactured furniture of Rs. 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.

Question 26

Case	Particulars
1	Khushi Limited enter into an agreement with Mr. Happy for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Happy, while all financial and operating policy decisions are taken by the Board of Directors of the Company, Mr. Happy does not own any voting power in Khushi Limited.
2	Shri Bhanu a relative of key management personnel received remuneration of Rs. 3,50,000 for his services in the company for the period from 1st April, 2020 to 30th June, 2020. On 1st July, 2020, he left the service.

You are required to suggest how the above transactions will be treated as at the closing date i.e., on 31 March, 2021 for the purposes of AS 18-Related Party Disclosures.

AS 19 - LEASES

Question 27

No	Particulars
1	WIN Ltd. has entered into a three-year lease arrangement with Tanya sports club in respect of Fitness Equipment costing Rs. 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be Rs. 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%. You are required to calculate the amount of the annual lease payment and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

Question 28

X Ltd. sold machinery having WDV of Rs. 300 lakhs to Y Ltd. for Rs. 400 lakhs and the same machinery was leased back by Y Ltd, to X Ltd. The lease back arrangement is operating lease. Give your comments in the following situations:

No	Particulars
1	Sale price of Rs. 400 lakhs is equal to fair value.
2	Fair value is Rs. 450 lakhs.
3	Fair value is Rs. 350 lakhs and the sale price is Rs. 250 lakhs.
4	Fair value is Rs. 300 lakhs and sale price is Rs. 400 lakhs.
5	Fair value is Rs. 250 lakhs and sale price is Rs. 290 lakhs.

Question 29

The following information relates to M/s. XYZ Limited for the year ended 31st March, 2017: Net Profit for the year after tax: Rs. 75,00,000.

Number of Equity Shares of Rs. 10 each outstanding: 10,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

No	Particulars	Nos
1	8% Convertible Debentures of Rs 100 each	1,00,000
2	Equity Shares to be issued on conversion	1,10,000

The Rate of Income Tax: 30%.
You are required to calculate Basic and Diluted Earnings Per Share (EPS).

Illustration 30

No	Particulars	Details
1	Net profit for the year 20X1	11,00,000
2	Net profit for the year 20X2	15,00,000
3	No. of shares outstanding prior to rights issue	5,00,000 shares
4	Rights issue price	15.00
5	Last date to exercise rights	1st March 20X2

Rights issue is one new share for each five outstanding (i.e. 1,00,000 new shares). Fair value of one equity share immediately prior to exercise of rights on 1st March 20X2 was Rs. 21.00. Compute Basic Earnings Per Share.

AS 22 - ACCOUNTING FOR TAXES ON INCOME

Question 31

The following particulars are stated in the Balance Sheet of PQR Ltd. as on 31.03.2018:

No	Particulars	Rs
1	Deferred Tax Liability (Cr)	30,00,000
2	Deferred Tax Assets (Dr)	15,00,000

The following transactions were reported during the year 2018-2019:

No	Particulars	Rs
1	Tax Rate	30%
2	Depreciation as per books	80,00,000
3	Depreciation for tax purposes	70,00,000
4	Items disallowed in 2017-2018 and allowed for tax purposes in 2018-2019	10,00,000
5	Donations to Private Trust made in 2018-2019	10,00,000

There were no additions to Fixed Assets during the year. You are required to show the impact of various items on Deferred Tax Assets and Deferred Tax Liability as on 31.03.2019.

Question 32

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

No	Particulars	Rs
1	Accounting profit	15,00,000
2	Book profit as per MAT	7,50,000
3	Profit as per Income tax Act	2,50,000
4	Tax Rate	20%
5	MAT Rate	7.5%

Calculate the deferred tax asset/liability as per AS 22 and amount of tax to be debited to the profit and loss account for the year.

AS 24 - DISCONTINUING OPERATIONS

Question 33

No	Particulars
1	What are the initial disclosure requirements of AS 24 for discontinuing operations?

Question 34

No	Particulars
1	Arzoo Ltd. is in the business of manufacture of passenger cars and commercial vehicles, The company is working on a strategic plan to shift from the passenger car segment to the commercial vehicles segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan, it has planned that it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner. These plans have not approved from the Board of Directors and the new factory for manufacture of commercial vehicles has not yet started. You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

AS 26 - INTANGIBLE ASSETS

Question 35

Naresh Ltd. had the following transactions during the financial year 2019-2020:

No	Particulars
1	Naresh Ltd, acquired running business of Sunil Ltd. for Rs 10,80,000 on 15th May, 2019 The fair value of Sunil Ltd.'s net assets was Rs 5,16,000. Naresh Ltd. is of the view that due to popularity of Sunil Ltd.'s product in the market, its goodwill exists
2	Naresh Ltd, had taken a franchise on July 2019 to operate a restaurant from Sankalp Ltd. for Rs 1,80,000 and at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were Rs 60,000 during the financial year 2019-2020.
3	On 20th August, 2019, Naresh Ltd, incurred costs of Rs 2,40,000 to register the patent for its product. Naresh Ltd. expects the patent's economic life to be 8 years.

Naresh Ltd. follows an accounting policy to amortize all intangibles on straight line basis over the maximum period permitted by accounting standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business to be amortized over 5 years (SLM) as per AS 14.

Prepare a schedule showing the intangible assets section in Naresh Ltd. Balance Sheet at 31st March 2020

Question 36

No	Particulars
1	A company is showing an intangible asset at Rs 88 lakhs as on 01.04.2021. This asset was acquired for Rs 120 lakhs on 01.04.2017 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard.

AS 28 - IMPAIRMENT OF ASSETS

Question 37

M Ltd, produces a single product and owns plants A, B and C. Each plant is located in a different continent Plant A produces a component that is assembled in either plant B or plant C. The combined capacity of plants B and C is not fully utilised. M Ltd.'s products are sold world-wide from either plants B or C i.e. plant B's production can be sold in plant C's continent if the products can be delivered faster from plant B than from plant C. Utilisation levels of plant B and plant C depend on the allocation of sales between the two sites.

For each of the following cases, what are the cash-generating units for plants A, Band C?

Case	Particulars
1	There is an active market for plant A's products.
2	There is no active market for plant A's products.

Question 38

From the following details of an asset:

No	Particulars
1	Find out impairment loss
2	Treatment of impairment loss
3	Current year depreciation Particulars of asset

Particulars of asset

No	Particulars	Details
1	Cost of asset	56,00,000
2	Useful life period	10 Yrs
3	Salvage value	Nil
4	Current carrying value	27,30,000
5	Useful life remaining	3 Yrs
6	Recoverable amount	12,00,000
7	Upward revaluation done in last year	14,00,000

AS 29 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Question 39

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

No	Particulars
1	A case has been filed against the company in the consumer court and a notice for levy of a penalty of Rs. 20 lakhs has been received. The company has appointed a lawyer to defend the case for a fee of Rs. 2 lakhs. 50% of the fees has been paid and balance 50% will be paid after finalization of the case. There are 75% chances that the penalty may not be levied.
2	The company had committed to supply a consignment worth Rs. 1 crore to one of its dealers by the year-end. As per the contract, if delivery is not made on time, a compensation of 15% is to be paid on the value of delayed/lost consignment. While the consignment was in transit, one of the trucks carrying goods worth Rs. 30 lakhs met with an accident. It was however covered by Insurance. According to the surveyor's report, the policy amount is collectable, subject to 10% deduction. Before closing the books of accounts, the company has received the information that the policy amount has been processed and the dealer has also claimed the compensation for the consignment of goods worth Rs. 30 lakhs which was in transit.

Question 40

Explain whether provision is required in the following situations in line with AS 29:

No	Particulars
1	There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation
2	There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.
3	There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.

SCHEDULE III

Question 41

On 31 March 2019, Gaurav Ltd. provides you the following particulars:

No	Particulars	Rs	Debit	Credit
1	Equity Share Capital (Face value of Rs 100 each)			12,50,000
2	Call in Arrears		1,250	
3	Land & Building		6,87,500	
4	Plant & Machinery		6,56,250	
5	Furniture		62,500	
6	General Reserve			2,62,500
7	Loan from State Financial Corporation			1,87,500
8	Stock - Raw Materials - Finished Goods	 62,500 2,50,000	 3,12,500	
9	Provision for Taxation			1,60,000
10	Trade receivables		2,50,000	
11	Advances		53,375	
12	Profit & Loss Account			1,08,375
13	Cash in Hand		37,500	
14	Cash at Bank		3,08,750	
15	Unsecured Loan			1,51,250
16	Trade payables			2,50,000

The following additional information is also provided:

No	Particulars
1	2,500 Equity shares were issued for consideration other than cash.
2	Debtors of Rs 65,000 (included in trade receivables) are due for more than 6 months.
3	The cost of the Assets were: Building Rs 7,50,000, Plant & Machinery Rs 8,75,000 and Furniture Rs 78,125

4	The balance of Rs 1,87,500 in the Loan Account with State Finance Corporation is inclusive of Rs 9,375 for Interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery.
5	Balance at Bank includes Rs 2,500 with Global Bank Ltd., which is not a Scheduled Bank

You are required to prepare the Balance sheet of Gaurav Ltd. as on 31 March, 2019 as per Schedule III to the Companies Act, 2013.

CASH FLOW STATEMENTS

Question 42

Prepare Cash Flow Statement of Light Ltd. for the year ended 31" March, 2020, in accordance with AS 3 (Revised) from the following Summary Cash Account:

Summary Cash A/c

No	Particulars	Rs in '000	Rs in '000
1	Balance as on 01.04.2019		315
2	Receipts from Customers		24,894
3	Sale of Investments (Cost Rs 1,35,000)		153
4	Issue of Shares		2,700
5	Sale of Fixed Assets		1,152
6	Payment to Suppliers	18,306	
7	Purchase of Investments	117	
8	Purchase of Fixed Assets	2,070	
9	Wages & Salaries	621	
10	Selling & Administration	1,035	
11	Payment of Inc Tax.	2,187	
12	Payment of Dividends	720	
13	Repayment of Bank Loan.	2,250	
14	Interest paid on Bank Loan	450	(27,756)
15	Balance as on 31.03.2020		1,458

BUY BACK OF SHARES

Question 43

The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of Rs 10 each at Rs 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013. For this purpose, the company:

No	Particulars
1	Sold its investments of Rs 30,00,000 for Rs 25,00,000.
2	Issued 20,000, 12% preference shares of Rs 100 each at par, the entire amount being payable with application.
3	Used Rs 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.
4	The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding buy-back of shares in the books of Umang Ltd.

Question 44

Dee Limited (a non-listed company) furnishes the following summarized Balance Sheet as at 31" March, 2011:

No	Particulars	Rs '000	Rs '000
1	Liabilities		
	Share Capital:		
	Authorized capital		
	Issued and subscribed capital		
	2,50,000 Equity shores of Rs 10 each fully paid up	25,00	
	2,000, 10% Preference shares of Rs 100 each	2,00	27,00
	(Issued two months back for the purpose of buy back)		
	Reserves and surplus		
	Capital reserve	10,00	

	Revenue reserve	30,00	
	Securities premium	22,00	
	Profit and loss account	35,00	97,00
	Current liabilities and provisions		14,00
	Total		**1,38,00**
2	Assets		
	Fixed assets		93,00
	Investments		30,00
	Current assets, loans and advances (including cash and bank balance)		15,00
	Total		**1,38,00**

The company passed a resolution to buy back 20% of its equity capital 50 per share. For this purpose, it sold all of its investment for 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

INTERNAL RECONSTRUCTION

Question 45

Recover Ltd. decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March 20X1 is as follows:

No		Particulars	Notes	Rs
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	350,000
	B	Reserves and surplus	2	(70,000)
2		Non-current liabilities		
	A	Long-term borrowings	3	50,000
3		Current liabilities		
	A	Trade Payables		80,000
	B	Short term borrowings – Bank overdraft		90,000
	C	Other Current Liabilities (Interest payable on Debentures)		5000
		Total		**505,000**
		Assets		
1		Non-current Assets		
	A	Property, plant equipment	4	3,35,000
	B	Intangible assets	5	50,000
	C	Non-current investments	6	40,000
2		Current assets		
	A	Inventories		30,000
	B	Trade receivables		50,000
		Total		**505,000**

Notes to Accounts

No	Particulars	Rs	Rs
1	Share Capital		
	Equity share capital		

	20,000 Equity Shares of Rs. 10 each		200,000
	Preference share capital		
	15,000 8% Cumulative Preference Shares of Rs. 10 each (preference dividend has been in arrears for 4 years)		150,000
			3,50,000
2	Reserves and surplus		
	Profit and loss account (debit balance)		(70,000)
			(70,000)
3	Long-term borrowings		
	Secured		
	10% Debentures (Secured on the freehold property)		50,000
			50,000
4	Property, plant and equipment		
	Freehold property		120,000
	Leasehold property		85,000
	Plant and machinery		130,000
			335,000
5	Intangible assets		
	Goodwill		50,000
			50,000
6	Non-current investments		
	Non-trade investments at cost		40,000
			40,000

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

No	Particulars
1	The preference shares were reduced to Rs. 2.5 per share, and the equity shares to Rs. 1 per share.
2	One new equity shares of Rs. 1 was issued for the arrears of preferred dividend for past 4 years.

3	The debenture holders took over the freehold property at an agreed figure of Rs. 75,000 and paid the balance to the company after deducting the amount due to them.
4	Plant and Machinery was written down to Rs. 100,000.
5	Non-trade Investments were sold for Rs. 32,000
6	Goodwill and obsolete stock (included in the value of inventories) of Rs. 10,000 were written off).
7	A contingent liability of which no provision had been made was settled at Rs. 7000 and of this amount, Rs 6300 was recovered from the insurance

You are required:

No	Particulars
1	To show the Journal Entries, necessary to record the above transactions in the company's books and
2	To prepare the Balance sheet, after completion of the scheme

Question 46

Green Ltd. had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the Company as at 31.3.20X1 before reconstruction.

No	Particulars	Notes	Rs
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	65,00,000
	B Reserves and Surplus	2	(20,00,000)
2	Non-current liabilities		
	A Long-term borrowings	3	15,00,000
3	Current liabilities		
	A Trade Payables		500,000
	Total		**65,00,000**
	Assets		
1	Non-current assets		

	A Property, plant and equipment	4	45,00,000
	B Intangible assets	5	20,00,000
2	Current assets		Nil
	Total		**65,00,000**

Notes to Accounts

No	Particulars	Rs
1	Share Capital	
	Equity share capital	
	Authorized share capital	
	150,000 Equity shares of Rs. 50 each	75,00,000
	Issued, subscribed and paid-up capital	
	50,000 Equity Shares of Rs. 50 each	25,00,000
	100,000 Equity shares of RS. 50 each, Rs. 40 paid up	40,00,000
		65,00,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(20,00,000)
		(20,00,000)
3	Long-term borrowings	
	Secured – 12% First debentures	500,000
	12% Second debentures	10,00,000
		15,00,000
4	Property, plant and equipment	
	Building	10,00,000
	Plant	10,00,000
	Computers	25,00,000
		45,00,000
5	Intangible assets	
	Goodwill	20,00,000
		20,00,000

The following is the interest of Mr. X and Mr. Y in Green Ltd.

No	Particulars	Mr. X	Mr. Y
1	12% First Debentures	300,000	200,000
2	12% Second Debentures	700,000	300,000
3	Trade payables	200,000	100,000
4		12,00,000	600,000
5	Fully paid-up Rs. 50 shares	3,00,000	2,00,000
6	Partly paid-up shares (Rs. 40 paid-up)	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court,

No	Particulars
1	Uncalled capital is to be called up in full and such shares and the other fully paid-up shares be converted into equity shares of Rs. 20 each.
2	Mr. X is to cancel Rs. 700,000 of his total debt (other than share amount) and to pay Rs. 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.
3	Mr. Y is to cancel Rs. 300,000 of his debt (other than equity shares) and to accept new 14% First Debentures for the balance.
4	The amount thus rendered available by the scheme shall be utilized in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers

You are required to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company.

Question 47

Neel Ltd and Gagan Ltd amalgamated to form a new company on 1.4.20X1. Following is the Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.20X1.

No		Particulars	Notes	Neel	Gagan
		Equity and Liabilities			
1		Shareholders' funds			
	A	Share capital		775,000	855,000
2		Current liabilities		623,500	557,600
		Total		13,98,500	14,12,600
		Assets			
1		Non-current assets			
	A	Property, plant and equipment	1	12,35,000	12,54,000
2		Current assets		163,500	158,600
		Total		13,98,500	14,12,600

Notes to Accounts

No	Particulars	Amount	Amount
1	**Property, plant and equipment**		
	Land and Building	750,000	640,000
	Plant and machinery	485,000	614,000
		12,35,000	12,54,000

Following is the additional information-

01 - The assets of Neel Ltd and Gagan Ltd are to be revalued as under-

No	Particulars	Neel	Gagan
1	Plant and machinery	525,000	675,000
2	Building	775,000	648,000

02 - The purchase consideration is to be discharged as under-

(a) Issue 24,000 equity shares of Rs. 25 each fully paid-up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below-

Particulars	Neel	Gagan
1st year	262,800	275,125
2nd year	212,200	249,875
Total	**475,000**	**525,000**

(c) Issue 12% preference shares of Rs. 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.20X1 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

No	Particulars
1	Equity and preference shares issued to Neel Ltd. and Gagan Ltd.
2	Purchase consideration

Question 48

The financial position of two companies Hari Ltd. and Vayu Ltd as at 31st March 20X1 was as under-

No		Particulars	Notes	Hari Ltd.	Vayu Ltd.
		Equity and Liabilities			
1		Shareholders' funds			
	A	Share capital	1	11,00,000	400,000
	B	Reserves and Surplus	2	70,000	70,000
2		Non-current liabilities			
	A	Long-term borrowings	3	50,000	20,000
3		Current liabilities			
	A	Trade Payables		130,000	80,000
		Total		13,50,000	570,000
		Assets			
1		Non-current assets			
	A	Property, plant and equipment	4	800,000	250,000
	B	Intangible assets	5	50,000	25,000
2		Current assets			
	A	Inventories		250,000	175,000
	B	Trade receivables		200,000	100,000
	C	Cash and cash equivalents		50,000	20,000
		Total		13,50,000	570,000

Notes to Accounts

No	Particulars	Hari Ltd	Vayu Ltd
1	**Share Capital**		
	Equity shares of Rs 10 each	10,00,000	300,000
	9% Preference Shares of Rs. 100 each	100,000	-
	10% Preference Shares of Rs. 100 each	-	100,000

		11,00,000	4,00,000
2	**Reserves and Surplus**		
	General reserve	70,000	70,000
		70,000	70,000
3	**Long-term provisions**		
	Retirement gratuity fund	50,000	20,000
		50,000	20,000
4	**Property, plant and equipment**		
	Land and building	300,000	100,000
	Plant and machinery	5,00,000	150,000
		800,000	250,000
5	**Intangible assets**		
	Goodwill	50,000	25,000
		50,000	25,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

No	Particulars
1	10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference shares of Hari Ltd.
2	Goodwill of Vayu Ltd. is valued at RS. 50,000, Buildings are valued at Rs. 150,000 and the Machinery at Rs. 160,000.
3	Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created at 7.5%.
4	Equity Shareholders of Vayu Ltd. will be issued necessary Equity Shares at 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisitions entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March 20X1.

Question 49

The Profit and Loss Accounts of A Ltd, and its subsidiary B Ltd. for the year ended 31 March, 2018 are given below:

Rs in Lakhs

No	Particulars	A Ltd.	B Ltd.
1	Sales and other inc	7,500	1,500
2	Increase in Inventory	1,500	300
3	**Total**	**9,000**	**1,800**
4	Expenses		
5	Raw material consumed	1,200	300
6	Wages and Salaries	1,200	225
7	Production expenses	300	150
8	Administrative expenses	300	150
9	Selling and distribution expenses	300	75
10	Interest	150	75
11	Depreciation	150	75
12	**Total**	**3,600**	**1,050**
13	Profit before tax	5,400	750
14	Provision for tax	1,800	300
15	Profit after tax	3,600	450
16	Dividend paid	1,800	225
17	Balance of Profit	1,800	225

The following information is also given:

No	Particulars
1	A Ltd. sold goods of Rs 180 Lakhs to B Ltd at cost plus 25%. (1/6 of such goods were still in inventory of B Ltd at the end of the year)
2	Administrative expenses of B Ltd include Rs 8 Lakhs paid to A Ltd as consultancy fees.
3	Selling and distribution expenses of A Ltd include Rs 15 Lakhs paid to B Ltd as commission.

4	A Ltd holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2016-17 is Rs 1,500 Lakhs

Prepare a consolidated Profit and Loss Account for the year ended 31 March, 2018

Question 50

H Ltd. and S Ltd. provide the following information as at 31 March, 2012:

No	Particulars	H Ltd.	S Ltd.
1	PPE	1,00,000	1,30,000
2	Investments (8,000 equity shares of S Ltd.)	1,26,000	
3	Current Assets	74,000	70,000
4	Share capital (Fully paid equity shares of Rs10 each)	1,50,000	1,00,000
5	Profit and loss account	50,000	40,000
6	Trade Payables	1,00,000	60,000

Additional information:

H Ltd. acquired the shares of S Ltd, on 1-7-2011 and Balance of Profit and loss account of S Ltd on 1-4-2011 was 30,000.

Prepare consolidated balance sheet of H Ltd and its subsidiary as at 31st March, 2012.

Percentage of holding

No	Particulars	No. of Shares	Percentage
1	Holding Co	2,000	80%
2	Minority shareholders	500	20%
3	**TOTAL SHARES**	**2,500**	

SUGGESTED ANSWERS

Solution 1

01 - Calculation of Cost of Raw Material X.

No	Particulars	Amount
1	Purchase price	380
2	Unloading charges	20
3	Freight inward	40
4	**Cost of Raw material X per unit**	**440**

02 - Calculation of cost of FG Chemical Y.

No	Particulars	Amount
1	Materials	440
2	Direct labour	120
3	Variable overheads	80
4	Fixed Overheads (ABSORBED) 24,00,000 / 20,000 units	20
5	**Cost of chemical Y / unit**	**660**

03 - In case net realisable value Chemical Y is 800.

In such a case,

a) RM - X will be valued at cost only (Rs. 440) as cost of finished goods (Rs. 660) is less than net realisable value of FG (Rs 800)

b) Chemical Y (FG) will be valued at lower of cost (Rs. 660) or net realisable value (Rs. 800) i.e. 660

Closing stock

No	Particulars	Amount
1	Raw material X: 1000 units 440 per unit	4,40,000
2	Chemical Y: 2,400 units 660 per unit	15,84,000
		20,24,000

04 - In case net realisable value of Chemical Y is Rs 600.

a) RM - X will be valued lower of cost (Rs. 440) or replacement cost (Rs. 300) since cost of finished goods (Rs. 660) is greater than net realisable value of F6 (Rs. 600). Therefore, RM stock would be valued @ Rs. 300.

b) Chemical Y shock would be valued at lower of cost (Rs. 660) or net realised value (Rs. 600) i.e. Rs. 600

Therefore, Closing stock

No	Particulars	Amount
1	Raw material X: 1000 u Rs 300/ unit	3,00,000
2	FG Y: 2,400 u x Rs 600/ unit	14,40,000
		17,40,000

Solution 2

Net Realizable Value of the Chemical Y (Finished Goods) is Rs. 600 per unit which is less than its cost Rs. 656 per unit Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock

No	Particulars	Qty	Rate	Amount
1	Raw Material X	1,000	320	3,20,000
2	Finished Goods Y	2,400	600	14,40,000
3	**Total Value of Closing Stock**			**17,60,000**

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

No	Particulars	Amount
1	**Raw Material X**	
	Cost Price	400
	Add: Freight Inward	40

	Cost	**440**
2	**Chemical Y**	
	Materials consumed	440
	Direct Labour	120
	Variable overheads	80
	Fixed overheads (4,00,000 / 25,000 units)	16
	Cost	**656**

Solution 3

M/S Subham creative limited.

Cash flow from investing Activities for the year ended 31/3/19

No	Particulars	Amount
	Cash flow from investing Activities:	
1	Unsecured loans given to associates	(5,00,000)
2	Interest on loans given to associates pre acquisition dividend on	70,000
3	Investment made	52,600
4	Interest received on investment (gross) (73,800 - 8,200)	82,000
5	TDS on interest received	(8,200)
6	Sale proceeds for plants and machinery sold [90,000(WDV) - 9,600 (loss)]	80,400
7	Cash flow from investing (Before extraordinary items)	(2,23,200)
8	**Extraordinary item:**	
	- Claim received for loss of machinery	55,000
9	**Cash flows from investing**	**(1,68,200)**

Notes:

No	Particulars
1	The following items have not been considered as they are financing in nature, a) Debenture interest paid b) Term loan repaid

2	Machinery acquired by issue of share is a non-cash item as it does not result in any movement of cash and hence is ignored.
3	Investment in debentures are made for very short terms period and since debentures can be readily converted into a determinable amount of cash, they can be treated as a cash equivalent and hence will not impact the cash flow from investing.

Solution 4

The related items given in the question will appear in the Cash Flow Statement of ABC Limited for the year ended 31 March, 2021 as follows:

No	Particulars	Amount	Amount
1	**Cash flows from operating activities:**		
2	Closing Balance as per Profit and Loss Account	28,00,000	
3	Less: Opening Balance as per Profit and Loss Account	(20,00,000)	
4	Less: Dividend received	50,000	
5			**7,50,000**
6	**Cash flows from investing activities:**		
7	Dividend received		50,000
8	**Cash flows from financing activities:**		
9	Proceeds from issuance of share capital		
	- Equity shares issued for cash	10,00,000	
	- Proceeds from securities premium (5,50,000 - 5,00,000)	50,000	
10	Less: Redemption of Preference shares (7,00,000 - 6,00,000)	(1,00,000)	9,50,000

Notes:

No	Particulars
1	Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the cash flow statement
2	ABC Ltd has been considered as a non-financial company in the given answer

Solution 5

Case – 01

No	Particulars
1	Suit filed against the company is a contingent liability but it was not existing as on date of balance sheet date as the suit was filed on 5th April after the balance sheet date.
2	As per AS 4, 'Contingencies' is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.
3	However, it may be disclosed with the nature of contingency, being a contingent liability.
4	This event does not pertain to conditions on the balance sheet date.
5	Hence, it will have no effect on financial statements and will be a ***non-adjusting event.***

Case – 02

No	Particulars
1	In this case, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31 March, 2021.
2	There was just a proposal before 31st March, 2021 and hence sale cannot be shown in the financial statements for the year ended 31 March, 2021.
3	Sale of immovable property is an event occurring after the balance sheet date and is a ***non-adjusting event.***

Case – 03

No	Particulars
1	In the given case, terms and conditions for acquisition of business were finalized before the balance sheet date and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2021.

2	Hence, it is an ***adjusting event*** and necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2021

Case – 04

No	Particulars
1	Only those events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure
2	In the given case, as the theft of cash was detected after approval of financial statements, no adjustment is required.
3	Hence it is ***non-adjusting event***

Solution 6

Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date:

No	Particulars
1	The sale of property should be treated as on adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale should be reflected in the financial statements ended on 31.3.2020 and the profit on sale of property Rs. 1,50,000 would be considered
2	The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.
3	On the basis of evidence provided, the claim against the company will not succeed. Thus, 8 million should not be provided in the account, but should be disclosed by means of a contingent liability with full details of the facts. Provision should be made for legal fee expected to be incurred to the extent that they are not expected to be recovered.

Solution 7

Classification of given items is as follows:

No	Particulars	Remarks
1	Actual bad debts turning out to be more than provisions.	Change in Accounting Estimates
2	Change from Cost model to Revaluation model for measurement of carrying amount of PPE	Change in Accounting Estimates
3	Government grant receivable as compensation for expenses incurred in previous accounting period.	Extra-ordinary Items
4	Treating operating lease as finance lease.	Prior-period Items
5	Capitalization of borrowing cost on working capital.	Prior-period Items (as interest on working capital loans is not eligible for capitalization)
6	Legislative changes having long term retrospective application.	Ordinary Activity
7	Change in the method of depreciation from straight line to WDV	Change in Accounting Estimates
8	Government grant becoming refundable.	Extra-ordinary Items
9	Applying 10% depreciation instead of 15% on furniture.	Prior-period Items
10	Change in useful life of fixed assets.	Change in Accounting Estimates

Solution 8

Calculation of Estimated Profit and Loss

No	Particulars	Rs in lakhs	Rs in lakhs
1	Total Estimated Revenue		12,000
2	Less: Total Estimated Cost		
3	Work Certified	6,250	
4	Work uncertified	1,250	
5	Estimated further cost to Complete	8,750	(16,250)
6	**Estimated Loss**		**4,250**

As there is an overall estimated loss, we should recognized the entire Rs. 4,250 Lakhs loss immediately during the year's ended 31st March 18.

Contract WIP

Note: As per AS 7 contract WIP refers to the cost incurred till date on going contract i.e. it include the cost incurred on the work done and irrespective of whether the work done is certified or not. Further ICAI considers the work certified well as uncertified at the cost only.

No	Particulars	Rs in lakhs
1	Cost Incurred on work certified	6,250
2	Add: Cost incurred on work uncertified (31/03/2018)	1,250
3	**Total Cost Incurred (Contract WIP) on work done**	**7,500**

Contract revenue for (17-18)

Stage of completion = 7,500/16,250 x 100 = 46.15%

No	Particulars	Rs in lakhs
1	Contract revenue till date (12,000 x 46.15%)	5,538
2	Contract revenue earlier recognized	-
3	**Contract revenue recognized (17-18)**	**5,538**

Amount due from/(to) the customers

No	Particulars	Rs in lakhs
1	Contract cost incurred till date	7,500
2	Add: Profit recognized till date	-
3	Less: Losses recognized till date	(4,250)
4		3,250
5	Less: Progress billings (Paid /unpaid) [5.5 + 15]	(7,000)
6	**Amount due to the customers**	**(3,750)**

Solution 9

01 - Calculation of estimated profit and loss (Total)

In this case, we have been given that the entity expects profit for the whole contract and their expectations continues over the entire three years. Hence there is no need to create provision for estimated loss.

02 - Calculation of stage of completion

(Amount in lacs)

No	Particulars	Year 1	Year 2	Year 3
1	Cost incurred till date	2,093	6,168	8,100
2	Add: Adjustment for materials		(100)	100
3	**Adjusted cost incurred till date (A)**	**2,093**	**6,068**	**8,200**

(Amount in lacs)

No	Particulars	Year 1	Year 2	Year 3
1	Total contract revenue for whole Project	9,000	9,200	9,200
2	Less: Total estimated Profit for whole project	(950)	(1,000)	(1,000)
3	Total estimated cost for the whole project (B)	8,050	8,200	8,200
4	**Stage of Completion**	**26%**	**74%**	**100%**

5	Stage of completion till date (A/B x 100)	(2,093 / 8,050 x 100)	(6,068 / 8,200 x 100)	(8,200 / 8,200 x 100)

03 - Calculation of revenue, cost, profit years wise:

(Amount in lacs)

No	Particulars	Till Date	Earlier Recorded	For the years
1	**Year 1**			
	Revenue (9,000 x 26%)	2,340	-	2,340
	Less: Expenses	(2,093)		(2,093)
	Profit	**247**		**247**
2	**Year 2**			
	Revenue (9,200 x 74%)	6,808	2,340	4,468
	Less: Expenses	(6,068)	(2,093)	(3,975)
	Profit	**740**	**274**	**493**
3	**Year 3**			
	Revenue (9,200 × 100%)	9,200	6,808	2,392
	Less: Expenses	(8,200)	(6,068)	(2,132)
	Profit	**1,000**	**740**	**260**

Solution 10

Case – 01

No	Particulars
1	As per AS-9, Revenue should be recorded when risk and rewards incidental to goods get transferred to the buyer.
2	In case of consignment sales, the risk and rewards get transferred when the consignment agent sells goods to an outsider.
3	Therefore, in this case revenue to be recorded = 75% x 400,000 = Rs 300,000.
4	25% of the garments lying unsold with Mr. Anand would be shown as closing stock.

Case – 02

No	Particulars
1	In this case, the goods have been sold on 25th March 2017 However, the delivery is postponed at the request of the buyer (Shine Boutiques).
2	However, the goods can be considered to be sold on 25th March 17, as the risk/rewards pass on to the buyers irrespective of the delivery.
3	Hence, sales worth of Rs. 1,95,000 should be recorded in 16 - 17

Case – 03

No	Particulars
1	As per AS - 9 in case of sales on approval basis revenue should be recorded when, i. Buyers communicates his approval or ii. The period for the communicating rejection ends.
2	In the given case, approval for 75% of the goods was receive up to 31 December 2016 and for the remaining 25% goods the period to communicate rejection ends on 1st March 2017 i.e. 1st November 16 plus 4 Months.
3	As the buyer has not communicated his rejection till 1st March 2017, the balance 25% goods are also considered to be sold during 16 – 17.
4	Therefore, sales should be recorded for the entire Rs. 2,50,000

Therefore, Sales during 16 - 17 = 3,00,000 + 1,95,000 + 2,50,000

= 7,45,000.

Solution 11

Case – 01 - Shoes sent to Mohan Shoes (consignee) for consignment sale

No	Particulars
1	In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer.
2	In the given case, Mohan Shoes is the consignee i.e., an agent of Tonk Tanners and not the buyer.

3	Therefore, the risk and reward is considered to vest with Tonk Tanners only till the time the sale is made to the third party by Mohan Shoes, although the goods are held by Mohan Shoes.
4	Hence, in the year 2019-2020, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for 3,20,000 x 75% = 2,40,000.

Case – 02 - Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date

No	Particulars
1	For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue and should not be recognised as revenue in the year 2019-2020.
2	Hence, sale of 4,50,000 to Shani Shoes should not be recognized as revenue.

Case – 03 - Delivery is delayed at buyer's request

No	Particulars
1	On 21 March, 2020, if Shoe Shine takes title and accepts billing for the goods then it is implied that the sale is complete and all the risk and rewards of ownership has been transferred to the buyer.
2	In case no significant uncertainty exists regarding the amount of consideration for sale, revenue shall be recognized in the year 2019-2020 irrespective of the fact that the delivery is delayed on the request of Shoe Shine.

Solution 12

Computation of amount of depreciation as per AS 10

No	Particulars	Amount
1	Machinery purchased on 1/4/15 for Rs. 10 lakhs (having residual value of Rs. 10 lakhs) (The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.)	Nil
2	Land (Rs. 50 lakhs) (considered freehold) (Land has an unlimited useful life and therefore, it is not depreciated.)	Nil
3	Machinery constructed for own use (Rs. 5,00,000/10) (The entity should begin charging depreciation from the date the machine is ready for use i.e. 1 April 2019. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation)	50,000
4	Machinery having revised useful life (The entity has charged depreciation using the straight-line method at Rs. 10,000 per annum i.e. (Rs. 50,000/5 years). On 1 April, 2019 the asset's net book value is [50,000 - (10,000 x 2)]. i.e. Rs. 30,000. The remaining useful life is 2 years as per revised estimate The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, It should charge depreciation for the next 2 years at 15,000 per annum i.e. (30,000/2 years).)	15,000

Solution 13

Case - 01

As per AS 10, a decrease in the carrying amount of an asset arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Calculation of revaluation loss and its accounting treatment

No	Particulars	Amount
1	Carrying value of the asset as on 31 March, 2022 (a)	2,16,000
2	Revalued amount of the asset (b)	(1,90,000)
3	Total revaluation loss on asset (a – b = c)	26,000
4	Adjustment of previous revaluation reserve (d)	(20,000)
5	**Net revaluation loss to be charged to the Profit and loss account (c – d = e)**	**6,000**

Case - 02

AS 10 states that the carrying amount of an item of property, plant and equipment is derecognized on disposal of the asset. It further states that the gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognized. Gains should also not be classified as revenue,

Calculation of revaluation loss and its accounting treatment

No	Particulars	Amount
1	Original cost of the asset (a)	76,000
2	Accumulated depreciation till date (b)	(62,000)
3	Carrying value of the asset as on 31 Mar, 2022 (a – b = c)	14,000
4	Cash received on disposal of the asset (d)	(4,000)
5	**Loss on disposal of asset charged to the Profit and loss account (c – d = e)**	**10,000**

Solution 14

Case – 01

No	Particulars
1	As per AS 11 'The Effect of Changes in Foreign Exchange Rates" a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.
2	Moreover, at each balance sheet date, foreign currency monetary items should be reported using the closing rate.
3	Accordingly, on 31.12.2020 borrowings will be recorded at Rs. 1,32,00,000 (i.e., Rs. 3,00,000 x Rs. 44.00).
4	On 31.3.2021 borrowings (monetary items) will be recorded at Rs. 1,33,50,000 (i.e. $ 3,00,000 x Rs. 44.50).

Journal of Kumar Ltd.

Date	Particulars		Debit	Credit
31.12.20	Bank A/c	Dr	1,32,00,000	
	To Foreign Loan Account			1,32,00,000
31.03.21	Foreign Exchange Difference A/c	Dr	1,50,000	
	To Foreign Loan Account			1,50,000
30.06.21	Foreign Loan A/c	Dr	1,33,50,000	
	Foreign Exchange Difference A/c	Dr	75,000	
	To Bank A/c			1,34,25,000

Case – 02 - In case borrowings were repaid before Balance Sheet Date, then the entry would be as follows:

Date	Particulars		Debit	Credit
30.06.21	Foreign Loan A/c	Dr	1,32,00,000	
	Foreign Exchange Difference A/c	Dr	60,000	
	To Bank A/c			1,32,60,000

Working Notes:

No	Particulars
1	The exchange difference of Rs. 1,50,000 is arising because the transaction has been reported at different rate (Rs. 44.50 = 1 US $) from the rate initially recorded (i.e., Rs. 44 = 1 US$) from the rate initially recorded (i.e., Rs. 44 = 1 US $)
2	The exchange difference of Rs. 75,000 is arising because the transaction has been settled at an exchange rate (Rs. 44.75 = 1 US$) different from the rate at which reported in the last financial statements (Rs. 44.50 = 1 US$)
3	The exchange difference of Rs. 60,000 is arising because the transaction has been settled at a different rate (i.e., Rs. 44.20 = 1 US $) than the rate at which initially recorded (1 US $ = Rs. 44.00)

Solution 15

No	Particulars	Classification
1	Inventories	Non-monetary
2	Trade Receivables	Monetary
3	Investment in Equity shares	Non-monetary
4	Property, Plant and Equipment	Non-monetary
5	Share capital	Non-monetary
6	Trade Payables	Monetary
7	Cash balance	Monetary

Solution 16

Case – 01

No	Particulars
1	Rs. 35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant
2	Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as Other Income.
3	Alternatively, Rs. 35 lakhs may be deducted in reporting the related expense i.e. Employee benefit expenses.

Case – 02

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

Case – 03

No	Particulars
1	Rs. 10 lakhs grant received for installation anti-pollution equipment is a grant related to specific fixed asset Two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives.

2	Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value.
3	The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge.
4	Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset
5	Thus, Rs. 10 lakhs may either be deducted from the cost of equipment or treated as deferred income to be recognized on a systematic basis in profit & Loss A/c over the useful life of equipment.

Solution 17

Journal of Kumar Ltd.

Year	Particulars		Debit	Credit
2nd	Fixed Asset A/c	Dr	7,50,000	
	To Bank Account			7,50,000
	(Being government grant on asset partly refunded which increased the cost of fixed asset)			
2nd	Depreciation A/c (W.N)	Dr	5,50,000	
	To Fixed Asset A/c			5,50,000
	(Being depreciation charged on SLM on revised value of fixed asset prospectively)			
2nd	Profit & Loss A/c	Dr	5,50,000	
	To Depreciation A/c			5,50,000
	(Being depreciation transferred to Profit and Loss Account at the end of year 2)			

Working Note:

No	Particulars	Rs in Lakhs
1	Cost of the Asset	30
2	Less: Government grant received	(12)
3	Less: Depreciation for the first year (18 – 6 / 4)	(3)
4		15
5	Add: Government grant refundable	7.5
6	Depreciation for the second year (22.5 - 6/3)	22.5
7		5.5

Solution 18

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

Case - 01

No	Particulars
1	In this case, carrying amount of investment on the date of transfer is less than the cost.
2	Hence this re-classified current investment should be carried at Rs. 9 lakhs in the books.

Case - 02

No	Particulars
1	The carrying / book value of the long-term investment is same as cost i.e. Rs. 14 lakhs.
2	Hence this long-term investment will be reclassified as current investment at book value of Rs. 14 lakhs only.

Case - 03

No	Particulars
1	The carrying / book value of the long-term investment is same as cost i.e.. Rs. 14 lakhs.
2	Hence this long-term investment will be reclassified as current investment at book value of Rs. 14 lakhs only.

Case - 04

No	Particulars
1	Market value of the investment is Rs. 16.5 lakhs, which is lower than its cost i.e., Rs. 18 lakhs.
2	Therefore, the transfer to long term investments should be done in the books at the market value i.e., Rs. 16.5 lakhs.

Solution 19

No	Particulars
1	As per AS 13 Accounting for Investments if the shares are purchased with an intention to hold for short-term period then investment will be shown at the realizable value
2	In the given case, shares purchased on 31st October 2016, will be valued at Rs. 3,75,000 as on 31 March, 2017 Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise.
3	Hence, the investment in gold and silver (purchased on 31 March, 2014) shall continue to be shown at cost as on 31 March, 2017 i.e., Rs. 5,00,000 and Rs. 2,25,000 respectively, though their realizable values have been increased
4	Thus the shares, gold and silver will be shown at Rs. 3,75,000, Rs. 5,00,000 and Rs. 2,25,000 respectively and hence, total investment will be valued at Rs. 11,00,000 in the books of account of M/s Active Builders for the year ending 31 March, 2017 as per provisions of AS 13

Solution 20

As per AS 14 'Accounting for Amalgamations', the term 'consideration' has been defined as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. The payment made by transferee company to discharge the Debenture holders and outside liabilities and cost of winding up of transferor company shall not be considered as part of purchase consideration.

Computation of Purchase Consideration

No	Particulars	Rs
1	Cash payment (15 x 1,50,000)	22,50,000
2	11% Preference Shares of 10 each (1,50,000 x 3/5) x 10	9,00,000
3	Equity shares of 10 each @ 20% premium (1,50,000 x 4/5) x 12	14,40,000
4	**Total Purchase consideration**	**45,90,000**

Solution 21

As per AS 16, borrowing cost attributable to the qualifying asset should be capitalized. In the given case, construction of shed is assumed to take a substantial period of time and hence is considered as a qualifying asset. Machinery is installed on the date of acquisition itself and hence does not take a substantial period of time Similarly, the truck could be purchased in the ready to use condition and hence would not be a qualifying asset Working capital comprises of current assets and current liabilities and hence is usually not a qualifying assets.

Additionally, the net borrowing cost to be capitalized,

= 12,00,000 (Interest) (-) 3,00,000 (Income on surplus funds)

= 9,00,000.

No	Particulars	Nature	Expenditure (Rs lakhs)	Attributable interest
1	Attributable interest	Qualifying Asset	40	9 x 40/100 = 3.6 Capitalized
2	Purchase of machinery	Non - Qualifying Asset	35	9 x 35/100 = 3.15 Expensed to P&L
3	Working capital	Non - Qualifying Asset	25	9 x 25/100 = 2.25 Expensed to P&L

Solution 22

Calculation of capitalization rate on borrowings other than specific borrowings

No	Nature of general borrowings	Period of Outstanding balance	Amount of loan (Rs.)	Rate of interest p.a.	Weighted average amount of Interest
1	9% Debentures	12 Months	20,00,000	9%	1,80,000
2	Bank overdraft	9 Months	4,00,000	10%	30,000
3		2 Months	4,00,000	12%	8,000
4		1 Month	8,00,000	12%	8,000
5			36,00,000		2,26,000

Weighted average cost of borrowings.

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

Capitalisation rate = Weighted average amount of interest / Weighted average of general borrowings) x 100

= 2,26,000/24,33,334 x 100

= 9.29% p.a.

Solution 23

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

No	Particulars
1	Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments, or
2	Its segment result whether profit or loss is 10% or more of: ➢ The combined result of all segments in profit, or

	➢ The combined result of all segments in loss, whichever is greater in absolute amount, or
3	Its segment assets are 10% or more of the total assets of all segments.
4	On the basis of revenue criteria, segments A, B, C and D all are reportable segments.
5	On the basis of the result criteria, segments A, B and C are reportable segments (since their results in absolute amount is 10% or more of 125 Lakhs).
6	On the basis of asset criteria, all segments except D are reportable segments.
7	Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with Accounting Standard (AS) 17.

Solution 24

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

Its segment results whether profit or loss is 10% or more of:

- ➢ The combined result of all segments in profit, i.e. Rs. 250 Lakhs or
- ➢ The combined result of all segments in loss, i.e. Rs. 300 Lakhs Whichever is greater in absolute amount i.e. Rs. 300 Lakhs.

Operating Segment	Absolute amount of Profit or Loss (In lakhs)	Reportable Segment Yes or No
A	225	Yes
B	27	No
C	175	Yes
D	20	No
E	105	Yes

On the basis of the profitability test (result criteria), segments A, C and E are reportable segments (since their results in absolute amount is 10% or more of Rs. 300 lakhs i.e. Rs. 30 lakhs).

Solution 25

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 30.06.2022:

Case	Particulars
1	The transactions for the period in which related party relationship did not exist need not be reported.
2	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
3	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

Solution 26

Case – 01

No	Particulars
1	Mr. Happy will not be considered as a related party of Khushi Limited in view of provisions of AS 18 "Related Party Disclosures" which states, "individuals owning, directly or indirectly, on interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual are related parties".
2	In the given case, in the absence of share ownership, Mr. Hoppy would not be considered to exercise significant influence on Khushi Limited, even though there is an agreement giving him the power to manage the company.
3	Further, the fact that Mr. Happy does not have the ability to direct or instruct the board of directors does not qualify him as key management personnel

Case – 02

No	Particulars
1	According to AS 18 on Related Party Disclosures parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions
2	Hence, Shri Bhanu, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31.03.2021 as he received remuneration for his services in the company for the period from 1st April 2020 to 30 June 2020

Solution 27

01 - Computation of annual lease payment to the lessor

No	Particulars	Amount
1	Cost of equipment	16,99,999.50
2	Unguaranteed residual value	1,33,500.00
3	Present value of residual value after third year @ 10% (Rs. 1,33,500 x 0.751)	1,00,258.50
4	Fair value to be recovered from lease payments (Rs. 16,99,999.50 - Rs. 1,00,258.50)	15,99,741.00
5	Present value of annuity for three years is 2.486	
6	**Annual lease payment = Rs. 15,99,741/2.486**	**6,43,500.00**

02 - Computation of Unearned Finance Income

No	Particulars	Amount
1	Total lease payments (6,43,500 x 3)	19,30,500
2	Add: Unguaranteed residual value	1,33,500
3	**Gross investment in the lease**	**20,64,000**
4	Less: Present value of investment (lease payments and residual value) (1,00,258.5 + 15,99,741)	(16,99,999.50)
5	**Unearned finance income**	**3,64,000.50**

Solution 28

Following will be the treatment in the given cases:

Case	Particulars
1	When sale price of Rs. 400 lakhs is equal to fair value, X Ltd. should immediately recognise the profit of 100 lakhs (i.e. Rs. 400 - Rs. 300) in its books,
2	When fair value is Rs. 450 lakhs then also profit of Rs. 100 lakhs should be immediately recognised by X Ltd.
3	When fair value of leased machinery is Rs. 350 lakhs & sales price is Rs. 250 lakhs, then loss of Rs. 50 lakhs (Rs. 300 - Rs. 250) to be

	immediately recognised by X Ltd. in its books provided loss is not compensated by future lease payment.
4	When fair value is Rs. 300 lakhs & sales price is Rs. 400 lakhs then, profit of Rs. 100 lakhs is to be deferred and amortised over the lease period.
5	When fair value is Rs. 250 lakhs & sales price is Rs. 290 lakhs, then the loss of Rs. 50 lakhs (Rs. 300 - Rs. 250) to be immediately recognised by X Ltd, in its books and profit of Rs. 40 lakhs (Rs. 290 - Rs. 250) should be amortised/deferred over lease period.

Solution 29

Basic EPS = 75,00,000/10,00,000

= Rs 7.5

Diluted EPS = 75,00,000 + (1,00,000 x 100) x 8% (t - 1) / 10,00,000 1,10,000

= 8,060,000 / 11,10,000

= Rs. 7.26 (Diluted)

Solution 30

$$= \frac{\text{Fair value of shares immediately prior to exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$= \frac{(21.00 \times 5,00,000\ shares) + (15.00 \times 1,00,000\ Shares)}{5,00,000\ Shares + 1,00,000\ Shares}$$

= Theoretical ex-rights fair value per share = Rs. 20.00

Computation of adjustment factor:

$$= \frac{Fair\ value\ per\ share\ prior\ to\ exercise\ of\ rights}{Theoretical\ ex-rights\ value\ per\ share} = 21/20 = 1.05$$

Computation of earnings per share:

EPS for the year 20X1 as originally reported: Rs. 11,00,000/5,00,000 shares = Rs. 2.20

EPS for the year 20X1 restated for rights issue: Rs. 11,00,000/ (5,00,000 shares x 1.05) = Rs. 2.10

EPS for the year 20X2 including effects of rights issue:

(5,00,000 x 1.05 x 2/12) + (6,00,000 x 10/12) = 5,87,500 shares

EPS = 15,00,000/5,87,500 = Rs. 2.55

Solution 31

Difference due to depreciation (Timing difference)

In this case, there is a difference of 80 – 70 = 10 due to depreciation. This difference can be due to one of the following factors:

No	Particulars
1	A lower depreciation expenses as per IT in the CY which will result in a higher taxable income in the CY and hence a higher tax expense. This will be reversed by lower tax expenses in the future years. Hence we can creates a DTA for the differences **OR**
2	The entity has already claimed higher depreciation under IT in the earlier years and hence paid lower taxes then. Now these differences are reversing and hence a higher tax is paid in the CY. In such a case, we would treat the differences as reversal of DTL already recorded.
3	Thus, Reversal of DTL = 10 x 30% = 3.0

Reference: ICAI has followed the second alternative though any of the 2 can be taken.

No	Particulars
1	**Difference due to Disallowances (Timing difference):** In this case the expense is disallowed in 17-18, the entity would have created a deferred tax assets for the same in 17-18. Now that there expenses are allowed as a deduction In the years 18-19, the deferred tax asset already created needs to be reversed. Thus, Reversal of DTA = 10 x 30% = 3
2	**Donations to private trusts (Permanent difference):** As Donation to private trust is disallowed under the IT act permanently, this is a permanent difference and hence no deferred tax needs to be created.

Solution 32

Tax as per accounting profit = 15,00,000 x 20% = Rs. 3,00,000

Tax as per Income-tax Profit = 2,50,000 x 20% = 50,000

Tax as per MAT = 7,50,000 x 7.50% = 56,250

Tax expense = Current Tax + Deferred Tax

Rs. 3,00,000 = Rs. 50,000 + Deferred tax

Therefore, Deferred Tax liability as on 31-03-2020

= 3,00,000 - 50,000 = Rs. 2,50,000

Amount of tax to be debited in Profit & Loss account for the year 31-03-20

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= Rs. 50,000 + Rs. 2,50,000 + Rs. 6,250 (56,250 - 50,000)

= Rs. 3,06,250

Solution 33

Disclosures for discontinuing operation from the date of initial disclosure event:

No	Particulars
1	A description of the discontinuing operations
2	The date of the initial disclosure event
3	The pre-tax profit and the income tax attributable to the discontinuing operations.
4	The amount of assets / liabilities of the discontinuing operations
5	The net cash flows attributable to discontinuing operations
6	The expected date when the discontinuation is expected to be completed determinable

Solution 34

Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

No	Particulars
1	Gradual or evolutionary phasing out of a product line or class of service;
2	Discontinuing, even if relatively abruptly, several products within an ongoing line of business;
3	Shifting of some production or marketing activities for a particular line of business from one location to another; and
4	Closing of a facility to achieve productivity improvements or other cost savings.

Solution 35

Note:

No	Particulars
1	10% revenue share is linked to operation of franchise and not linked to acquisition and hence needs to be expensed to Profit & Loss
2	Usually amortization happen on pro rata basis from date of acquisition Since we separately given in this question to charge full year's amortization and hence we have done the same

Naresh Ltd.

Balance Sheet (Extract relating to intangible asset) as on 31st March 2020

Particulars	Note No	Rs
Assets		
Non-current assets	1	8,11,200

Notes to Accounts:

No	Particulars	Rs	Rs
1	Intangible assets		
2	Goodwill (Refer to note 1)	4,51,200	
3	Franchise (Refer to Note 2)	1,50,000	
4	Patents (Refer to Note 3)	2,10,000	8,11,200

Working Note:

No	Particulars	Rs
1	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	10,80,000
	Less: Fair value of net assets acquired	(5,16,000)
	Goodwill	5,64,000
	Less: Amortisation as per AS 14 i.e. over 5 years (as per SLM)	(1,12,800)
	Balance to be shown in the balance sheet	4,51,200
2	Franchise	1,80,000
	Less: Amortisation (over 6 years)	(30,000)
	Balance to be shown in the balance sheet	1,50,000
3	Patent	2,40,000
	Less: Amortisation (over 8 years as per SLM)	(30,000)
	Balance to be shown in the balance sheet	2,10,000

Solution 36

No	Particulars
1	As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate of its useful life.
2	There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use.
3	Company has been following the policy of amortization of the intangible asset over a period of 15 years on straight line basis.
4	The period of 15 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2021 at Rs 72 lakhs i.e.

Rs 120 lakhs less 48 lakhs (Rs. 120 lakhs / 10 years x 4 years = 48 lakhs)

The difference of Rs 16 Lakhs (Rs 88 lakhs - Rs 72 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of Rs 72 lakhs will be amortized over remaining 6 years by amortizing Rs 12 lakhs per year.

Solution 37

Case – 01 - It is likely that A is a separate cash-generating unit because there is an active market for its products.

No	Particulars
1	Although there is an active market for the products assembled by B and C, cash inflows for B and C depend on the allocation of production across the two sites.
2	It is unlikely that the future cash inflows for B and C can be determined individually

3	Therefore, it is likely that B and C together is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent
4	In determining the value in use of A and B plus C, M Ltd. adjusts financial budgets/forecasts to reflect its best estimate of future market prices for A's products,

Case – 02 - It is likely that the recoverable amount of each plant cannot be assessed independently because:

No	Particulars
1	there is no active market for A's products. Therefore, A's cash inflows depend on sales of the final product by B and C; and
2	although there is an active market for the products assembled by B and C, cash inflows for B and C depend on the allocation of production across the two sites It is unlikely that the future cash inflows for B and C can be determined individually

As a consequence, it is likely that A, B and C together (i.e., M Ltd. as a whole) is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent.

Solution 38

According to AS 28 "Impairment of Assets", an impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Impairment Loss and its treatment

No	Particulars	Amount
1	Current carrying amount (including revaluation amount of 14 lakhs)	27,30,000
2	Less: Current recoverable amount	(12,00,000)
3	Impairment Loss	15,30,000
4	Impairment loss charged to revaluation reserve	14,00,000
5	Impairment loss charged to profit and loss account	1,30,000

After the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount less its residual value (if any), on a systematic basis over its remaining useful life.

In the given case, the carrying amount of the asset will be reduced to Rs. 12,00,000 after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year). Therefore, the depreciation for the current year will be Rs. 4,00,000.

Solution 39

Case – 01

No	Particulars
1	As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not Liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.
2	In the given case, there are 75% chances that the penalty may not be levied.
3	Accordingly, Saharsh Ltd. should not make the provision for penalty.
4	However, a provision should be made for remaining 50% fees of the lawyer in the financial statements of financial year 2021-2022

Case – 02

No	Particulars	Amount
1	Loss due to accident	30,00,000
2	Insurance claim receivable by company = Rs. 30,00,000 x 90%	27,00,000
3	Loss to be recognised in the books for 2019-2020	3,00,000
4	Insurance claim receivable to be recorded in the books	27,00,000

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

= Rs. 30,00,000 x 15%

= Rs. 4,50,000

Solution 40

No	Particulars
1	There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation Provision is recognised. ***Disclosures are required for the provision.***
2	There is a possible obligation or a present obligation that may, but probably will not. require an outflow of resources - ***No provision is recognised. Disclosures are required for the contingent liability.***
3	There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote - ***No provision is recognised. No disclosure is required.***

Solution 41

Gaurav Ltd. Balance Sheet as on 31 March, 2019

No		Particulars	Notes	Rs
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	12,48,750
	B	Reserves and Surplus	2	3,70,875
2		Non-current liabilities		
	A	Long-term borrowings	3	3,29,375
3		Current liabilities		
	A	Trade Payables		2,50,000
	B	Other-term provisions	4	9,375
	C	Short-term provisions	5	1,60,000
		Total		**23,68,375**
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	6	14,06,250
2		Current assets		
	A	Inventories	7	3,12,500
	B	Trade receivables	8	2,50,000
	C	Cash and cash equivalents	9	3,46,250
	D	Short-term loans and Advances		53,375
		Total		**23,68,375**

Notes to Accounts

No	Particulars	Rs	Rs
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and called-up		

	12,500 Equity Shares of Rs 100 each (of the above 2,500 shares have been issued for consideration other than cash)	12,50,000	
	Less: Calls in arrears	(1,250)	12,48,750
	Total		**12,48,750**
2	**Reserves and Surplus**		
	General Reserve		2,62,500
	Surplus (Profit & Loss A/c)		1,08,375
	Total		**3,70,875**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (1,87,500 - 9,375) (Secured by hypothecation of Plant and Machinery)		1,78,125
	Unsecured Loan		1,51,250
	Total		**3,29,375**
4	**Other current liabilities.**		
	Interest accrued but not due on loans (SFC)		9,375
5	**Short-term provisions.**		
	Provisions for taxation		1,60,000
6	**Property, plant and equipment**		
	Land and Buildings	7,50,000	
	Less: Depreciation	(62,500)	6,87,500
	Plant and Machinery	8,75,000	
	Less: Depreciation	(2,18,750)	6,56,250
	Furniture and Fittings	78,125	
	Less: Depreciation	(15,625)	62,500
	Total		**14,06,250**
7	**Inventories**		
	Raw Materials	62,500	
	Finished goods	2,50,000	3,12,500
8	**Trade receivables**		

	Outstanding for a period exceeding six months		65,000
	Other Amounts		1,85,000
			2,50,000
9	**Cash and cash equivalents**		
	Cash at bank with Scheduled Banks	3,06,250	
	Cash at bank with others (Global Bank Ltd.)	2,500	
	Cash in hand	37,500	
			3,46,250

Solution 42

Cash Flow Statement of Light Ltd. for the year ended 31 March, 2020

No	Particulars	(Rs '000)	(Rs '000)
1	Cash flows from operating activities		
	Cash receipts from custrs	24,894	
	Cash payments to suppliers	(18,306)	
	Cash paid to employees	(621)	
	Other cash payments (for Selling & Administrative expenses)	(1,035)	
	Cash generated from operations	4,932	
	Inc taxes paid	(2,187)	
	Net cash from operating activities		**2,745**
2	Cash flows from investing activities		
	Payments for purchase of fixed asset	(2,070)	
	Proceeds from sale of fixed assets	1,152	
	Purchase of investments	(117)	
	Sale of investments	153	
	Net cash used in investing activities		**(882)**
3	Cash flows from financing activities		
	Proceeds from issuance of share capital	2,700	
	Bank loan repaid	(2,250)	
	Interest paid on bank loan	(450)	
	Dividend paid	(720)	
	Net cash used in financing activities		**(720)**
4	Net increase in cash and cash equivalents		1,143
5	Cash and cash equivalents at beginning of period		315
6	**Cash and cash equivalents at end of period**		**1,458**

Solution 43

Journal Entries in the books of Umang Ltd.

No	Particulars		Debit	Credit
1	Bank A/c	Dr	25,00,000	
	Profit and Loss A/c	Dr	5,00,000	
	To Investment A/c			30,00,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			

No	Particulars		Debit	Credit
2	Bank A/c	Dr	20,00,000	
	To 12% Preference Share capital A/c			20,00,000
	(Being 12% Preference Shares issued for Rs 20,00,000)			

No	Particulars		Debit	Credit
3	Equity share capital A/c	Dr	50,00,000	
	Premium payable on buy-back A/c	Dr	25,00,000	
	To Equity shares buy-back A/c / Equity shareholders A/c			75,00,000
	(Being the amount due on buy-back of equity shares)			

No	Particulars		Debit	Credit
4	Equity shares buy-back A/c or Equity shareholders A/c	Dr	75,00,000	
	To Bank A/c			75,00,000
	(Being payment made for buy-back of equity shares)			

No	Particulars		Debit	Credit
5	Securities Premium A/c	Dr	15,00,000	
	General Reserve A/c	Dr	10,00,000	
	To Premium payable on buy-back A/c			25,00,000
	(Being premium payable on buy-back charged from Securities premium)			

No	Particulars		Debit	Credit
6	General Reserve A/c	Dr	30,00,000	
	To Capital Redemption Reserve A/c			30,00,000
	(Being creation of capital redemption reserve to the extent of the equity shores bought back after deducting fresh pref. shares issued)			

Solution 44

In the books of Dee Limited Journal Entries

No	Particulars		Debit	Credit
1	Bank A/c	Dr	22,00,000	
	Profit and Loss A/c	Dr	8,00,000	
	To Investment Account			30,00,000
	(Being the investments sold at loss for the purpose of buy back)			
2	Equity Share capital Account	Dr	5,00,000	
	Premium payable on buy back Account	Dr	20,00,000	
	To Equity shares buy back Account			25,00,000
	(Being the amount due on buy back)			
3	Securities premium A/c	Dr	20,00,000	
	To Premium payable on buy back A/c			20,00,000
	(Being the premium payable on buy back adjusted against securities premium account)			
4	Revenue reserve A/c	Dr	3,00,000	
	To Capital Redemption Reserve Account			3,00,000
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)			
5	Equity shares buy-back A/c	Dr	25,00,000	
	To Bank A/c			25,00,000
	(After buy back of shares)			

Balance Sheet of Dee Ltd as on 1st April, 2011 (After buy back of shares)

No		Particulars	Notes	Rs
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	22,00,000
	B	Reserves and Surplus	2	69,00,000
2		Current liabilities		14,00,000
		Total		**1,05,00,000**
		Assets		
1		Non-current assets		
	A	Property, plant and equipment		93,00,000
2		Current assets (15,00,000 – 3,00,000)		12,00,000
		Total		**1,05,00,000**

Notes to Accounts

No	Particulars	Rs	
1	**Share Capital**		30,00,000
	Authorised capital:		
	Issued and subscribed capital:		
	2,00,000 Equity shares of Rs 10 each fully paid up	20,00,000	
	2,000 10% Preference shares of Rs 100 each fully paid up	10,00,000	
2	**Reserves and Surplus**	3,00,000	
	Capital reserve		
	Capital redemption reserve		
	Securities Premium	22,00,000	
	Less: Premium payable on buy back of shares	(20,00,000)	
	Revenue reserve	30,00,000	
	Less: Transfer to Capital redemption reserve	(3,00,000)	
	Profit and loss A/c	35,00,000	
	Less: Loss on investment	(8,00,000)	69,00,000

Solution 45

Journal entries in the books of Recover Ltd

No	Particulars	Debit	Credit
1	8% Cumulative Pref. share capital (Rs. 10) A/c	150,000	
	To 8% Cumulative Pref. share capital (Rs. 2.5)		37,500
	To Reconstruction (Rs. 7.5) A/c		112,500
	(Preference shares being reduced to shares of Rs. 2.5 per share and remaining transferred to reconstruction account as per internal reconstruction scheme)		

No	Particulars	Debit	Credit
2	Equity Share capital A/c (Rs. 10) Dr	200,000	
	To Equity Share Capital A/c (Rs. 1)		20,000
	To Reconstruction A/c (Rs. 9)		180,000
	(Equity shares reduced to Rs. 1 per share with the remaining amount transferred to reconstruction account as a part of the internal reconstruction scheme)		

No	Particulars	Debit	Credit
3	Reconstruction A/c Dr	48,000	
	To Equity share capital A/c		48,000
	(Equity shares of Rs. 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)		

No	Particulars	Debit	Credit
4	10% Debentures A/c Dr	50,000	
	Interest payable on debentures A/c Dr	5000	
	Bank A/c Dr	20,000	
	Reconstruction A/c Dr	45,000	
	To Freehold property A/c		120,000

	(Debenture holders being paid by the sale of property, which is sold at a loss debited to the reconstruction account. Amount received in excess being refunded to company by debenture holders as a part of the internal reconstruction scheme)

No	Particulars		Debit	Credit
5	Reconstruction A/c	Dr	90,000	
	To Plant and Machinery A/c			30,000
	To Goodwill A/c			50,000
	To Inventory A/c			10,000
	(The assets written off as a part of the internal reconstruction scheme)			

No	Particulars		Debit	Credit
6	Bank A/c	Dr	32,000	
	Reconstruction A/c	Dr	8000	
	To Investment A/c			40,000
	(Investments sold at a loss debited to reconstruction account as a part of the internal reconstruction scheme)			

No	Particulars		Debit	Credit
7	Contingent Liability A/c	Dr	7000	
	To Bank A/c			7000
	(Contingent liability paid as a part of the internal reconstruction scheme)			

No	Particulars		Debit	Credit
8	Bank A/c	Dr	6300	
	Reconstruction A/c	Dr	700	
	To Contingent Liability A/c			7000

	(The insurance company remitting part of the contingency payment amount)

No	Particulars		Debit	Credit
9	Reconstruction A/c	Dr	70,000	
	To Profit and Loss A/c			70,000
	(Accumulated losses written off to reconstruction account as a part of the internal reconstruction scheme)			

No	Particulars		Debit	Credit
10	Reconstruction A/c	Dr	30,800	
	To Capital Reserve A/c			30,800
	(The balance in reconstruction account transferred to capital reserve as a part of the internal reconstruction scheme)			

Balance Sheet of Recover Ltd as at 31st March 20X1 (and reduced)

No		Particulars	Notes	Rs
	Equity and Liabilities			
1		Shareholders' funds		
	A	Share capital	1	105,500
	B	Reserves and surplus	2	30,800
2		Non-current liabilities		
	A	Long-term borrowings		
3		Current liabilities		
	A	Trade Payables		80,000
	B	Short-term borrowings – Bank Overdraft		90,000
		Total		**306,300**
	Assets			
1		Non-current assets		
	A	Property, plant and equipment	3	185,000
2		Current assets		
	A	Inventories		20,000

	B Trade receivables		50,000
	C Cash and cash equivalents	4	51,300
	Total		**306,300**

Notes to Accounts

Note – 01 - Share Capital

No	Particulars	Rs
1	Equity share capital	
	68,000 Equity Shares of Rs. 1 each	68,000
2	Preference share capital	
	15,000 8% Cumulative Preference Shares of Rs. 2.5 each	37,500
3	**Total**	105,500

Note – 02 - Reserves and Surplus

No	Particulars	Rs
1	Capital reserve	30,800

Note – 03 – Property, Plant and Equipment

No	Particulars	Rs
1	Leasehold property	85,000
2	Plant and machinery	100,000
3	**Total**	**185,000**

Note – 04 - Cash and cash equivalents

No	Particulars	Rs
1	Bank A/c (20,000 + 32,000 – 7000 + 6300)	51,300

Solution 46

Journal Entries in books of Green Ltd.

No	Particulars		Debit	Credit
1	Bank Account	Dr	10,00,000	
	To Equity Share Capital Account			10,00,000
	(Balance of Rs. 10 per share on 100,000 equity shares called up as per reconstruction scheme)			

No	Particulars		Debit	Credit
2	Equity Share Capital Account (Rs. 50)	Dr	75,00,000	
	To Equity Share Capital Account (Rs. 20)			30,00,000
	To Capital Reduction Account			45,00,000
	(Reduction of equity shares of RS. 50 each to shares of Rs. 20 each as per reconstruction scheme)			

No	Particulars		Debit	Credit
3	12% First Debentures Account	Dr	300,000	
	12% Second Debentures Account	Dr	700,000	
	Trade payables Account	Dr	200,000	
	To X			12,00,000
	(The total amount due to X, transferred to his account)			

No	Particulars		Debit	Credit
4	Bank Account	Dr	200,000	
	To X A/c			200,000
	(The amount paid by X under the reconstruction scheme)			

No	Particulars		Debit	Credit
5	12% First Debentures Account	Dr	200,000	
	12% Second Debentures Account	Dr	300,000	
	Trade payables Account	Dr	100,000	
	To Y A/c			600,000
	(The total amount due to Y, transferred to his account)			

No	Particulars		Debit	Credit
6	Y A/c	Dr	600,000	
	To 14% First Debentures Account			300,000
	To Capital Reduction Account			300,000
	(The amount due to Y discharged by issue of 14% first debentures)			

No	Particulars		Debit	Credit
7	X A/c	Dr	14,00,000	
	To 14% First Debentures Account			700,000
	To Capital Reduction Account			700,000
	(The cancellation of Rs. 700,000 out of total debt of Mr. X and issue of 14% first debentures for the balance amount as per reconstruction scheme)			

No	Particulars		Debit	Credit
8	Capital Reduction Account	Dr	55,00,000	
	To Goodwill Account			20,00,000
	To Profit and Loss Account			20,00,000
	To Computers Account			15,00,000
	(The balance amount of capital reduction account utilized in writing off goodwill, profit and loss account, and computers - Working Note)			

Balance Sheet of Green Ltd. (and reduced)
As at 31st March 20X1

No	Particulars	Notes	Rs
	Equity and Liabilities		
1	Shareholders' funds		
	a. Share capital	1	30,00,000
2	Non-current liabilities		
	a. Long-term borrowings	2	10,00,000
3	Current liabilities		
	a. Trade Payables		200,000
	Total		**42,00,000**
	Assets		
1	Non-current assets		
	a. Property, plant and equipment	3	30,00,000
2	Current assets		
	Cash and cash equivalents		12,00,000
	Total		**42,00,000**

Notes to Accounts

Note – 01 - Share Capital

No	Particulars	Rs
1	Equity share capital	
	Issued, subscribed and paid-up	
	150,000 equity shares of Rs. 20 each	30,00,000
	Total	**30,00,000**

Note – 02 - Long-term borrowings

No	Particulars	Rs
1	Secured	
	14% First Debentures	10,00,000
	Total	**10,00,000**

Note – 03 – Property, Plant and Equipment

No	Particulars	Rs
1	Building	10,00,000
2	Plant	10,00,000
3	Computers	10,00,000
	Total	**30,00,000**

Working Note

Capital Reduction Account

Particulars	Rs	Particulars	Rs
To Goodwill A/c	20,00,000	By Equity Share Capital A/c	45,00,000
To P and L A/c	20,00,000	By X	700,000
To Computers (bal. fig.)	15,00,000	By Y	300,000
	55,00,000		55,00,000

Solution 47

01 - Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.

Profits of	Neel	Gagan
I year	262,800	275,125
II year	212,200	249,875
Total	475,000	525,000

The total profits = Rs. 475,000 + Rs. 525,000 = Rs. 10,00,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profits.

Computation	Neel	Gagan
24,000 x 475/1000	11,400 equity shares	
24,000 x 525/1000		12,600 equity shares

Calculation of 12% Preference shares to be issued to Neel Ltd. and Gagan Ltd.

Particulars	Neel (Rs)	Gagan (Rs)
Net assets (Refer working note)	840,000	924,000
8% return on net assets	67,200	73,920
12% Preference shares to be issued [67,200 x 100/12] = 560,000 at Rs. 10 each	56,000 shares	
[73,920 x 100/12 = 616,000 at Rs. 10 each		61,600 shares

02 - Total Purchase Consideration

Particulars	Neel (Rs)	Gagan (Rs)
Equity shares at of Rs. 25 each	285,000	315,000
12% Preference shares at of Rs. 10 each	560,000	616,000
Total	845,000	931,000

Working Note

Calculation of Net assets as on 31.3.20X1

Particulars	Neel (Rs)	Gagan (Rs)
Plant and machinery	525,000	675,000
Building	775,000	648,000
Current assets	163,500	158,600
Less – Current liabilities	(623,500)	(557,600)
	840,000	924,000

Note:

Since the income from the preference shares shall be equal to the 8% return on assets, the shares are computed in such way that 12% dividend on them shall be equal to 8% of the return on Net assets.

Solution 48

In the books of Vayu Ltd

Realization Account

Particulars	Rs	Particulars	Rs
To Sundry Assets	570,000	By Retirement Gratuity Fund	20,000
To Preference Shareholders (Premium Redemption)	10,000	By Trade Payables	80,000
To Equity Shareholders (Profit on Realization)	50,000	By Hari Ltd. (Purchase Consideration)	530,000
	630,000		630,000

Equity Shareholders Account

Particulars	Rs	Particulars	Rs
To Equity Shares of Hari Ltd.	420,000	By Share Capital	300,000
		By General Reserve	70,000
		By Realization Account (Profit on realization)	50,000
	420,000		420,000

Preference Shareholders Account

Particulars	Rs	Particulars	Rs
To 9% Preference Shares of Hari Ltd	110,000	By Preference Share Capital	100,000
		By Realization Account (premium on Redemption of Preference Shares)	10,000
	110,000		110,000

Hari Ltd Account

Particulars	Rs	Particulars	Rs
To Realization Account	530,000	By 9% Preference Shares	110,000
		By Equity Shares	420,000
	530,000		530,000

In the Books of Hari Ltd.

Journal Entries

No	Particulars		Debit	Credit
1	Business Purchase A/c	Dr	530,000	
	To Liquidators of Vayu Ltd. Account			530,000
	(Being business of Vayu Ltd. taken over)			
2	Goodwill Account	Dr	50,000	
	Building Account	Dr	150,000	
	Machinery Account	Dr	160,000	
	Inventory Account	Dr	157,500	
	Trade receivables Account	Dr	100,000	
	Bank Account	Dr	20,000	
	To Retirement Gratuity Fund Account			20,000
	To Trade payables Account			80,000
	To Provision for Doubtful Debts Account			7500
	To Business Purchase A/c			530,000
	(Being Assets and Liabilities taken over as per agreed valuation)			
3	Liquidators of Vayu Ltd. A/c	Dr	530,000	
	To 9% Preference Share Capital A/c			110,000
	To Equity Share Capital A/c			400,000
	To Securities Premium A/c			20,000
	(Being Purchase Consideration satisfied as above)			

Balance Sheet of Hari Ltd. (after absorption)
As at 31st March 20X1

No		Particulars	Notes	Rs
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	16,10,000
	B	Reserves and Surplus	2	90,000
2		Non-current liabilities		
	A	Long-term provisions	3	70,000
3		Current liabilities		
	A	Trade Payables		210,000
		Total		19,80,000
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	4	11,10,000
	B	Intangible assets	5	100,000
2		Current assets		
	A	Inventories		407,500
	B	Trade receivables	6	292,500
	C	Cash and cash equivalents		70,000
		Total		19,80,000

Notes to Accounts

No	Particulars	Rs
1	**Share Capital**	
	Equity shares Capital	
	140,000 Equity Shares of Rs. 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than for cash)	14,00,000
	Preference share capital	-
	2100 9% Preference Shares of Rs. 100 each (Out of above 1100 Preference Shares were issued in consideration other than for cash)	210,000
	Total	**16,10,000**

2	**Reserves and Surplus**	
	Securities Premium	20,000
	General reserve	70,000
	Total	**90,000**
3	**Long-term provisions**	
	Retirement gratuity fund	70,000
		70,000
4	**Property, plant and equipment**	
	Building	450,000
	Machinery	660,000
	Total	**11,10,000**
5	**Intangible assets**	
	Goodwill	100,000
6	**Trade receivables**	300,000
	Less – Provision for Doubtful Debts	7500
		292,500

Working Notes

Purchase Consideration

No	Particulars	Rs
1	Goodwill	50,000
2	Building	150,000
3	Machinery	160,000
4	Inventory	157,500
5	Trade receivables	92,500
6	Cash at bank	20,000
7		630,000
8	Less: Liabilities:	
9	Retirement Gratuity Fund	(20,000)
10	Trade payables	(80,000)
11	Net Assets/ Purchase Consideration	530,000
12	To be satisfied as under,	
13	10% Preference Shareholders of Vayu Ltd	100,000

14	Add – 10% Premium	10,000
15	1100 9% Preference Shares of Hari Ltd.	110,000
16	Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000 Equity Shares of Hari Ltd. at 5% Premium	420,000
17	**Total**	**530,000**

Solution 49

Consolidated Profit & Loss Account of A Ltd. and its subsidiary B Ltd for the year ended on 31 March, 2018

No	Particulars	Note No.	Rs in Lacs
I	Revenue from operations	1	8,797
II	Total revenue		8,797
III	Expenses		
	Cost of Material purchased/Consumed	3	1,770
	Changes of Inventories of finished goods	2	(1,794)
	Employee benefit expense	4	1,425
	Finance cost	6	225
	Depreciation and amortization expense	7	225
	Other expenses	5	802
	Total expenses		**2,653**
IV	Profit before Tax (II - III)		6,144
V	Tax Expenses	8	2,100
VI	Profit After Tax		4,044

Notes to Accounts:

No	Particulars	Rs in Lakhs	Rs in Lakhs
1	**Revenue from Operations**		
	Sales and other inc		
	A Ltd	7,500	
	B Ltd.	1,500	
	Less: Inter-company Sales	(180)	

	Consultancy fees received by A Ltd. From B Ltd.	(8)	
	Commission received by B Ltd. from A Ltd.	(15)	8,797
2	**Increase in Inventory**		
	A Ltd	1,500	
	B Ltd.	300	
	Less Unrealized profits Rs 180 x 1/6 x 25/125	(6)	1,794
3	**Cost of Material purchased/consumed**		
	A Ltd	1,200	
	B Ltd.	300	
		(180)	1,320
	Less: Purchases by B Ltd. from A Ltd.		
	Direct Expenses		
	A Ltd	300	
	B Ltd.	150	450
4	**Employee benefits and expenses**		
	Wages and Salaries:		
	A Ltd	1,200	
	B Ltd.	225	1,425
5	**Other Expenses**		
	Administrative Expenses		
	A Ltd	300	
	B Ltd.	150	
		(8)	442
	Less: Consultancy fees received by A Ltd. from B Ltd. Selling and Distribution Expenses		
	A Ltd	300	
	B Ltd.	75	
		375	
	Less: Commission received from B Ltd. from A Ltd.	(15)	360
			802
6	**Finance Cost**		
	Interest		

	A Ltd	150	
	B Ltd.	75	225
7	**Depreciation & Amortization Depreciation:**		
	A Ltd	150	
	B Ltd.	75	225
8	**Provision for tax**		
	A Ltd	1800	
	B Ltd.	300	2100

Note:

It is assumed that dividend adjustment has not be done in sales & other inc of A Ltd i.e. dividend received from B Ltd is not included in other inc of A Ltd. Alternative answer is possible considering is otherwise.

Solution 50

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31 March, 2011

No		Particulars	Note	Rs in Lacs
	I	EQUITY AND LIABILITIES		
1		Shareholder's Fund		
	A	Share Capital	1	5,00,000
	B	Reserve and Surplus	2	2,60,000
2		Minority interest	3	70,000
3		Current Liabilities		
		(a) Trade payables	4	2,25,000
		Total		**10,55,000**
	II	ASSETS		
1		**Non-Current Assets**		
		PPE	5	8,00,000
2		Current Assets	6	2,55,000

Notes to Accounts:

No	Particulars	Amount
1	**Share capital**	
	50,000 Equity Shares @ Rs 10 each	5,00,000
2	**Reserve and Surplus**	
	Capital Reserve (WN)	60,000
	Profit and loss account	2,00,000
		2,60,000
3	**Minority Interest**	
	Paid up value of shares	50,000
	Add: Share in Profit and loss account	20,000
		70,000
4	**Trade payables**	
	H Ltd.	1,75,000
	S Ltd.	50,000
		2,25,000
5	**PPE**	
	H Ltd.	5,00,000
	S Ltd.	3,00,000
		8,00,000
6	**Current Assets**	
	H Ltd.	1,55,000
	S Ltd.	1,00,000
		2,55,000

Working Notes:

Determination of Goodwill/(Capital Reserve)

No	Particulars		Amount
1	Cost of investment		2,20,000
2	Less: Paid up value of shares (80% of 2,50,000) Share in pre-acquisition profits	2,00,000	
3	(80% of 1,00,000)	80,000	(2,80,000)
4	**Capital Reserve**		**(60,000)**